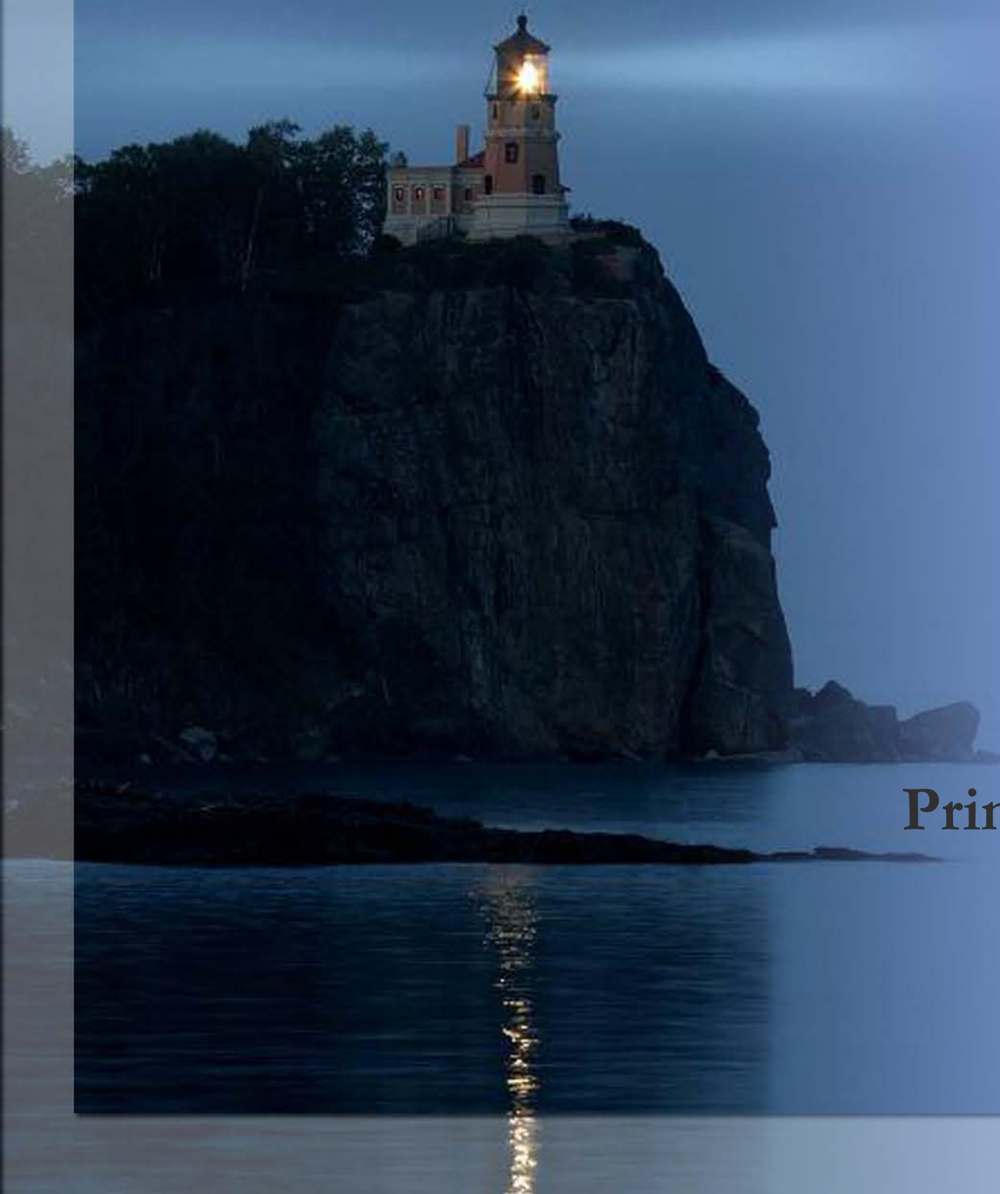


Two Harbors Investment Corp.

Webinar Series

September 2012

Part One: Primer on Agency Prepayments

Welcoming Remarks

William Roth
Co-Chief Investment Officer

July Hugen
Director of Investor Relations

Safe Harbor Statement

Forward-Looking Statements

This presentation includes "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Actual results may differ from expectations, estimates and projections and, consequently, readers should not rely on these forward-looking statements as predictions of future events. Words such as "expect," "target," "assume," "estimate," "project," "budget," "forecast," "anticipate," "intend," "plan," "may," "will," "could," "should," "believe," "predicts," "potential," "continue," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results. Factors that could cause actual results to differ include, but are not limited to, higher than expected operating costs, changes in prepayment speeds of mortgages underlying our RMBS, the rates of default or decreased recovery on the mortgages underlying our non-Agency securities, failure to recover certain losses that are expected to be temporary, changes in interest rates or the availability of financing, the impact of new legislation or regulatory changes on our operations, the impact of any deficiencies in the servicing or foreclosure practices of third parties and related delays in the foreclosure process, the inability to acquire mortgage loans or securitize the mortgage loans we acquire, the inability to acquire residential real properties at attractive prices or lease such properties on a profitable basis, the impact of new or modified government mortgage refinance or principal reduction programs, and unanticipated changes in overall market and economic conditions.

Readers are cautioned not to place undue reliance upon any forward-looking statements, which speak only as of the date made. Two Harbors does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based. Additional information concerning these and other risk factors is contained in Two Harbors' most recent filings with the Securities and Exchange Commission. All subsequent written and oral forward looking statements concerning Two Harbors or matters attributable to Two Harbors or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements above.

Two Harbors' Company Overview

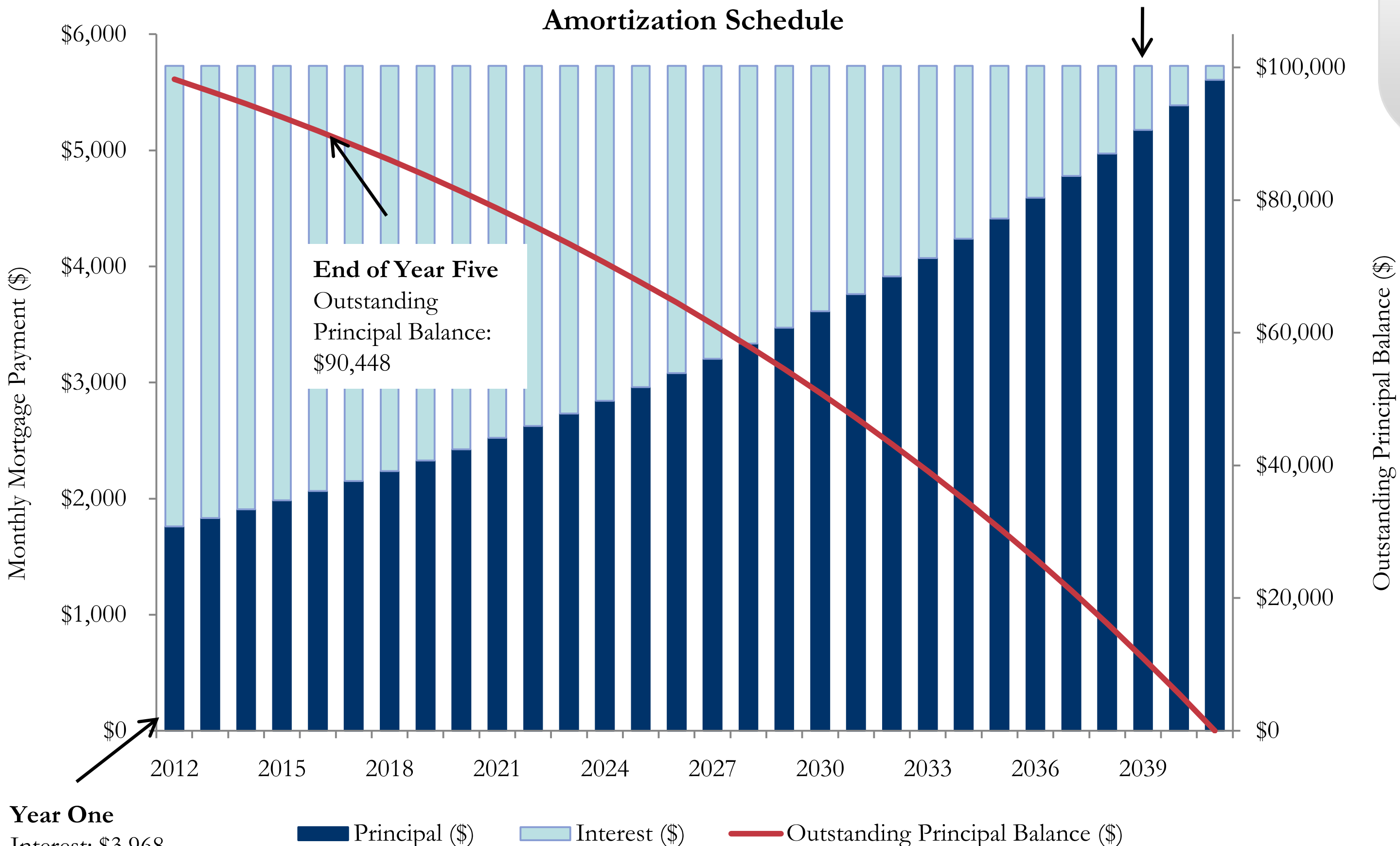
- **Our mission is to be recognized as the industry-leading hybrid mortgage REIT. We'll accomplish this goal by achieving excellence in four areas:**
  - Superior portfolio construction and fluid capital allocation through rigorous security selection and credit analysis
  - Unparalleled risk management with a strong focus on hedging and book value stability
  - Targeted diversification of the business model
  - Leading governance and disclosure practices
- **We strive to deliver value to our stockholders:**
  - Delivered a total stockholder return of 78%[1] since commencing operations in late 2009

(1) Two Harbors' total stockholder return is calculated for the period October 29, 2009 through August 23, 2012. Total stockholder return is defined as capital gains on stock price including dividends. Source: Bloomberg Finance LP.

Mortgage Amortization Example

Mortgage Terms
-Amount: $100,000
-Years: 30
-Mortgage Rate: 4.0% Fixed
-Monthly Payment: $477

Year Twenty-Eight
Interest: $553
Principal: $5,176



Year One
Interest: $3,968
Principal: $1,761

Prepayment Example

Fannie Mae $100 Million Pool with 4% Coupon

($ Million)		**Year One**
Beginning Outstanding Principal Balance	$	100.0
Scheduled Interest Payments	$	4.0
Scheduled Principal Payments	$	1.7
Total Scheduled Principal and Interest Payments	$	5.7
Outstanding Principal Balance After Scheduled Payments	$	98.3
Additional Principal Payments @ 15% CPR	$	14.7
Ending Outstanding Principal Balance	$	83.6

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Impact of Prepayments on Cash Flows

Fannie Mae $100 Million Pool with 4% Coupon

($ Million)		6% CPR		15% CPR		30% CPR
Total Interest Payments Over the Life of the Bond	$	40.2	$	21.4	$	10.8
Total Principal Payments Over the Life of the Bond	$	100.0	$	100.0	$	100.0
Total Principal and Interest Payments Over the Life of the Bond	$	140.2	$	121.4	$	110.8
Weighted Average Life		10.1 years		5.3 years		2.7 years

Source: This example represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used.

Primary Sources of Prepayments

- Curtailments
- Delinquencies and defaults
- Housing turnover
- Refinancing

Curtailments

- Payment made by the borrower in an amount that is greater than the scheduled payment and less than the outstanding principal balance
- Incremental amount over the scheduled payment reduces the outstanding balance and subsequently shortens the life of the loan

Example: $100,000, 30-year, 4.0% Fixed-rate Mortgage Loan

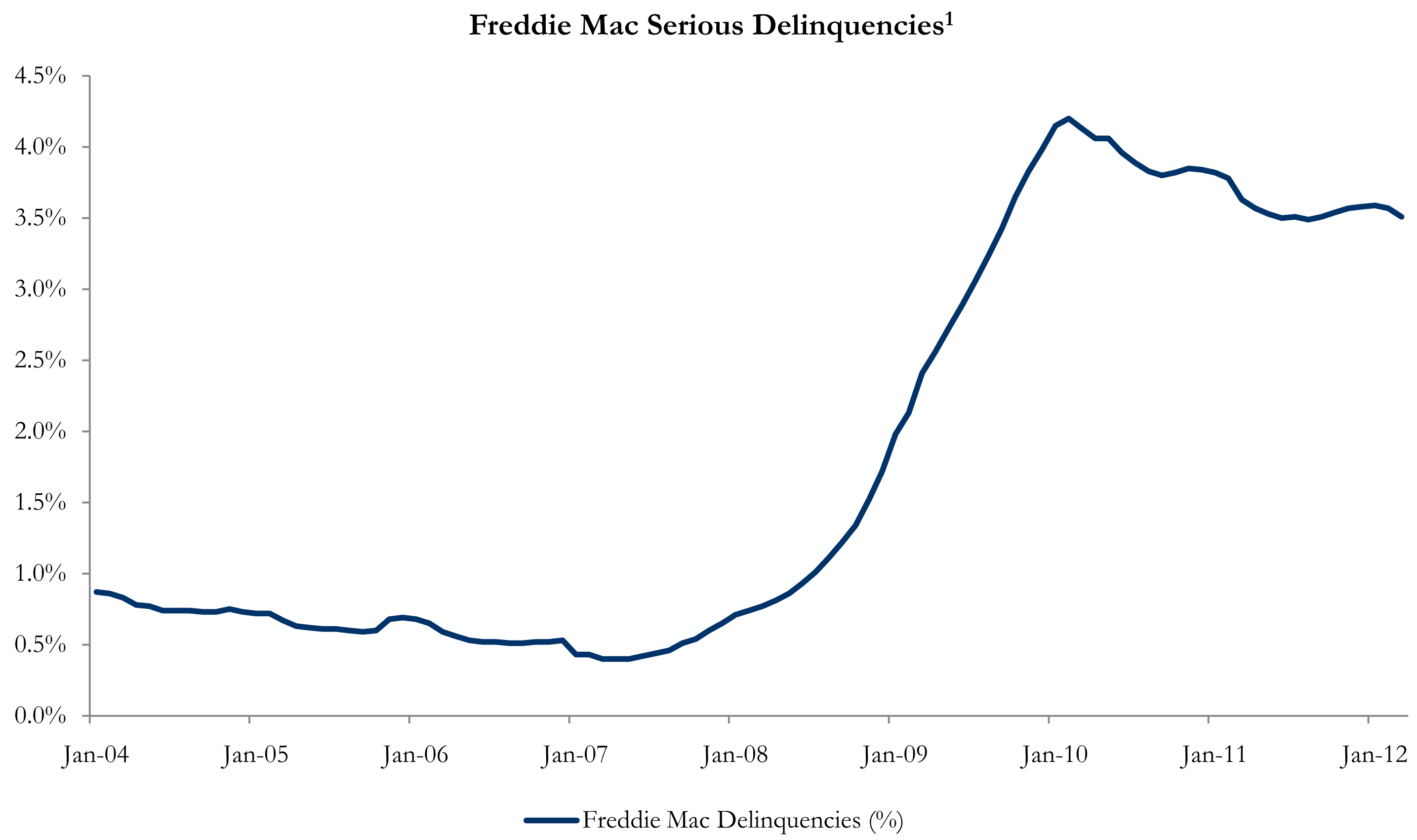
Scenario One:
-Additional lump sum payment of $10,000 in addition to 60th mortgage payment of $477

Result:
-Mortgage balance fully paid after approximately 26 years

Scenario Two:
-Monthly payments of $500 in place of the scheduled monthly payment of $477

Result:
-Mortgage balance fully paid after approximately 28 years

Delinquencies and Defaults



Source: Bloomberg Finance LP.

(1) Freddie Mac delinquency data based on loans that are three or more monthly payments past due or loans in the process of foreclosure.

Determinants of Housing Turnover

- Life events
  - Marriage, children, divorce, retirement and death
- Homeowner's general desire to upgrade to a better home
- Economic conditions
  - Labor market, home price appreciation and housing inventory
- Seasonality
  - Peaks in months between May through August
  - Lowest instances in December, January and February

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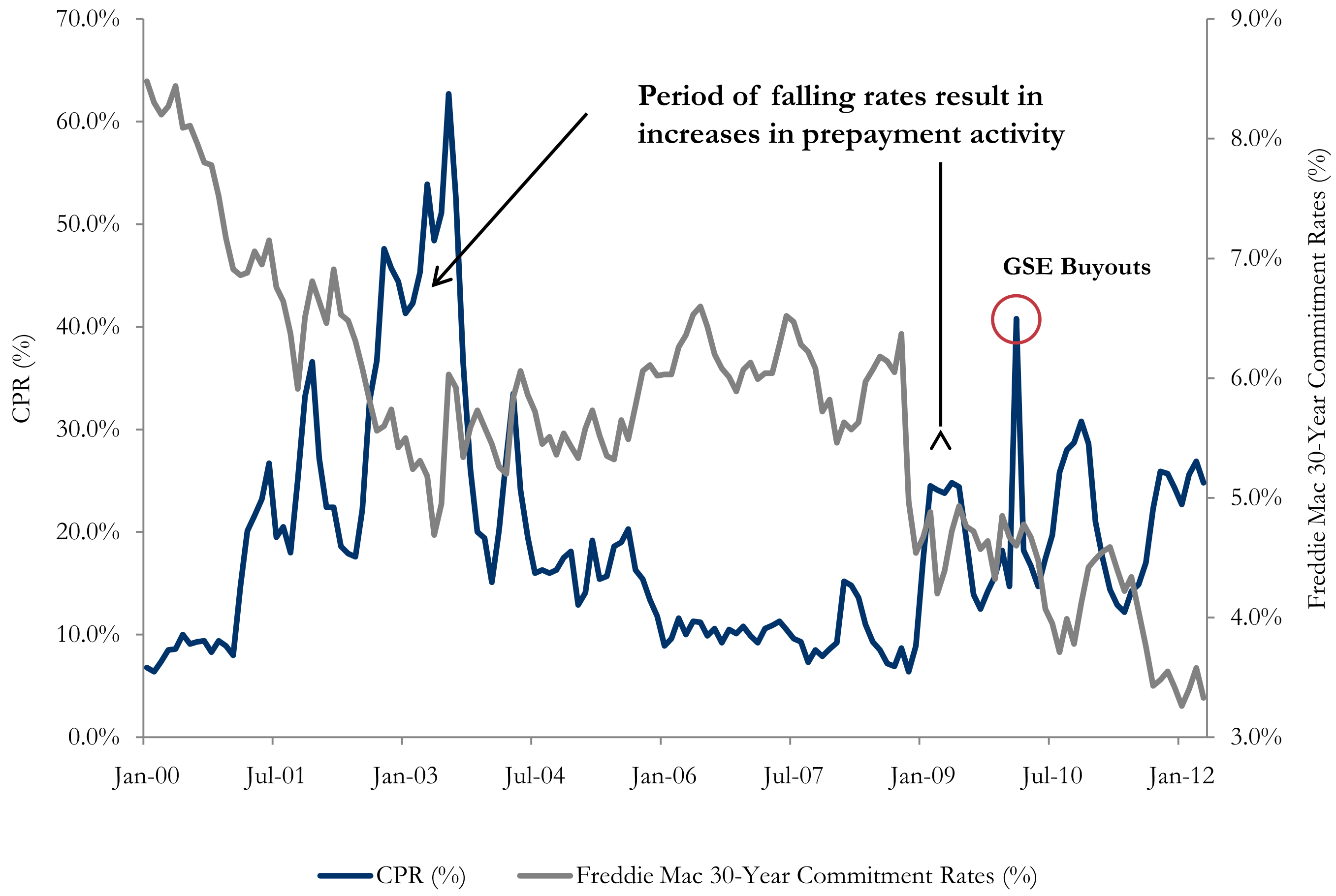
Refinancing Overview

- Securing a lower mortgage rate
- Changing the terms of the mortgage
- Cashing out to access the equity in a home
- Credit curing

Relationship Between Mortgage Rates and CPR



Source: Bloomberg Finance LP and eMBS.

Impact of Rate Movements on Agency Securities

Fannie Mae $100 Million Pool with 4% Coupon

Interest Rate Scenario	Borrower Response	Impact to CPR	CPR Assumption	Weighted Average Life	Impact to Weighted Average Life	Risk to RMBS Investor	Impact to Bond Price on a Relative Basis
Unchanged	No Action	Unchanged	15%	5.3 years	No change	-	Unchanged
Decreases	Refinance	Increases	30%	2.7 years	Decreases	Reinvestment Risk	Increases by a small amount
Increases	No Action	Decreases	6%	10.1 years	Increases	Extension Risk	Decreases by a large amount

Source: This example represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used.

Refinancing Incentive and Pool Seasoning

Borrower Refinancing Incentive

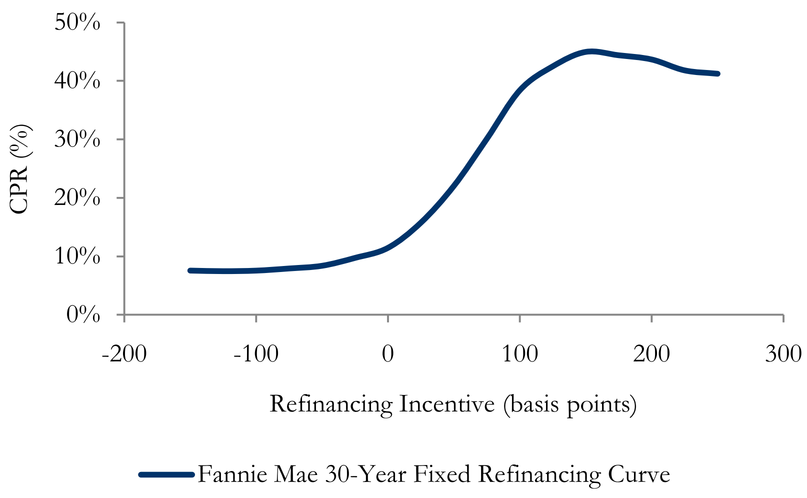
Scenario: 50 Basis Points Decrease For $200,000 Mortgage Loan

Monthly Mortgage Payment @ 5.0%	$	1,074
Monthly Mortgage Payment @ 4.5%	$	1,013
Monthly Savings	$	61
Refinancing Costs[1]	$	3,724
Monthly Savings	$	61
Breakeven		5.1 years

Scenario: 150 Basis Points Decrease For $200,000 Mortgage Loan

Monthly Mortgage Payment @ 5.0%	$	1,074
Monthly Mortgage Payment @ 3.5%	$	898
Monthly Savings	$	176
Refinancing Costs[1]	$	3,724
Monthly Savings	$	176
Breakeven		1.8 years

Refinancing S-Curve[2]



Source: This example represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used.
(1) Estimated origination and title costs. Source: Bankrate.com.
(2) Source: eMBS.

Role of Loan Balances

Scenario: 50 Basis Points Decrease	$50,000 Mortgage Loan	$200,000 Mortgage Loan	$500,000 Mortgage Loan
Monthly Mortgage Payment @ 5.0%	$ 268	$ 1,074	$ 2,684
Monthly Mortgage Payment @ 4.5%	$ 253	$ 1,013	$ 2,533
Monthly Savings	$ 15	$ 61	$ 151
Refinancing Costs[1]	$ 2,252	$ 3,724	$ 6,669
Monthly Savings	$ 15	$ 61	$ 151
Breakeven	12.5 years	5.1 years	3.7 years

Scenario: 150 Basis Points Decrease	$50,000 Mortgage Loan	$200,000 Mortgage Loan	$500,000 Mortgage Loan
Monthly Mortgage Payment @ 5.0%	$ 268	$ 1,074	$ 2,684
Monthly Mortgage Payment @ 3.5%	$ 225	$ 898	$ 2,245
Monthly Savings	$ 43	$ 176	$ 439
Refinancing Costs[1]	$ 2,252	$ 3,724	$ 6,669
Monthly Savings	$ 43	$ 176	$ 439
Breakeven	4.4 years	1.8 years	1.3 years

Source: This example represent the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used.

(1) Estimated origination and title costs. Source*:* Bankrate.com

Agency Seasoned Bond Example

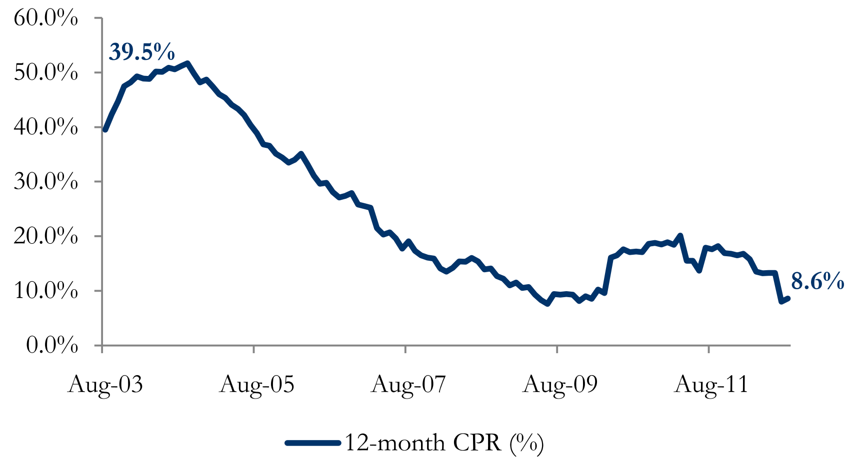
Agency Seasoned Bond Example – FN254449

The weighted average life analysis presented below represents the views of Two Harbors and its external manager, PRCM Advisers LLC, and are provided for illustration purposes only and may not represent all assumptions used.

Security and Collateral Summary[1]

- Fannie Mae 7.0% coupon
- Gross Weighted Average Borrower Coupon: 7.5%
- Vintages: 2002 – 99%; 2001 – 1%
- Original Mortgage Balance: $236 million
- Pool Factor: 0.044
- Weighted Average Maturity (WAM): 229 months

Historic CPR[2]



Analysis

Weighted Average Life

	8% CPR	11% CPR	14% CPR		6% CPR	15% CPR	30% CPR
Fannie Mae Seasoned 7% Pool	7.1 yrs	6.0 yrs	5.1 yrs	Fannie Generic 4% Pool	10.1 yrs	5.3 yrs	2.7 yrs

(1) Source: Bloomberg Finance LP.
(2) Source: eMBS.

Loan Origination Characteristics

Characteristics

- Product type
- Origination year and month
- Credit quality
- Mortgage servicer
- Geography

Mortgage Prepayment Ratio by State

Mortgage Prepayments by State[1]

Fannie Mae 30-Year 4% 1-month State to Cohort Ratio

	2011	2010	2009	3-year Average
California	1.69	1.44	1.30	1.48
Illinois	1.05	1.02	1.23	1.10
Puerto Rico	0.17	0.42	0.12	0.24

(1) Source: J.P. Morgan Prepayment Monthly July 2012.

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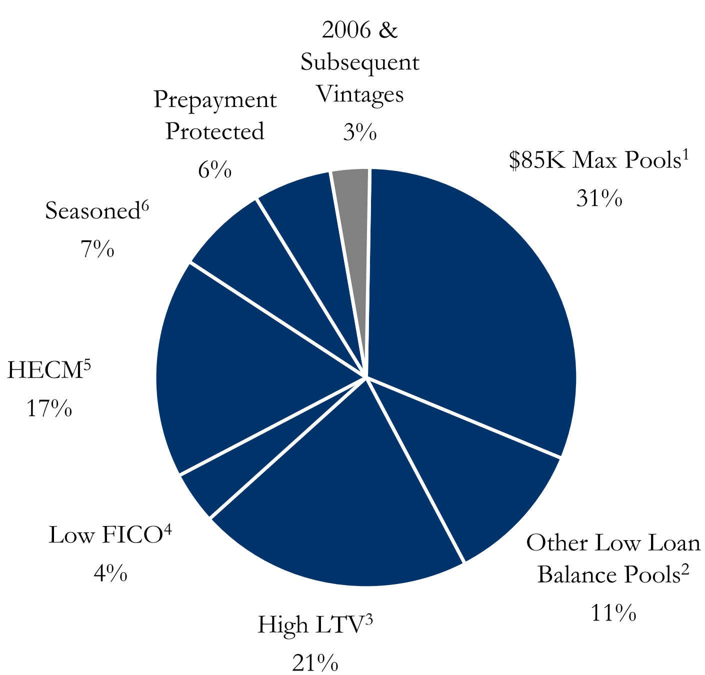
Two Harbors' Agency Strategy and Portfolio

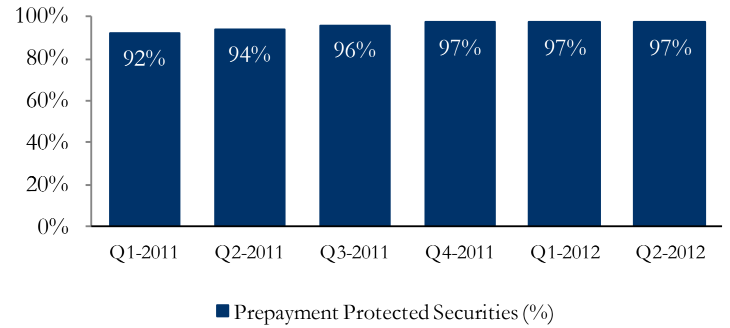
Agency Portfolio Composition

As of June 30, 2012

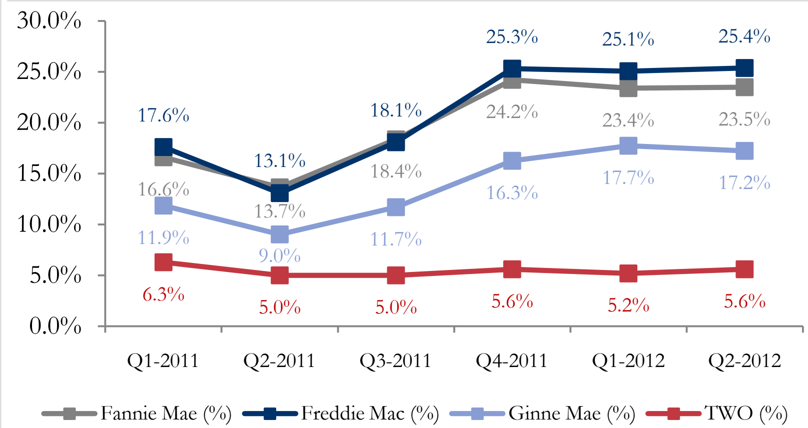
$9.0B Agency RMBS Portfolio



Prepayment Protected Securities[7]



Two Harbors' CPR vs. Cohorts[8]



(1) Securities collateralized by loans of less than or equal to $85K.
(2) Securities collateralized by loans of less than or equal to $175K, but more than $85K.
(3) Securities collateralized by loans with greater than or equal to 80% loan-to-value ratio.
(4) Securities collateralized by loans held by lower credit borrowers as defined by Fair Isaac Corporation's, or FICO, scoring model.
(5) Home Equity Conversion Mortgage loans (or "HECM") are loans that allow the homeowner to convert home equity into cash collateralized by the value of their home.
(6) Securities collateralized by loans reflecting less prepayment risk due to previously experienced high levels of refinancing.
(7) Prepayment protected securities represent the percentage of Agency RMBS securities with either implicit and explicit prepayment protection as a percentage of Two Harbors' Agency RMBS portfolio.
(8) Source: eMBS.

Summary

Managing prepayment risk is essential to the Agency RMBS investor

- Prepayments impact the cash flows and the expected average life of our investments
- The RMBS investor is exposed to extension risk in a rising rate environment and reinvestment risk in a declining interest rate environment
- Borrowers' refinancing incentives and certain loan characteristics such as seasoning, loan balance and geography, are a few factors we analyze in selecting Agency securities
- Prepayment protected securities have enabled Two Harbors' Agency RMBS portfolio to historically experience low and stable prepayment speeds

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