

**From:** Chen, Dan (Exchange)  
**Sent:** Wednesday, January 30, 2008 7:58 AM  
**To:** Alix, Michael (Exchange); Ahluwalia, Kanwardeep (Exchange); Bell, James (Exchange)  
**Cc:** Hutchinson, Elaine (Exchange)  
**Subject:** RE: RPC materials

**Attachments:** RPC 1-25-08.doc; Recession Scenario focus on Commercial Mortgages012508.ppt

RPC handouts:

1. mortgage risk memo
2. stress loss analysis – continued

Dan

<<RPC 1-25-08.doc>> <<Recession Scenario focus on Commercial Mortgages012508.ppt>>

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**From:** Alix, Michael (Exchange)  
**Sent:** Wednesday, January 30, 2008 7:34 AM  
**To:** Ahluwalia, Kanwardeep (Exchange); Bell, James (Exchange); Chen, Dan (Exchange)  
**Subject:** RE: RPC materials

Comments:

Generally, I think you should highlight P&L only to the extent it signals position risks that weren't otherwise known or obvious. We want to keep the discussion forward-looking.

When describing size of structured positions, suggest you start with gross long and gross short and then report net. That will highlight absolute size and hint at basis risks.

Your global p&l summary compares 08 with 06 – I assume that's a mistake and that you intended to use 07.

We should have an assessment of performance of hedges in lev finance

Mike

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**From:** Ahluwalia, Kanwardeep (Exchange)  
**Sent:** Wednesday, January 30, 2008 6:44 AM  
**To:** Alix, Michael (Exchange); Bell, James (Exchange); Chen, Dan (Exchange)

Subject: RPC materials

These are the potential hand-outs I have for this morning's RPC. The piece on Euro ABS should be linked to Dan's mortgages summary. Will send agend/overview shortly.

<< File: CurveSteepenerData.doc >> << File: Structured Credit update.doc >> << File: Current Status of the HK Warrant Portfolio 012808.pdf >> << File: Euro ABS Update 20070129.doc >> << File: LevFinupdate.xls >> << File: Weekly Reports.pdf >> << File: global 080125 table.xls >>



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MEMORANDUM

*Risk Management*

DATE: 30 January 2008  
TO: Risk Policy Committee  
FROM: Dan Chen  
RE: Weekly Mortgage Risk (1/22-1/25)

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**I. Market Summary:**

The week began with a large sell off in global markets prompting the Fed to make an emergency 75bps rate cut on Tuesday morning. During the week stocks turned around rallying over 400pts. The volatile week ended with a sharp decline on Friday, with the Dow down 171pts [ending the week up .89%]. Bond yields drop to levels not seen since 2003 [2yr fell to 1.85%, 10yr fell to 3.29%], ending the week with the 2's/10's slightly flatter at 138bps. Swaps widened slightly on the front end but tightened by 3-4bps on the long end. Looking ahead we will hear Consumer Confidence on Tuesday, Fed's Policy Decision to cut rates again, Q4 GDP, Personal Income spending on Wednesday and Payrolls on Friday.

**II. Major Position Change:**

The market value for products in the Mortgage Department across all desks stands at \$45.6Bln as of Friday 1/25/08, up \$1.8Bln vs a week ago. We increased the agency positions by \$2.4bln (unwinding of short mortgage basis trade, and printing new CMO deals), and reduced cash positions (about -\$490mm in AAAs) and shorter in synthetics (-\$210mm in ABX and PAUGS).

**Main risks in the mortgage business**

1. The size of the overall inventory remains high relative to market activity.
  - a. Month-end Projected Aged inventory (>90 days) stands at \$11.6Bln as of Jan. 31<sup>st</sup>, up \$850mm on the month [down (\$832mm) WTD. Some of the larger monthly increases are: Non-Agency CMOs \$102mm, Residential subs desk \$187mm, ABS \$281mm and NY CDO Desk \$281mm.
  - b. Loan inventory stands at \$19.6Bln [up \$216mm wtd], primarily from the funding of Project Hamlet.
  - c. Residual/equity positions unchanged week to week at about \$1.8Bln.
  - d. Current CLO CDO warehouse is about \$213mm: Briar Cliff: \$35mm; Trust Preferred deal(s) \$143mm and London CDO: \$36mm.
  - e. Total Alt-A exposure stands at \$12.5Bln with the majority [\$6.9Bln] falling under the ARMs desk.
  - f. EMC position stands at \$2.6Bln with ~\$1Bln of performing loans and \$820mm NPL.
2. Execution risk in the CMBS business.
  - a. Rating size delta remains high for the CMBS loan inventory of about \$14.3Bln.
  - b. Exit strategies for the mezz loan and equities, total about \$3.7Bln (up \$200mm: Project Hamlet).

### III. Department P&L for the week ended Friday 2/25/08 (\$mm)

EMC desk	(0.14)	
<b>Agency CMOs</b>	<b>43.77</b>	<b>Eurodollar futures \$11.3mm, short basis position \$15mm, curve trade \$6.3mm, new deal activity \$2.5mm and WTD financing.</b>
<b>Non-agency CMOs</b>	<b>(7.06)</b>	<b>Macro-hedges (\$4.5mm): ABX (\$18mm), equities (\$5mm) short basis position \$15.3mm and curve trade \$3.6mm.</b>
<b>ABS secondary</b>	<b>3.43</b>	<b>Various sub-prime, second lien and HELOC mark adjustments \$3.8mm.</b>
ABS primary	0.25	
<b>CBO Secondary</b>	<b>14.41</b>	<b>CDS movement \$15mm.</b>
CBO Primary	0.37	
<b>ARMs/SBAs</b>	<b>(29.59)</b>	<b>Mark-backs: AAA (\$17mm) Residuals (\$26mm), curve steepener \$16mm.</b>
<b>Commercial / Projects</b>	<b>(10.12)</b>	<b>Cash (\$15mm), CDS \$9mm, TRS (\$4mm) and CMBX (\$1mm).</b>
<b>Commercial Conduit</b>	<b>(16.03)</b>	<b>Cash (\$22mm), macro-hedges \$6.2mm [equities (\$29mm), TRS \$36.5mm and curve trade \$3mm].</b>
<b>International Securitization</b>	<b>(21.33)</b>	<b>Write-downs including: Pangea II (\$18mm) and Mansard 07-2 (\$4.4mm).</b>
<b>Desk Hedge</b>	<b>(25.59)</b>	<b>ABX position (\$9mm) and equities (\$13mm).</b>
Special situations /Other	0.31	
<b>Gross Revenues</b>	<b>(49.88)</b>	

Another slice of the weekly P&L (Non Agency Deriv refers to CDO related trading):

Locale	Business	Total
JP	CMBS	0.0
	Non Agency Deriv	0.0
	Non Agency Resi	0.2
JP Total		0.2
UK	CMBS	0.1
	Non Agency Deriv	(22.5)
	Non Agency Resi	1.3
UK Total		(21.1)
US	ABS	3.6
	Agency	43.8
	CMBS	(26.1)
	Non Agency Deriv	13.3
	Non Agency Resi	(63.5)
US Total		(28.9)
Grand Total		(49.9)

Noteworthy P&L events:

1. The US MBS desk(s) macro hedge positions generated a loss of approximately (\$8mm) which includes: Equities (\$45mm), ABX (\$27mm), CMBX (\$7mm), TRS \$32mm, basis trade positions \$15mm and curve steepening trades \$23mm. Cash losses totalled approximately (\$75mm) including: US Commercial conduit loans (\$20mm), AAA ARM's (\$17mm) and residuals (\$26mm), CMBS secondary positions (\$16.5mm) and ABS \$3.5mm.
2. The agency CMO desk recorded gains totalling \$44mm which breaks down to: Short basis trade \$15mm, Eurodollar futures \$11mm, curve steepening trade \$6mm, various new deal activity \$2.5mm and WTD financing \$8mm.
3. UK desks recorded a net loss of approximately (\$21mm) primarily from various cash write-downs including: Pangea II (\$18mm) and Mansard 2007-2 (\$4mm).



**Executive Summary 01/25/2008 By Trading Desk**

**PRODUCTS ONLY**

	GSE	Non-GSE	AAA	AA	A	BBB	BE	EA Below	Equity	Loans	Securities	Other	Total
	595	419	583	244	167	(658)	290	204	1,133	5,527	806	-	22,537
<b>Residential Desks</b>	\$ 10,125	\$ 595	\$ 3,765	\$ 583	\$ 234	\$ (658)	\$ 290	\$ 204	\$ 1,133	\$ 5,527	\$ 806	\$ -	\$ 22,537
ARM	\$ 90	\$ 419	\$ 344	\$ 234	\$ 234	\$ 267	\$ 185	\$ 204	\$ 520	\$ 359	\$ 485	\$ -	\$ 3,659
Non-Agency CMO - Fixed Desk	\$ 1	\$ 168	\$ 304	\$ 295	\$ (118)	\$ (875)	\$ (88)	\$ (18)	\$ 115	\$ 1,318	\$ 190	\$ -	\$ 1,215
EMC "	\$ 1	\$ 6	\$ 16	\$ 44	\$ 50	\$ 48	\$ 34	\$ 50	\$ 84	\$ 2,201	\$ 128	\$ -	\$ 2,622
London/Tokyo	\$ 1	\$ 1	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 1,048	\$ -	\$ -	\$ 1,053
Agency CMO Desks	\$ 9,224	\$ -	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ -	\$ -	\$ -	\$ 9,230
Agency Pass Thru Desks	\$ 738	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 738
Term Funded*	\$ -	\$ -	\$ 1,787	\$ -	\$ -	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,943
<b>Commercial Desks</b>	\$ 63	\$ 55	\$ 1,026	\$ 294	\$ 241	\$ (160)	\$ 157	\$ 44	\$ 323	\$ 12,747	\$ -	\$ -	\$ 14,781
CMB Secondary	\$ 49	\$ 18	\$ 238	\$ 140	\$ 43	\$ (276)	\$ 85	\$ 62	\$ -	\$ -	\$ -	\$ -	\$ 367
Commercial Credits-NY	\$ -	\$ 0	\$ 6	\$ -	\$ 6	\$ -	\$ -	\$ -	\$ 323	\$ 9,855	\$ -	\$ -	\$ 10,018
London	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 1,533	\$ -	\$ -	\$ 1,534
Tokyo	\$ -	\$ 35	\$ 790	\$ 155	\$ 186	\$ 116	\$ 62	\$ (29)	\$ -	\$ 1,221	\$ -	\$ -	\$ 2,559
Special Situations	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ 182	\$ -	\$ -	\$ 197
SBA Types	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115	\$ -	\$ -	\$ 139
<b>ABS/CMO Desks</b>	\$ 0	\$ 4	\$ 4,745	\$ 314	\$ 295	\$ (14)	\$ 203	\$ (144)	\$ 373	\$ 1,387	\$ -	\$ -	\$ 7,164
CDO Secondary/Primary - NY	\$ -	\$ 0	\$ 1,325	\$ 48	\$ 111	\$ (74)	\$ (17)	\$ (48)	\$ 368	\$ -	\$ -	\$ -	\$ 1,259
London	\$ -	\$ -	\$ 451	\$ 155	\$ 57	\$ (21)	\$ 12	\$ -	\$ 34	\$ -	\$ -	\$ -	\$ 686
TRB SIC,AAA	\$ -	\$ -	\$ 1,343	\$ -	\$ -	\$ 1	\$ -	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ 1,351
ABS CSO	\$ -	\$ -	\$ (52)	\$ (5)	\$ 7	\$ (80)	\$ 16	\$ (4)	\$ -	\$ -	\$ -	\$ -	\$ (157)
CDO Amortizations - NY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24	\$ 154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178
London	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 23	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34
ABS Secondary/Primary - NY	\$ -	\$ -	\$ 596	\$ 1	\$ 13	\$ 53	\$ 12	\$ 1	\$ 4	\$ -	\$ -	\$ -	\$ 669
London	\$ -	\$ -	\$ 988	\$ 121	\$ 96	\$ 97	\$ 33	\$ 0	\$ 44	\$ -	\$ -	\$ -	\$ 1,381
Auto Loans/PTC - Special Situations	\$ 0	\$ -	\$ 385	\$ -	\$ 11	\$ 4	\$ -	\$ 0	\$ (13)	\$ 621	\$ -	\$ -	\$ 1,068
Special Situations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 767	\$ -	\$ -	\$ 767
<b>Other Desks</b>	\$ -	\$ 4	\$ (345)	\$ (83)	\$ (15)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,512	\$ 1,072
Warrant Hedge (ABX shorts)	\$ -	\$ -	\$ (352)	\$ (83)	\$ (15)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (450)
Wells Recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,400	\$ 1,400
Tax Liens	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 369	\$ 369
Autos	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4
<b>All Categories</b>	\$ 10,188	\$ 657	\$ 9,190	\$ 1,189	\$ 689	\$ (831)	\$ 651	\$ 103	\$ 1,929	\$ 19,661	\$ 806	\$ 1,512	\$ 45,963

\* Term Funded includes 1,342mm of Put Options; Wainco +1,797mm AAA & Liberty Hampshire +146mm BB  
 \*\* EMC a.o. 01/24/08

Net Products as viewed consistently with the Daily Weekly 1-10 report

Residual Non-Mortgage Worksheet Page Items

**CASH**

**Executive Summary 01/25/2008 By Trading Desk**

**PRODUCTS ONLY**

	GSE	Non-GSE	IO's	AAA	A	BBB	BB	S&P/BBW	Residual/ Equity	Loans	Securitized PPP	Other	Total Mkt
<b>Residential Desks</b>	\$ 10,125	\$ 595	\$ 4217	\$ 785	\$ 473	\$ 635	\$ 575	\$ 413	\$ 1,133	\$ 5,527	\$ 886	\$ -	\$ 25,208
ARM	\$ 90	\$ 419	\$ 1,847	\$ 347	\$ 269	\$ 422	\$ 221	\$ 223	\$ 920	\$ 959	\$ 485	\$ -	\$ 5,813
Non-Agency CMO - Fixed Desk	\$ 1	\$ 168	\$ 756	\$ 414	\$ 154	\$ 163	\$ 184	\$ 189	\$ 115	\$ 1,318	\$ 190	\$ -	\$ 3,634
EMC**	\$ 1	\$ 5	\$ 36	\$ 44	\$ 50	\$ 48	\$ 24	\$ 16	\$ 54	\$ 2,201	\$ 122	\$ -	\$ 2,622
London/Tokyo	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 1,048	\$ -	\$ -	\$ 1,955
Agency CMO Desks	\$ 9,284	\$ -	\$ 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ -	\$ -	\$ -	\$ 9,284
Agency Fees Thru Desks	\$ 739	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 739
Term Funded*	\$ -	\$ -	\$ 1,797	\$ -	\$ -	\$ -	\$ 146	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,943
<b>Commercial Desks</b>	\$ 63	\$ 55	\$ 1,689	\$ 279	\$ 292	\$ 313	\$ 113	\$ 82	\$ 323	\$ 12,747	\$ -	\$ -	\$ 15,915
CMBS Secondary	\$ 48	\$ 18	\$ 879	\$ 104	\$ 94	\$ 150	\$ 50	\$ 82	\$ -	\$ -	\$ -	\$ -	\$ 1,428
Commercial Conduits-KT	\$ -	\$ 0	\$ 0	\$ -	\$ 0	\$ -	\$ -	\$ -	\$ 323	\$ 9,695	\$ -	\$ -	\$ 10,018
London	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 1,523	\$ -	\$ -	\$ 1,524
Tokyo	\$ -	\$ 35	\$ 790	\$ 155	\$ 198	\$ 162	\$ 62	\$ -	\$ -	\$ 1,221	\$ -	\$ -	\$ 2,681
Commercial Lending LLC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162	\$ -	\$ -	\$ 162
SBA Types	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ -	\$ 115	\$ -	\$ -	\$ 130
<b>ABS/CMO Desks</b>	\$ 0	\$ 4	\$ 3,011	\$ 356	\$ 370	\$ 338	\$ 357	\$ 134	\$ 403	\$ 1,747	\$ -	\$ -	\$ 6,717
CMO Secondary/Primary - NY	\$ -	\$ 0	\$ 370	\$ 92	\$ 183	\$ 104	\$ 118	\$ 123	\$ 368	\$ -	\$ -	\$ -	\$ 1,298
London	\$ -	\$ -	\$ 479	\$ 133	\$ 67	\$ 66	\$ 10	\$ -	\$ 34	\$ -	\$ -	\$ -	\$ 808
TRS GIC/AAA	\$ -	\$ -	\$ 18	\$ -	\$ -	\$ 1	\$ -	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ 27
ABS CDO	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CDO Accumulations - NY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24	\$ 154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178
London	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 23	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34
ABS Secondary/Primary - NY	\$ -	\$ -	\$ 792	\$ 1	\$ 13	\$ 22	\$ 14	\$ 1	\$ 4	\$ -	\$ -	\$ -	\$ 847
London	\$ -	\$ 4	\$ 957	\$ 110	\$ 96	\$ 84	\$ 48	\$ 0	\$ 44	\$ -	\$ -	\$ -	\$ 1,385
Auto Loans/PTC - Special Situations	\$ 0	\$ -	\$ 285	\$ -	\$ 11	\$ 4	\$ -	\$ 0	\$ 14	\$ 981	\$ -	\$ -	\$ 1,385
Fixed Income Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 787	\$ -	\$ -	\$ 787
<b>Other Desks</b>	\$ -	\$ 4	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,512	\$ 1,522
Margin Hedges (ABX shorts)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Max Recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,443	\$ 1,443
Tax Liens	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 368	\$ 368
Airways	\$ -	\$ 4	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10
<b>AFC categories</b>	\$ 16,188	\$ 687	\$ 6,904	\$ 1,340	\$ 1,135	\$ 1,295	\$ 1,140	\$ 603	\$ 1,658	\$ 20,027	\$ 886	\$ 1,512	\$ 40,355

\* Term Funded includes 1,343mm of Put Options, Wainco +1,797mm AAA & Liberty Hampshire +148mm BB  
 \*\* EMC a.o. 01/23/08



**Synthetics**

**Executive Summary 01/25/2008 By Trading Desk**

**PRODUCTS-ONLY**

	GSE	Non-GSE	AAA	AA	A	BBB	BB	BB Below	Residual Equity	Loans	Services/PPP	Other	Total RTV
<b>Residential Desks</b>	\$ -	\$ -	{452} \$	{122} \$	{305} \$	{1,292} \$	{285} \$	{207} \$	\$ -	\$ -	\$ -	\$ -	\$ {2,683}
ARM	\$ -	\$ -	\$ -	{9} \$	{35} \$	{155} \$	{32} \$	{20} \$	\$ -	\$ -	\$ -	\$ -	\$ {244}
Non-Agency CMO - Fixed Desk	\$ -	\$ -	{432} \$	{119} \$	{270} \$	{1,338} \$	{253} \$	{38} \$	\$ -	\$ -	\$ -	\$ -	\$ {2,419}
EMC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
London/Tokyo	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agency CMO Desks	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agency Pass Thru Desks	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Term funded	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial Desks</b>	\$ -	\$ -	{643} \$	15 \$	{51} \$	{472} \$	45 \$	{18} \$	\$ -	\$ -	\$ -	\$ -	\$ {1,124}
CMBS Secondary	\$ -	\$ -	{823} \$	15 \$	{51} \$	{428} \$	45 \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ {1,058}
Commercial Combluts-4Y	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
London	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Tokyo	\$ -	\$ -	\$ -	\$ -	\$ -	{47} \$	\$ -	{18} \$	\$ -	\$ -	\$ -	\$ -	\$ {85}
Commercial Lending LLC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SBA Types	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>ABS/CDO Desks</b>	\$ -	\$ -	1,733 \$	{42} \$	{75} \$	{352} \$	{154} \$	{275} \$	{23} \$	{380} \$	\$ -	\$ -	\$ 447
CDO Secondary/Primary - NY	\$ -	\$ -	863 \$	{47} \$	{72} \$	{178} \$	{138} \$	{271} \$	\$ -	\$ -	\$ -	\$ -	\$ {38}
London	\$ -	\$ -	{27} \$	\$ -	{18} \$	{86} \$	2 \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ {122}
TRS GIC AAA	\$ -	\$ -	1,324 \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,324
ABS CDO	\$ -	\$ -	{52} \$	{5} \$	7 \$	{188} \$	{4} \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ {157}
CDO Accommodians - NY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
London	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ABS Secondary/Primary - NY	\$ -	\$ -	{187} \$	\$ -	\$ -	16 \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ {187}
London	\$ -	\$ -	30 \$	18 \$	\$ -	2 \$	{18} \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16
Auto Loans/PTC - Special Situations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	{23} \$	{280} \$	\$ -	\$ -	\$ {389}
Fixed Income Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Other Desks</b>	\$ -	\$ -	{352} \$	{83} \$	{15} \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ {450}
Mgmt Hedge ( ABX Shores)	\$ -	\$ -	{352} \$	{83} \$	{15} \$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ {450}
Mar Recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Top Clients	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Always	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>All Categories</b>	\$ -	\$ -	267 \$	{23} \$	{445} \$	{2,116} \$	{394} \$	{530} \$	{23} \$	{360} \$	\$ -	\$ -	\$ {3,790}



Bear Stearns Mortgages Var Summary Report												
1/24/2008	VaR		Historical Risk Comparison			Risk Manager MV			Key Risk Measures			
	Weekly 95% (\$M)	% of Limit	% of Last Period Average	Month	Year	Historical % Rank	Long (\$MM)	Short (\$MM)	IR Trader DV01	IR Model DV01	Trader v Model	SPR DV01
<b>MBS Summary</b>												
MBS Desks	84,159	-	111%	107%	139%	97%	143,144	(178,477)	2,891	3,613	(722)	4,050
ABS/AUTO	16,326	218%	101%	147%	321%	100%	3,726	(911)	(23)	(44)	22	315
ARMS	23,043	51%	100%	107%	88%	5%	12,283	(76,515)	1,349	1,548	(200)	
CBO	20,743	346%	109%	112%	150%	98%	12,542	(10,272)	8	(23)	36	(97)
CMBS Secondary	3,278	82%	96%	90%	76%	87%	16,490	(14,638)	(57)	(76)	19	104
Commercial Conduit	50,117	418%	106%	124%	189%	100%	15,864	(5,810)	(202)	(202)	0	3,611
EMC	4,456	59%	98%	77%	80%	46%	1,480	(2,581)		53		285
Agency CMO	11,729	59%	101%	78%	119%	73%	19,643	(20,935)	353	574	(221)	
Agency CMO LT Strat	5,572	111%	92%	86%	107%	88%	8,270	(17,423)	1,053	1,184	(131)	
Flow Desk	8,790	117%	111%	128%	143%	94%	35,466	(14,594)	(42)	194	(236)	
Non-Agency CMOs	37,616	107%	102%	92%	117%	90%	17,167	(14,732)	383	1,303	(920)	(280)
Accumulation	1,733	-	103%	114%	33%	6%	214	0	69	69	0	101
Other	0	-			0%	25%						
Mtge/Govt/Deriv JV	0	0%			0%	50%						

#### **IV. Significant Risk Positions and Transactions**

##### **Agency CMO Desk**

The desk's position stands at a combined \$9.3Bln [up almost \$200mm on the week], which breaks down to \$5.2Bln on the core desk and \$4.1Bln on the Long Term Strategy desk. The primary driver being the pricing/restructure of two new deals [see large transactions below]. Par IO equivalent position is net long \$396mm IO's, an increase of \$445mm on the week.

##### **Large transactions:**

The desk priced two new deals on the week: an \$875mm GNMA 0807 6% PAC/Companion deal [selling ~\$500mm bonds] and a \$100mm FNMA 15yr 0815 4.5% sequential deal [selling \$60mm bonds].

##### **Aged:**

Month-end Aged ending January 31st stands at \$978mm, a reduction of \$88mm on the month. Some of the larger changes are: Floaters down \$146mm and fixed rates (\$62mm).

##### **P/L:**

WTD p/l stands at just under \$46mm, which is comprised of: a gain of \$11mm as the desk was long 16k contracts of Eurodollar futures as they rallied 24.5bps early last week [unwound position]; Short basis trade [short MBS vs. long UST] generated a gain of \$15mm as MBS widening early in the week; a curve steepening trade generated a \$6mm profit, as the curve, thru Wednesday, steepened 17 basis points, to a high of ~145, [desk unwound on Wednesday]; New deal activity generated gains of \$2.5mm [see large Transactions above] with the remaining gains coming from WTD financing \$8mm.

##### **ARMs Desk**

Recent resecuritization of AAA inventory [most notably, CWALT 07HY4 2A1] led to the super senior piece being sold at house mark (100.89 on \$235mm C. Face). However, the senior support tranches were subsequently marked down with a P/L impact of (\$19mm). Spreads on the back-end AAA's were running into the high 500s, low 600bp spread to Tsy.

The desk is long \$4.4Bln (excl. \$1.95Bln Mandatory Puts & \$0.12Bln GSE) of total securitized cash products, which consist of: \$2Bln Alt-A / A-Quality, \$2.4Bln Option ARMs and \$0.1Bln in other product areas. In terms of rating category, we are long \$3Bln IG, \$0.45Bln Non IG and \$0.9Bln Residuals. Our unsecuritized position stands at around \$1Bln, primarily made up of Alt-A / A-Quality (\$520mm), Option ARMs (\$316mm) and B/C-Quality (\$120mm) collateral.

The overall securitized cash book has a net DV01 \$1.1mm. We are long about \$3.5mm DV01 in products, which are hedged by being short Euro\$ contracts (\$1.8mm DV01), short 15/30yr TBAs (\$0.43mm DV01), and net long Treasuries (\$0.15mm DV01). VaR is estimated at \$22.5mm (updated as of 1/22).

##### **Non-Agency Desk**

Overall cash position includes \$1.3bln in loans, \$190mm in Servicing, \$115mm in Residuals, and \$2.1bln in rated securities [\$1.7 bln in IG, and \$340mm in NIG]. Upper part of the ABX capital structure saw a rally of up to 4 points [AAs which now stand @ 40] with the bottom relatively unchanged. VaR is slightly down in the low 30s now due to the unwind of our IO trade which reduced our overall Vega exposure to almost 0. Overall we still show a net long rate exposure of roughly \$1mm IRDV01 and about half of that amount to the 2-10yr Steepener.

##### **Secondary Commercial Desks**

Spread changes for the week:

Super-senior 10yr AAA's widened 65bps to 165bps, AA's widened 135bps to 425bps, single A's widened 275bps to 650bp and BBB/BBB- widened 175 to 950 bps and 150 to 1100bps, respectively. Floating rate spreads remained the same with AAA's at 125bps, single A's remain at 300bps and BBB's at 450bps.

CMBS Desk position is net long \$347mm market value, which includes a long \$1.4Bln cash position, short (\$693mm) CDS CMBX Index, (\$338mm) Credit Derivatives and (\$139mm) Total Return Swaps. The book is hedged with (\$603mm) US interest rate swaps.

Spreads on CMBX indices both widened and tightened across the different indices resulting in a net loss of about (\$2.1mm). Spreads widened about 5-10bps on AAA's, 25-45for AA and 20-40for single A's, BBB/BBB- both widened and tightened and BB's tightened 10-95bps.

##### **Commercial Conduit Desk**

Total inventory stands at \$12.3Bln [US \$9.6Bln, London \$1.5Bln, Tokyo \$1.2Bln] in loans, 322mm in EOP equity. The U.S. Fixed Rate Book, about \$1.9Bln is hedged with (\$1Bln) TRS CMBS Lehman index, (\$1.6Bln) US interest rate swaps and (\$150mm) U.S. Treasuries. The 7.8Bln U.S. Floating Rate book is hedged with (\$70mm) single name CDS, (\$2Bln) of TRS CMBS Lehman, Wachovia and GS index, (\$443mm) MV of iShares US RE Index Fund, (\$2.7Bln) CMBX indices and a 2/10 curve steepening trade where they are long \$2Bln 2yr's and short (\$456mm) 10yr's.

The desk booked a loss of (\$15mm) with the Macro hedge making about \$6mm and marking back cash positions [floating rate loans] for (\$21mm). The largest sector of exposure in the floating rate book is in the hospitality sector standing at around \$6.1Bln [this includes \$4.1Bln of Hilton senior and Mezz debt].

**Key risk positions:** ESH Mezz Loans \$625mm, EOP Equity \$322mm, and \$4.1Bln Hilton loan.

### **ABS Desk**

\$660mm U.S. total – which includes (\$197mm) CDS AAA rated ABSHE Index hedged with Swaps and Treasuries. \$450mm of the position is aged.

### **Euro ABS Desk**

Euro ABS took advantage of the positive performance of the hedges early in the week (+\$35mm) and offset part of the P&L by marking down Pangaea II by (\$14mm) and various parts of the RMBS portfolio by (\$2mm), thus further acknowledging the exposures shown in our Dec 07 month end price verification. The sharp rally of the markets on Thursday and Friday, however, resulted in all the hedge gains being given back, so that the Desk ended the week down (\$15mm).

The large mark downs on Pangaea were carried out in the expectation of problems obtaining the rating. As the perspective of a second agency rating the deal waned, the Desk decided to reverse the deal, thus taking the collateral back on balance sheet as the CDO liabilities were cancelled. Excluding the (\$14mm) mark downs indicated above, the tear-up was done in a P&L neutral fashion. We understand the structurers are continuing to pursue a second rating.

For what concerns Tokyo, an agreement was reached to offset risk on the remaining \$20mm Orso 8 BB and a \$75mm portion of Orso 8 BBB through CDS with a hedge fund at 25% and 15% initial margin respectively (in addition to a negligible AAA piece being sold for cash). At the same time, the prospects of a CMBS securitisation receded, so the Desk is now looking to sell their \$325mm securitisable inventory as whole loans.

# Mortgage Portfolio Recession Stress

Prepared For: Risk Discussion with RPC

## Economic Environment

- **Economy enters consumer led recession**
  - Two quarters of GDP contraction
- **Fed eases more than is currently discounted**
  - Weakening USD
- **Unemployment increases by 2-3%**
- **Corporate profits drop 15-20%**
- **Home prices drop 17% over next two years**
  - What is already discounted?
- **Commercial Real Estate prices**
  - US – Price decline about 12-16%
  - International – similar spread shocks

**Net Cash & Synthetic Position by Collateral (\$mm)**

Net Position (\$mm)	Net	Investment		Loans	MBS
		GC	Non-Investment		
Agency Collateral	10,277	10,168	-	46	43
Non Agency Collateral					
Reholland	14,027	-	6,895	1,468	5,526
CDOs	2,739	-	2,171	602	-
Asset Backed	1,192	-	35	6	621
CMBS	13,922	-	(8,922)	302	14,839
Subtotal	27,415	-	5,473	2,083	16,606
Corporate Collateral	(2,364)	-	(1,352)	(1,417)	-
Total	34,710	10,168	3,151	1,166	16,712

\* Not including Non Mortgage Whole Book Netts, totaling \$2,471MM MV

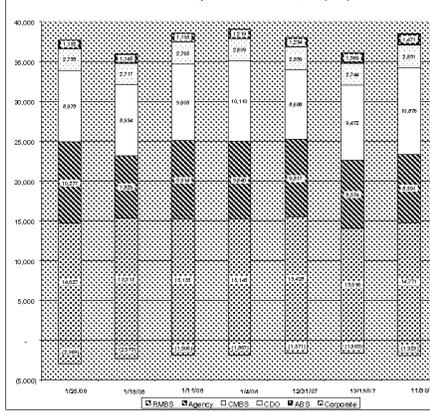
**Cash Position by Collateral (\$mm)**

Net Cash Position (\$mm)	Net	Investment		Loans	MBS
		GC	Non-Investment		
Agency Collateral	10,277	10,168	-	46	43
Non Agency Collateral					
Reholland	17,096	-	6,377	2,230	5,526
CDOs	2,739	-	1,976	741	-
Asset Backed	1,191	-	31	35	961
CMBS	13,922	-	(8,241)	302	14,839
Subtotal	36,644	-	13,201	3,297	11,506
Corporate Collateral	(457)	-	-	(457)	-
Cash Total	46,236	10,168	13,201	3,013	13,072

**Synthetic Position by Collateral (\$mm)**

Remaining Position (\$mm)	Net	Investment		Loans	MBS
		GC	Non-Investment		
Agency Collateral	-	-	-	-	-
Non Agency Collateral					
Reholland	(2,466)	-	(1,727)	(742)	-
CDOs	13	-	105	(176)	-
Asset Backed	(372)	-	10	(29)	(360)
CMBS	(6,206)	-	(6,314)	87	-
Subtotal	(9,111)	-	(7,656)	(929)	(360)
Corporate Collateral	(2,452)	-	(1,352)	(930)	-
Synthetic Total	(11,610)	-	(1,399)	(1,044)	(360)

**MBS Dept Net Position Time Series (\$MM)**



By Collateral Type vs. Net		
Collateral	CHANGE	Total
MBS	(669)	14,027
Agency	4,464	10,277
CDOs	19	6,373
ABS	7	1,192
Corporate	(1,060)	(2,364)
<b>Total</b>	<b>3,751</b>	<b>34,710</b>

# Commercial Mortgages

### **Parameters Used in CMBS Stress Test**

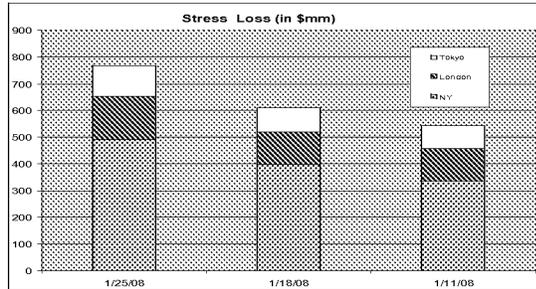
- **Two year Treasuries down 100bp, ten year down 25 bp**
  - How much is already discounted in the market?
- **Housing and Real Estate related Equities down 25%**
- **Securizable loans risks are allocated to rated buckets**
  - Fixed rate loans AAA subordination 12.7%
  - Floating rate loans AAA subordination 32.4%
  - B-notes – CMBS B index
- **CMBS Spreads wider by 50%**

**Stress losses for CMBS Conduit (01/25/2008)**

Market Changes
- spreads widened [from 1/18 to 1/23]
35% AAA's and AA
56% Single A's
18-20% BBB's, BB's, B's

Historical Scenarios	1/25/08	1/18/08	Change
Recession Scenario (in \$mm)	(765)	(608)	(159)
Product SPR DV01	5,760	5,801	(41)

Stress Scenario			
As of 1/25/08			
Desk	MV (in \$mm)	Spread DV01 (\$k/bp)	Stress Loss
<b>NY</b>			
Fixed	1,851	1,230	(207)
Floeters	7,590	3,093	(916)
Hedge	(5,835)	(3,588)	630
<b>NY Total</b>	<b>3,606</b>	<b>735</b>	<b>(492)</b>
<b>London</b>			
Fixed	782	412	(55)
Floeters	751	410	(73)
Hedge	(1,407)	0	(33)
<b>London Total</b>	<b>127</b>	<b>822</b>	<b>(161)</b>
<b>Tokyo</b>			
Fixed	0	0	0
Floeters	1,223	615	(116)
Hedge	(142)	(43)	2
<b>Tokyo Total</b>	<b>1,081</b>	<b>572</b>	<b>(115)</b>
<b>Grand Total</b>	<b>4,814</b>	<b>2,129</b>	<b>(768)</b>



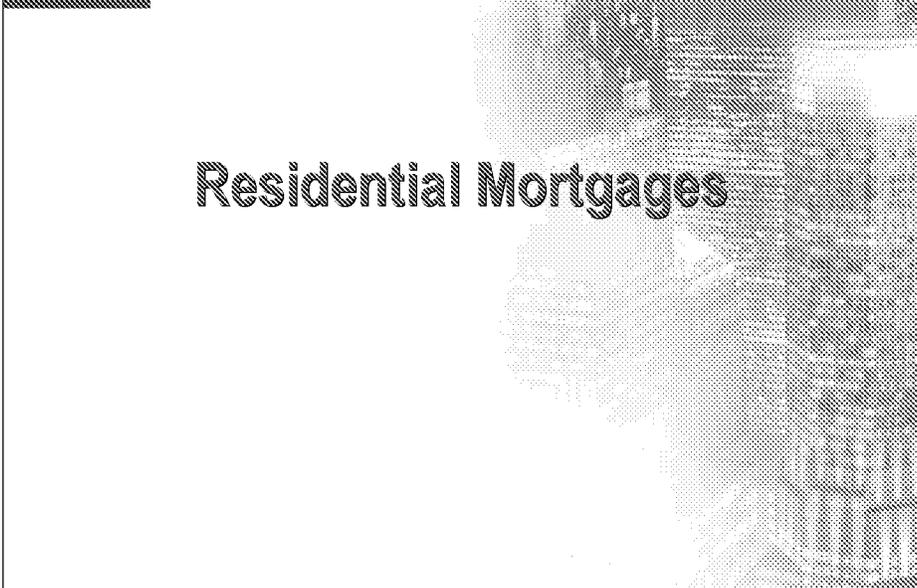
## Why did the stress loss go up?

### Current stress scenario

- ✦ Spreads are shocked based on the current spreads
- ✦ Spread widening "increases" stress losses
  - Spreads wider by

### Future developments

- ✦ Fix the spread shocks
- ✦ Choose a "bottom" to shock the spreads
  - Fix the widest spreads and shock the portfolio from the current mark
- ✦ Incorporating the fundamental factors
  - Shock cap rates, LTV's



# Residential Mortgages

**Parameters Used in Residential Stress Test**

Scenario Description
<b>Benign Scenario</b>
RMBS Assets: Benign HPA, RMBS AAA & AA -25bps
MACRO Assets: Non RMBS Spreads Tighten 20%
ST Rates Up 25 bps, LT Rates Up 25 bps, \$US +10%, Stocks + 10%
<b>Mild Recession</b>
RMBS Assets: Mild Recession HPA, RMBS AAA & AA +25 bps
MACRO Assets: Non RMBS Spreads Widen 50%
ST Rates -50 bps, LT Rates -10 bps, \$US -5%, Stocks -15%
<b>Serious Recession</b>
RMBS Assets: Serious Recession HPA, RMBS AAA & AA +50 bps
MACRO Assets: Non RMBS Spreads +100%
ST Rates -100 bps, LT Rates -20 bps, \$US -10%, Stocks -20%
<b>Deep Recession</b>
RMBS Assets: Deep Recession HPA, RMBS AAA & AA +100 bps
MACRO Assets: Non RMBS Spreads + 200%
ST Rates -150 bps, LT Rates -40 bps, \$US -15%, Stocks -30%

**HPA Scenarios - 01/18/2008**

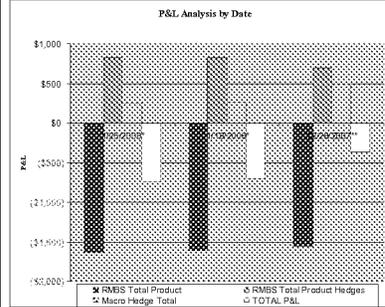
Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Home Price Model	(5.2)	(3.0)	3.6	3.8	2.9	2.9	3.0	3.1	3.2	3.2
Benign	(3.7)	(1.4)	3.6	3.4	2.5	2.5	2.6	2.9	2.9	3.0
Mild Recession	(6.8)	(5.4)	2.9	4.0	3.4	3.4	3.5	3.6	3.6	3.6
Severe Recession	(7.4)	(7.5)	1.1	3.3	3.5	3.8	4.0	4.2	4.1	4.0
Deep Recession	(8.8)	(9.6)	(0.5)	2.4	3.2	4.1	4.5	4.8	4.7	4.6

**HPA Scenarios - 01/25/2008**

Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Home Price Model	(5.7)	(3.5)	3.9	4.2	3.3	3.2	3.3	3.5	3.4	3.5
Benign	(4.1)	(2.0)	4.0	3.8	2.9	2.9	3.0	3.2	3.2	3.3
Mild Recession	(7.3)	(6.0)	3.2	4.4	3.8	3.8	3.8	4.0	3.9	3.9
Severe Recession	(7.9)	(8.1)	1.4	3.7	3.8	4.2	4.4	4.5	4.4	4.3
Deep Recession	(9.2)	(10.1)	(0.2)	2.7	3.6	4.4	4.9	5.1	5.0	4.9

**US Non Agency Residential Product Stress - draft 1/25**

Historical Scenario	1/25/2008	1/18/2008	Change
Deep Recession P&L	(744)	(705)	(39)
<b>Notable Changes</b>			
-Base HPA Model was updated to reflect new forecasts			
-Collateral was updated beginning on Friday to reflect Remit reports			
-DO Stats are updated in the model to reflect Remit reports			
<b>As of 1/25/08</b>			
<b>Product</b>	<b>MV (in \$mm)</b>	<b>P&amp;L (in \$mm)</b>	
Prime	\$509	\$4	
Near Prime	\$7,986	(\$755)	
Near Prime CDS	(\$350)	\$143	
Subprime	\$1,936	(\$435)	
Subprime CDS/ABX	(\$3,018)	\$541	
Loans	\$4,476	(\$233)	
ABS CDO	\$1,265	(\$436)	
ABS CDO CDS	(\$300)	\$140	
Correlation	(\$26)	\$29	
Macro Hedges		\$258	
<b>Grand Total</b>		<b>(\$744)</b>	



## Why did the stress loss go up?

### Current stress scenario

- ✧ HPA scenarios changed – cum losses increased
- ✧ Spread duration changed as the assets are re-priced
- ✧ Noise in the scenario runs near remit dates (25<sup>th</sup> of the month)

### Future developments

- ✧ Fix the HPA scenario
  - Revert 2008 housing index over the next two years
- ✧ Choose a "bottom" to shock the spreads
  - Fix the widest spreads and shock the portfolio from the current mark

## Risk Discussion

- **Max Stress Loss Target**
  - Probability of realizing the "Deep Recession" scenario
  - Reduced risk appetite
  - Improving stress scenarios for CMBS to include fundamentals
- **Risk Reduction Program**
  - **Selling inventory**
    - What is the cost at current bids?
    - Selling part of the risk synthetically
    - Selling with term financing
  - **Hedging/Trading strategies**
    - Directly correlated products - IIS, CDOs, ABS, PANDs
    - Basis Risk vs inventory
    - Macro hedging
      - Yield curve steepeners
      - Equity shorts
      - General credit shorts (CDX, iTraxx, etc)