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FBR ASSET INVESTMENT CORP/VA

Form 425

December 04, 2002

Filed by Friedman, Billings, Ramsey Group, Inc.
Pursuant to Rule 425 under the Securities Act of 1933
and deemed filed pursuant to Rule 14a-12 under the Securities Act of 1934

Subject Company: FBR Asset Investment Corporation
Commission File No: 001-15049

FRIEDMAN BILLINGS RAMSEY

[FBR LOGO]

MERGER OF
FRIEDMAN, BILLINGS, RAMSEY GROUP ("FBR GROUP")
WITH
FBR ASSET INVESTMENT CORPORATION ("FBR ASSET")

DECEMBER 2002

[FBR LOGO]

FORWARD LOOKING INFORMATION

Statements concerning projections, future performance, developments, events, market forecasts, revenues, expenses, earnings, run rates and any other guidance on present or future periods constitute forward-looking statements. These forward-looking statements are subject to a number of factors, risks, and uncertainties that might cause actual results to differ materially from stated expectations or current circumstances. These factors include, but are not limited to, the overall environment for interest rates, repayment speeds within the mortgage-backed securities market, risk associated with equity investments, the demand for public offerings, activity in the secondary securities market, the high degree of risk associated with technology and other venture capital investments, competition for business and personnel, and general economic, political, and market conditions. Additional information concerning factors that could cause actual results to differ materially is contained in FBR Asset's Annual Report on Form 10-K and quarterly reports on Form 10-Q, and FBR Group's Annual Report on Form 10-K and quarterly reports on Form 10-Q.

PROXY INFORMATION

In connection with the proposed transactions, Friedman, Billings, Ramsey Group, Inc. and FBR Asset Investment Corporation will file a joint proxy statement/prospectus with the Securities and Exchange Commission. Investors and security holders are urged to carefully read the joint proxy statement/prospectus regarding the proposed transactions when it becomes available, because it will contain

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important information. Pro forma information contained in the following materials may be changed in the joint proxy statement/prospectus. Investors and security holders may obtain a free copy of the joint proxy statement/prospectus (when it is available) and other documents containing information about Friedman, Billings, Ramsey Group, Inc. and FBR Asset, without charge, at the SEC's web site at <http://www.sec.gov>. Free copies of both companies' filings may be obtained by directing a request to 1001 Nineteenth Street North, Arlington, Virginia 22209, Attention: Investor Relations.

PARTICIPANTS IN SOLICITATION

FBR Group, FBR Asset and their respective directors, executive officers and other members of their management and employees may be soliciting proxies from their respective stockholders in connection with the proposed merger. Information concerning FBR Group's participants in the solicitation is set forth in FBR Group's proxy statement for its annual meeting of stockholders, filed with the SEC on May 30, 2002. Information concerning FBR Asset's participants in the solicitation is set forth in FBR Asset's proxy statement for its annual meeting of stockholders, filed with the SEC on April 23, 2002.

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INTRODUCTION

- o On November 14, 2002, Friedman, Billings, Ramsey Group, Inc. (NYSE: FBR) and its existing affiliate, FBR Asset Investment Corporation (NYSE: FB) agreed to merge.
- o The resulting entity will continue to engage in the business activities of the two companies. The new parent company ("New FBR") will engage in principal investing activities, primarily investing in mortgage-backed securities as FBR Asset does today, and, through taxable subsidiaries, will conduct investment banking and other operating businesses as FBR Group does today.
- o New FBR will elect to be taxed as a REIT, and will conduct most principal investment activities in the REIT, as FBR Asset had done before the merger. The operating businesses of FBR Group will be conducted within taxable REIT subsidiaries ("TRS"s) and will continue to pay corporate income tax like any taxable corporation.

FRIEDMAN BILLINGS RAMSEY

SEE STATEMENT CONCERNING FORWARD LOOKING INFORMATION ON PAGE 2.

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CORPORATE STRUCTURE

[Graph depicting the following information:]

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| BEFORE | | | AFTER |
|---------------------------------------|--------|---|--|
| FBR ASSET (REIT) | -----> | Asset holdings conform to REIT rules (primarily MBS); distributes 90%+ of taxable income. | PARENT (REIT) |
| FBR GROUP (TAXABLE CORPORATION) | -----> | Operating businesses; pays tax at corporate rates; may retain or distribute after-tax earnings. | TAXABLE REIT SUBSIDIARIES (Taxable Corporation) |

FRIEDMAN BILLINGS RAMSEY

SEE STATEMENT CONCERNING FORWARD LOOKING INFORMATION ON PAGE 2.

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[FBR Logo]

NEW FBR (1)

-
- o Significant Growth Opportunity within Investment Banking and Other TRS Businesses
 - o Significant Dividend Income
 - o Diversified Earnings Stream
 - o Ability to Capitalize on Principal Investing Opportunities
 - o More than 460 Employees in 16 Offices
 - o Total Assets of More than \$6 Billion; Highly Liquid Balance Sheet
 - o Equity Capital Base of More than \$1 Billion
 - o Market Capitalization Greater than \$1.2 Billion (2)
 - o Total Shares Outstanding of Approximately 130 Million
 - o Float Shares Greater than 100 Million

- (1) All data pro forma for the transaction.
- (2) Based on the closing price of FBR Group on November 14, 2002.

FRIEDMAN BILLINGS RAMSEY

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FRIEDMAN BILLINGS RAMSEY

INVESTMENT BANKING, INSTITUTIONAL
BROKERAGE, ASSET MANAGEMENT
Growth Businesses

DECEMBER 2002

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FBR GROUP OVERVIEW

- o Top Ten Lead Managing Equity Underwriter
 - o Greater than 30% CAGR Revenue Growth
 - o #1 Aftermarket Performance for Lead Managed Deals Since January 1, 2001 (1)
 - o One of the Most Efficient Cost Structures in the Industry
 - o Six Industry Focus Sectors, 460 Employees, 16 Offices
 - o Manager of Mortgage Backed Securities and Principal Activities of FBR Asset
 - o Positioned for Continued Growth Through Period of Industry Volatility
- (1) Source: CommScan LLC. For the period beginning January 1, 2001 and ending September 30, 2002, among underwriters that have closed more than five lead-managed deals.

FRIEDMAN BILLINGS RAMSEY

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[FBR Logo]

Investment Baking Rankings 1/1/02-9/30/02

Issuer Market Cap Under \$1B- All Industries
1/1/2002-9/30/2002 IPOs and Secondaries

All Market Caps- All Industries
1/1/2002-9/30/2002 IPOs and Seco

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| LEAD MANAGER | \$ MILLIONS | # OF DEALS | LEAD MANAGER |
|-----------------------------------|-------------|------------|--------------------------------|
| 1 Credit Suisse First Boston | \$2,865.2 | 25 | 1 Credit Suisse First Boston |
| 2 Merrill Lynch & Co | \$1,793.4 | 15 | 2 Goldman, Sachs & Co |
| 3 Bear, Stearns & Co | \$1,589.2 | 13 | 3 Salomon Smith Barney Inc |
| 4 Morgan Stanley | \$1,517.5 | 14 | 4 Morgan Stanley |
| 5 Lehman Brothers | \$1,508.9 | 12 | 5 Merrill Lynch & Co |
| 6 UBS Warburg LLC | \$1,310.7 | 17 | 6 Lehman Brothers |
| 7 FRIEDMAN, BILLINGS, RAMSEY | \$1,191.7 | 15 (1) | 7 UBS Warburg LLC |
| 8 Goldman, Sachs & Co | \$1,092.4 | 8 | 8 Deutsche Bank Securities |
| 9 Salomon Smith Barney Inc | \$871.9 | 8 | 9 Bear, Stearns & Co |
| 10 Banc of America Securities | \$683.2 | 8 | 10 J.P. Morgan Securities Inc |
| 11 Deutsche Bank Securities | \$591.1 | 6 | 11 Banc of America Securities |
| 12 J.P. Morgan Securities | \$498.3 | 7 | 12 FRIEDMAN, BILLINGS, RAMSEY |
| 13 CIBC World Markets | \$405.6 | 8 | 13 Thomas Weisel Partners LLC |
| 14 Robertson Stephens | \$386.0 | 7 | 14 CIBC World Markets |
| 15 Robert W. Baird & Co Inc | \$384.6 | 4 | 15 Robertson Stephens |
| 16 U.S. Bancorp Piper Jaffray Inc | \$303.3 | 4 | 16 Robert W. Baird & Co Inc |
| 17 Raymond James | \$280.4 | 9 | 17 U.S. Bancorp Piper Jaffray |
| 18 Jefferies & Co Inc | \$257.2 | 3 | 18 Wachovia Securities Inc |
| 19 Wachovia Securities Inc | \$238.9 | 5 | 19 Raymond James |
| 20 Thomas Weisel Partners LLC | \$217.0 | 3 | 20 Jefferies & Co Inc |
| 21 Keefe, Bruyette & Woods Inc | \$216.6 | 5 | 21 Keefe, Bruyette & Woods Inc |
| 22 TD Securities Inc | \$212.4 | 1 | 22 Needham & Co Inc |
| 23 Needham & Co Inc | \$183.6 | 3 | 23 Ferris, Baker Watts Inc |
| 24 Ferris, Baker Watts Inc | \$165.3 | 3 | 24 William Blair & Co |
| 25 Legg Mason Wood Walker Inc | \$143.5 | 2 | 25 Morgan Keegan & Co Inc |

(1) In addition, FBR raised more than \$450 million in 144A Institutional Equity Placements. In addition, FBR raised approximately \$1.65 billion for issuers with market capitalizations under \$1 billion,

FRIEDMAN BILLINGS RAMSEY

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[FBR Logo] FBR GROUP OVERVIEW

THE BUSINESS OPERATED BY FBR GROUP IN THE PAST WILL CONTINUE TO BE OPERATED BY
NEW FBR THROUGH TAXABLE REIT SUBSIDIARIES

(US \$ IN MILLIONS)

[Bar Graphs depicting the following information:]

INVESTMENT BANKING REVENUE (1)

Underwriting:
1999 \$22.6
2000 \$21.1
2001 \$44.6
2002 Nine Months Annualized \$82.7

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Corporate Finance:

1999 \$22.5
2000 \$31.4
2001 \$30.3
2002 Nine Months Annualized \$64.1

Gains:

1999 \$3.9
2000 \$1.5
2001 \$6.8
2002 Nine Months Annualized \$5.9

Total 1999: \$49.0
Total 2000: \$54.0
Total 2001: \$81.7
Total 2002 Nine Months Annualized: \$152.6

CAGR 46.0%

SALES & TRADING REVENUE (1)

Agency:

1999 \$15.0
2000 \$21.1
2001 \$27.1
2002 Nine Months Annualized \$36.4

Principal:

1999 \$22.1
2000 \$32.3
2001 \$24.6
2002 Nine Months Annualized \$27.0

Total 1999: \$37.1
Total 2000: \$53.4
Total 2001: \$51.7
Total 2002 Nine Months Annualized: \$63.4

CAGR 19.6%

ADJUSTED ASSET MANAGEMENT REVENUE (1)

Base Management Fee:

1999 \$8.4
2000 \$9.0
2001 \$17.9
2002 Nine Months Annualized \$20.2

Incentive Income:

1999 \$1.6
2000 \$1.7
2001 \$2.0
2002 Nine Months Annualized \$.3

Total 1999: \$10.0
Total 2000: \$10.7
Total 2001: \$19.9
Total 2002 Nine Months Annualized: \$20.5

CAGR 27.1%

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TOTAL ADJUSTED PRO FORMA TRS REVENUE (1) (2)

Investment Banking:

1999 \$49.0
2000 \$54.0
2001 \$81.7
2002 Nine Months Annualized \$152.6

Sales & Trading

1999 \$37.1
2000 \$53.4
2001 \$51.7
2002 Nine Months Annualized \$63.4

Asset Management

1999 \$10.0
2000 \$10.7
2001 \$19.9
2002 Nine Months Annualized \$20.5

Total 1999: \$96.1
Total 2000: \$118.1
Total 2001: \$153.2
Total 2002 Nine Months Annualized: \$236.5

CAGR 35.0%

- (1) Adjusted for elimination of all revenue from and fees paid to FBR Asset and for the elimination of technology sector net investment and incentive gains and losses.
(2) Excludes Net Investment Income, Interest, Dividends and Other.

SEE STATEMENT CONCERNING FORWARD LOOKING INFORMATION ON PAGE 2. FRIEDMAN BILLINGS RAMSEY

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[FBR Logo]

FRIEDMAN BILLINGS RAMSEY

PRINCIPAL INVESTING

Spread Businesses & Merchant Banking

DECEMBER 2002

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MBS AND OTHER PRINCIPAL INVESTMENTS

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The strategy successfully employed by FBR Asset in the past will continue to be used by New FBR

- o Residential Mortgage-Backed Securities (Approximately \$5.8 Billion as of September 30, 2002)
 - |X| AAA rated securities - guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae
 - |X| Low effective duration of 1 to 2 years: limits price risk
 - |X| Leverage target of 8.5x debt to equity
 - |X| Allocation of principal equity capital: 50%-90% (long-term average target 60%-65%)

- o Merchant Banking Portfolio (approximately \$100 Million as of September 30, 2002 in FBR Asset)
 - |X| Senior secured and mezzanine loans
 - |X| Preferred and common equity
 - |X| Direct assets
 - |X| Non-levered portfolio
 - |X| Typical hold period 12-18 months
 - |X| Allocation of principal equity capital: 10%-50% (long-term average target 35%-40%)

FRIEDMAN BILLINGS RAMSEY

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[FBR Logo]

PORTFOLIO RETURNS

o MORTGAGE BACKED SECURITIES PORTFOLIO INVESTMENTS

| | ROE Model (1) |
|--------------------------------------|-----------------------|
| Unlevered Asset Yield: | 4.00% |
| Cost of funds: | 1.35% |
| Spread: | 2.65% |
| ROE, Gross (Assumed Leverage @ 8.5x) | 26.53% |
| ----- | |
| Levered Return: | (2.65% * 8.5x) 22.53% |
| Unlevered Equity Return: | 4.00% |
| Gross ROE | 26.53% |

o OPPORTUNITY FUND INVESTMENTS

- |X| The Dollar Weighted Internal Rate of Return in FBR Asset's Opportunity Portfolio Investments has been 30.6% (In addition, FBR Asset and FBR Group received Investment Banking Fees)

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(1) Example for illustrative purposes only, not intended to reflect existing portfolio, historical results, or likely future results.

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[FBR Logo] FBR ASSET MBS PORTFOLIO

AS OF 30-SEP-2002

| SECTOR | CURRENT FACE (\$000) | MARKET VALUE (\$000) | % OF PORTFOLIO | AVERAGE COUPON | AVERAGE YRS. TO MAT. | BOOK YIELD | EFFECTIVE DURATION | A |
|--------|----------------------------|----------------------------|-------------------|-------------------|-------------------------|---------------|-----------------------|---|
| ARM | 5,618,770 | 5,789,145 | 99.44% | 5.27% | 2.55 | 4.74% | 1.37 | |
| Fixed | 31,869 | 33,360 | 0.56% | 7.00% | 2.27 | 5.34% | 1.00 | |
| TOTAL | 5,650,639 | 5,822,505 | 100.00% | 5.28% | 2.55 | 4.75% | 1.37 | |

[PIE CHART DEPICTING GNMA 5%, FNMA 36% AND FHLMC 59%]

[PIE CHART DEPICTING ARM 99% AND Fixed 1%]

FRIEDMAN BILLINGS RAMSEY

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[FBR Logo] NET INTEREST SPREAD COMPARED TO DISCOUNT RATE

[LINE GRAPH DEPICTING SPREAD COMPARED TO DISCOUNT RATE
"SPREAD BETWEEN CMT+225 BPS AND ONE MONTH LIBOR(%)" ON THE VERTICAL AXIS AND
"THE MONTHS OF NOVEMBER AND MAY FROM 1982 TO 2002" ON THE HORIZONTAL AXIS.

THE POINTS PLOTTED REPRESENT THE FOLLOWING:

1. "SPREAD BETWEEN CMT+225 BPS AND LIBOR"
2. "AVERAGE SPREAD OF 216 BPS (STANDARD DEVIATION OF 47 BPS)"
3. "DISCOUNT RATE"]

Source: Bloomberg, Federal Reserve

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Note: CMT is 1 Year Constant Maturity Treasury.
For purposes of estimating spread, assumed a
margin of 225 bps.

FRIEDMAN BILLINGS RAMSEY

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[FBR Logo] FRIEDMAN BILLINGS RAMSEY

BUSINESS SYNERGY

The Interface Between Investment Banking and Capital

DECEMBER 2002

BUSINESS SYNERGY

[FBR Logo] ACCESS TO CAPITAL DRIVES INVESTMENT BANKING GROWTH

Examples of transactions in which FBR Asset has invested, and FBR Group has provided investment banking services.

| PERIOD | INVESTMENT | INVESTMENT AMOUNT | BANKING FEES |
|--------|------------------------------------|----------------------|-----------------|
| Jul-01 | Saxon Capital | \$9,300,000 | \$16,750,587 |
| Nov-01 | Quaker Coal | - | 707,334 (1) |
| Nov-01 | MCG Capital | 9,934,375 | 10,688,048 |
| Dec-01 | Anworth Mortgage | 3,890,650 | 1,318,828 |
| Mar-02 | Oxford Finance Corp. | 14,650,000 (2) | 3,180,000 |
| Apr-02 | Southwest Royalties | 18,333,333 | 1,792,188 |
| Sep-02 | American Financial Realty Trust | 40,000,001 (3) | 27,149,064 |
| Sep-02 | AmeriCredit | 35,250,000 | 28,522,361 |
| Oct-02 | Franklin Bank | 5,580,000 | 4,437,533 |
| | | ----- | ----- |
| | | \$136,938,360 | \$94,545,943 |

(1) Breakup fee

(2) Includes \$10 million note and \$4.65 million equity investment

(3) Includes \$5 million Three Beaver Valley note repaid prior to the 144A offering and the subsequent \$35 million equity investment, which was made in September of 2002.

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BUSINESS SYNERGY
CASE STUDIES FOR USE OF CAPITAL

| | American Financial Realty Trust | Southwest Royalties, Inc. |
|----------------------------|---|--|
| Description of Transaction | <p>-----</p> <p>FBR Group worked with American Financial's management team to create a REIT that purchases real estate assets from large commercial banking institutions and subsequently releases the properties back to the institutions or a third party and in some cases, sells the acquired property. Prior to the 144A offering, FBR Asset made a time critical \$5 million loan, which was repaid in 42 days, to enable REIT to acquire a key piece of real estate. FBR Asset subsequently acted as the lead investor with a \$35 million investment in a \$400 million dollar 144A offering completed by FBR Group to initially capitalize the REIT.</p> | <p>FBR was engaged to syndicate a senior loan for Southwest Royalties, an oil and gas exploration and production company, in an amount up to \$80 million. FBR Asset participated as the lead, helping to bring in two other institutions to consummate the transaction.</p> |
| Transaction Structure | 144A Private Placement | Syndicated Senior Loan |
| Deal Size | \$400 Million | \$55 Million |
| Investment Amount | \$35,000,001 | \$18,333,333 |
| Days Held | 90+ (still in portfolio) | 26 |
| Holding Period Return | 14.9% to date | 2.0% |

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FRIEDMAN BILLINGS RAMSEY

THE NEW FBR

Business Mix

 DECEMBER 2002

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NEW FBR BUSINESS MIX (1)

| REIT PRINCIPAL ACTIVITIES | MORTGAGED BACKED SECURITIES | MERCHANT BANKING AND OTHER | INVESTMENT BANKING | RESEARCH | TAXABLE SUB INSTITU SALES & |
|---|--|--|--|--|-----------------------------------|
| Assets approximately \$6 billion <ul style="list-style-type: none"> o AAA rated securities - guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae o Low effective duration of 1 to 2: limits price risk o Leverage target of 8.5x within mortgage portfolio | \$160 million of invested capital <ul style="list-style-type: none"> o Preferred and common equity o Senior secured and mezzanine loans o Interest in proprietary funds o Direct assets o Non-levered portfolio | 75 investment bankers 6 focused industry sectors <ul style="list-style-type: none"> o Financial Services o Real Estate o Technology o Energy o Diversified Industries o Healthcare Top 10 lead-managing equity underwriter <ul style="list-style-type: none"> o 78 transactions with \$5.6 bn in total transaction value(2) o 29 lead and sole managed public and private transactions(2) o 34 M&A and advisory assignments(2) | 60 analysts Over 380 companies under coverage <ul style="list-style-type: none"> o Independence o In-depth company analysis o Theme-driven industry coverage o Daily meetings with sales force o Up-to-date economic and policy news o Frequent management roadshows o Annual investor conferences | 50 Insti Brokers 30 Trade Traders Market-m over 470 and debt o Cover 1,000 insti accou o Mutua o Hedge o Money o Pensi | |

- (1) All numbers are approximate as of September 30, 2002 unless otherwise stated.
- (2) For 12 months ended September 30, 2002.
- (3) Member FDIC and an equal housing lender. Products offered by other FBR subsidiaries are not FDIC insured, not offered, guaranteed, or endorsed by FBR National Bank & Trust, and may lose value.

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FRIEDMAN BILLINGS RAMSEY

THE NEW FBR

Selected Comparables

DECEMBER 2002

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INDEPENDENT BROKER-DEALER BUSINESS MIX

| Components of Gross Revenue | Period End (1) | Interest and Dividends | Investment Banking | Principal Transactions and Commissions | Fees & Other |
|--|-------------------|------------------------------|-----------------------|---|--------------------|
| Lehman Brothers | 31-Aug-02 | 70% | 11% | 19% | 0% |
| Morgan Stanley | 31-Aug-02 | 49% | 7% | 19% | 25% |
| Merrill Lynch | 27-Sep-02 | 46% | 9% | 25% | 20% |
| Goldman Sachs | 30-Aug-02 | 48% | 12% | 19% | 21% |
| SWS Group (2) | 27-Sep-02 | 38% | 11% | 38% | 14% |
| Bear Stearns | 31-Aug-02 | 32% | 14% | 51% | 2% |
| Jefferies Group | 27-Sep-02 | 12% | 19% | 66% | 2% |
| Raymond James Financial | 28-Jun-02 | 11% | 8% | 66% | 14% |
| Stifel Financial Corp. | 30-Sep-02 | 8% | 25% | 54% | 13% |
| Legg Mason, Inc (3) | 30-Sep-02 | 7% | 7% | 30% | 56% |
| A.G. Edwards Inc.(3) | 31-Aug-02 | 5% | 11% | 55% | 29% |
| | | -- | -- | -- | -- |
| AVERAGE BROKER/DEALER | | 30% | 12% | 40% | 18% |
| NEW FBR 2003 FORECAST PRO FORMA (4) | 31-DEC-02 | 44% | 30% | 16% | 10% |

(1) Results are for most recent nine month period unless stated otherwise.

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- (2) Most recent three month period
- (3) Most recent six month period
- (4) Pro forma forecast for full year ended December 31, 2003

FRIEDMAN BILLINGS RAMSEY

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[FBR Logo]

SELECTED COMPARABLES

| | Period End | Market Cap (1) (\$ Millions) | Compensation/ Net Revenue (2) | Leverage | ROE (2) |
|----------------------------|---------------|---------------------------------|-------------------------------------|----------|---------|
| Morgan Stanley | 31-Aug-02 | \$45,596 | 45.7% | 24.1x | 14.0% |
| Goldman Sachs | 30-Aug-02 | 37,117 | 50.0% | 18.5x | 11.4% |
| Merrill Lynch | 27-Sep-02 | 34,058 | 51.7% | 19.7x | 11.8% |
| Lehman Brothers | 31-Aug-02 | 13,568 | 51.0% | 29.8x | 11.8% |
| Bear Stearns | 31-Aug-02 | 8,892 | 48.6% | 31.1x | 16.5% |
| Legg Mason, Inc (3), (4) | 30-Sep-02 | 3,331 | 59.2% | 5.1x | 11.2% |
| A.G. Edwards Inc. (4) | 31-Aug-02 | 2,698 | 66.3% | 2.4x | 7.8% |
| Raymond James Financial(5) | 28-Jun-02 | 1,478 | 75.8% | 7.9x | 9.5% |
| Jefferies Group | 27-Sep-02 | 1,102 | 57.9% | 9.6x | 10.3% |
| SWS Group (6) | 27-Sep-02 | 218 | 56.3% | 14.0x | NA |
| Stifel Financial Corp. | 30-Sep-02 | 82 | 68.2% | 5.3x | 1.9% |
| AVERAGE BROKER/DEALER | | \$13,347 | 57.3% | 15.2X | 10.6% |
| NEW FBR 2003 | 31-DEC-03 | \$1,258 (8) | | | |