**From:** Marano, Tom - Fixed Income
**Sent:** Wednesday, February 20, 2008 6:31 PM
**To:** Alix, Michael (Exchange)
**Cc:** Chen, Dan (Exchange)
**Subject:** FW: RPC 2-15-08

**Attachments:** RPC 2-15-08.doc

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From: Degroat, Brian (Exchange)
Sent: Wednesday, February 20, 2008 8:16 AM
To: Marano, Tom - Fixed Income; Chen, Dan (Exchange)
Subject: RPC 2-15-08

Risk Policy Committee memo for the week ending 2-15-08

BEAR STEARNS

M E M O R A N D U M

*Risk Management*

DATE: 20 February 2008

TO: Risk Policy Committee

FROM: Dan Chen

RE: Weekly Mortgage Risk (2/11-2/15)

## I. Market Summary:

Stocks started the week off strong but erased some of those gains after renewed credit market jitters towards the end of the week. The Dow still gained 1.4% for the week. Bond insurer problems coupled with the somber remarks from Fed Chairman Bernanke on the economy, caused stocks to pull back mid week. The treasury market mostly sold off last week about 1-15bps and the 2's/10's curve steepened by 15bps to 186bps on Friday. This week we will hear CPI, housing and FOMC minutes.

## II. Major Position Change:

The net product MV increased $1,381mm [cash up $1,463mm and CDS product shorter $104mm]. Some of the larger movers were:

- Cash Product: Agency GSE +1,977mm, CMBS (329mm), Non Agency RMBS (260mm)
  CDS Product: RMBS less short +100mm, CMBS shorter (219mm)

**Net Credit Hedge MV shorter (821mm):**

- Corp. Index (663mm), Corp CDS (133mm)
  London Macro Hedges [RSWP] added (317mm) & CBO Secondary (380mm)

**By Collateral Changes**:

- Agency Residential: up 1,977mm. Agency CMO Arb +2Bln [Long MBS basis vs. Short UST & Swaps], Flow Desks +685mm, Agency LT Strategy (450mm), Agency CMO (250mm).

- Non Agency Residential (163mm): Cash (260mm) & CDS +97mm
  Alt-A Hybrid (244mm): Sold AAA (218mm)

- CMBS: Down (507mm) -> Cash (329mm) & CDS (178mm)
  Cash: Loans (379mm) vs. hedges
  CDS: Primarily CMBX trading

- CDO/CBO/CLO: Up +159mm -> Cash +146mm & CDS +13mm
  Cash: High Yield Loans +130mm AAA purchases DCB0

- ABS down (3mm): Cash (3mm) CDS +1mm

- Corporates (859mm): Cash (64mm), CDS (795mm)
  London Macro Hedges [RSWP] added (317mm) & CBO Secondary (380mm)

**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 $12.6Bln as of February 29th, up $1.6Bln on the month. Some of the larger changes are: Agency CMO desk up $916mm to $1.6Bln, U.S. Commercial Conduit up $887mm to $2.4Bln and London CDO Desk up $192mm to $429mm.
    b. Loan inventory stands at $19.3Bln, down ($400mm) on the week [due to the pricing of Top 29 on the US Commercial Cionduit desk].
    c. Residual/equity positions down about ($50mm) week to week to about $1.6Bln [mostly from market movement].
    d. Current CLO CDO warehouse is about $119mm: Briar Cliff: $35mm and Trust Preferred deal(s) $84mm.
    e. Total Alt-A exposure stands at $11.5Bln with the majority [$6.1Bln] falling under the ARMs desk.
    f. EMC position stands at $2.7Bln with ~$1Bln of performing loans and $900mm NPL.
2. Execution risk in the CMBS business.
    a. Rating size delta remains high for the CMBS loan inventory of about $13.4Bln.
    b. Exit strategies for the mezz loan and equities, total about $3.5Bln.

**III. Department P&L for the week ended Friday 2/15/08 ($mm)**

| | | |
|---|---|---|
| EMC desk | (0.53) | |
| **Agency CMOs** | **4.29** | **Arb Book ($20mm), various new deal activity and mark-ups $14mm and WTD financing $8mm.** |
| **Non-agency CMOs** | **9.32** | **Macro-Hedges $30mm Curve steepener $12mm, ABX $12mm and Itraxx/Xover $6mm. Cash ($20mm).** |
| **ABS secondary** | (0.33) | |
| ABS primary | 0.53 | |
| CBO Secondary | 0.92 | |
| CBO Primary | 0.39 | |
| **ARMs/SBAs** | **(27.72)** | **Residual write-downs.** |
| **Commercial / Projects** | **(4.02)** | **Macro hedges: CMBX ($6mm) and TRS $2.5mm.** |
| **Commercial Conduit** | **17.59** | **Macro hedges $17mm: TRS $28mm, curve steepener $5mm, CMBX ($14mm) and cash write-downs ($4mm).** |
| **International Securitization** | **5.41** | **Global trades $9.8mm and ABS CDO warehouse re-marks ($3.6mm).** |
| **Desk Hedge** | **2.45** | **ABX $9.7mm and equity positions ($4.2mm).** |
| Special situations /Other | 1.29 | **ABS Credit Ellington.** |
| **Gross Revenues** | **9.62** | |

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

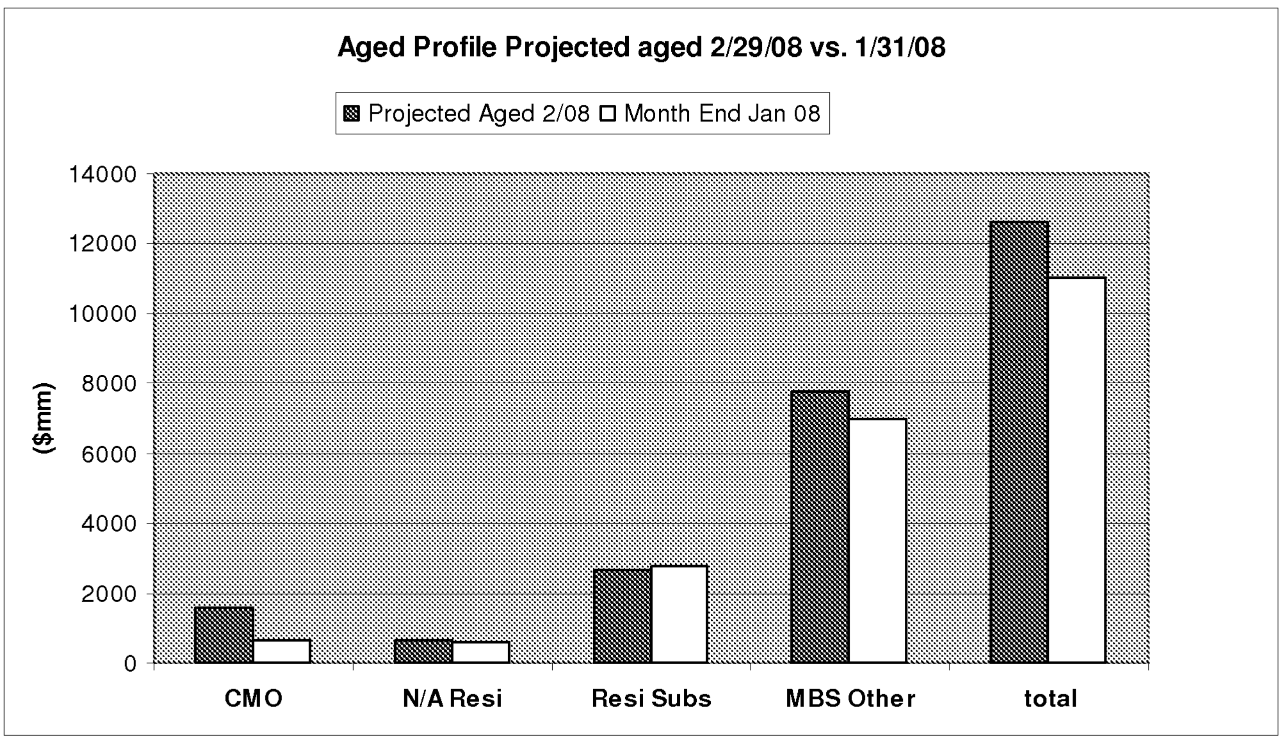
| Locale | Business | Total |
|---|---|---|
| JP | CMBS | 0.6 |
| | Non Agency Deriv | 0.0 |
| | Non Agency Resi | 0.0 |
| JP Total | | 0.6 |
| UK | CMBS | 0.2 |
| | Non Agency Deriv | (7.6) |
| | Non Agency Resi | 12.2 |
| UK Total | | 4.8 |
| US | ABS | 0.2 |
| | Agency | 4.3 |
| | CMBS | 13.6 |
| | Non Agency Deriv | 1.3 |
| | Non Agency Resi | (15.2) |
| US Total | | 4.2 |
| Grand Total | | 9.6 |

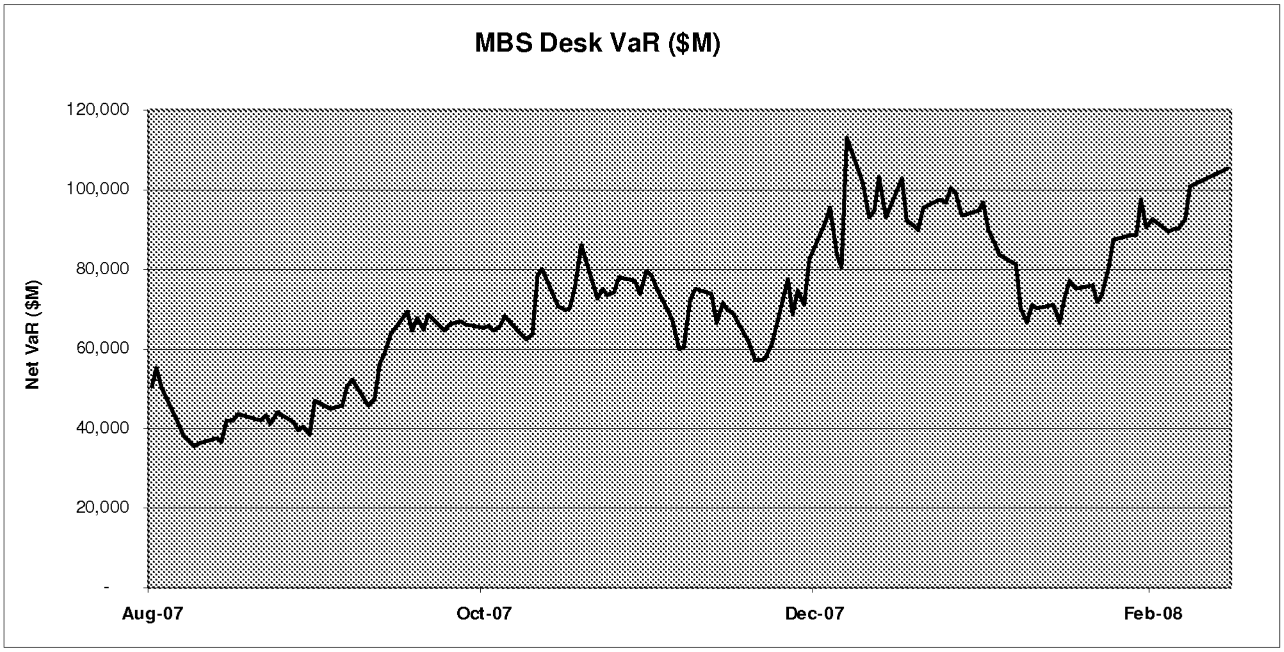
Noteworthy P&L events:

1. The US MBS desk(s) macro hedge positions generated gains of approximately ~$52mm which includes: TRS ~$31mm, ABX ~$21mm, curve steepening trades ~$17mm, Itraxx/Xover trade(s) ~$6mm, CMBX ~($19mm) and Equities ~($4mm).
2. US MBS cash losses totalled approximately ($50mm) including: ARM residual re-marks ($30mm) and Non-Agency residential subs ($20mm).

**Total MBS P&L ($MM) a/o 2/15/08**

| DESK | WTD | MTD | YTD |
|---|---|---|---|
| ARMs | (27.7) | (106.9) | (321.8) |
| Non-Agency CMO | 10.6 | 68.2 | 150.3 |
| Agency CMO | 4.3 | 21.8 | 134.1 |
| CMBS Secondary | (4.0) | 11.5 | (15.5) |
| Commercial Securitization | 17.6 | 65.4 | 44.4 |
| CDO [Primary/Secondary] | 1.3 | 2.1 | 23.5 |
| International [London / Tokyo] | 5.4 | 36.6 | 57.6 |
| ABS | 0.2 | (0.7) | (4.0) |
| EMC | (0.5) | (1.0) | (2.1) |
| Other | 2.5 | 36.3 | 7.9 |
| Total All | 9.6 | 133.4 | 74.5 |






## Bear Stearns Mortgages Var Summary Report

| MBS Summary | VaR | | Historical Risk Comparison | | | | Risk Manager MV | |
|---|---|---|---|---|---|---|---|---|
| | Weekly 95% ($M) | % of Limit | % of Last Period Average | | | Historical % Rank | Long ($MM) | Short ($MM) |
| | | | Week | Month | Year | | | |
| **MBS Desks** | **105,367** | - | **104%** | **119%** | **165%** | **100%** | **118,837** | **(176,912)** |
| **ABS/AUTO** | 14,869 | 198% | 76% | 77% | 233% | 97% | 3,984 | (1,494) |
| **ARMS** | 25,255 | 56% | 91% | 113% | 98% | 14% | 15,227 | (75,609) |
| **CBO** | 28,039 | 467% | 106% | 125% | 189% | 100% | 13,640 | (11,303) |
| **CMBS Secondary** | 4,406 | 110% | 91% | 109% | 99% | 93% | 17,321 | (15,665) |
| **Commercial Conduit** | 39,514 | 329% | 114% | 103% | 141% | 94% | 15,465 | (8,284) |
| **EMC** | 4,196 | 56% | 78% | 80% | 75% | 35% | 1,345 | (1,986) |
| **Agency CMO** | 22,335 | 112% | 116% | 144% | 216% | 98% | 20,231 | (24,527) |
| **Agency CMO LT Strat** | 6,541 | 131% | 106% | 108% | 124% | 92% | 7,141 | (15,559) |
| **Flow Desk** | 3,383 | 45% | 70% | 40% | 57% | 56% | 8,196 | (8,042) |
| **Non-Agency CMOs** | 35,393 | 101% | 101% | 100% | 107% | 86% | 12,317 | (10,907) |
| **Accumulation** | 976 | - | 103% | 75% | 20% | 1% | 121 | 0 |
| **Other** | 0 | - | | | 0% | 25% | | |
| **Mtge/Govt/Deriv JV** | 0 | 0% | | | 0% | 50% | | |
| **Desk Hedge** | 11,832 | - | 148% | 186% | 186% | 100% | 0 | (439) |
| **TRS GIC – Louis** | 2,796 | - | 68% | 60% | 60% | 8% | 1,477 | (264) |
| **ABS CSO** | 9,856 | - | 95% | 80% | 80% | 8% | 362 | (493) |
| **Intermediation** | 8,781 | - | 100% | 100% | 100% | 58% | 968 | (965) |
| **Synth Other** | 11,965 | - | 110% | 118% | 118% | 92% | 1,044 | (1,376) |

## Global Executive Summary of Mortgage Positions by Collateral Type a.o. 02/15

### Net Cash & Synthetic Position ($mm's)

| Net Products ($mm) | | Net | GSE | Investment Grade | Non Investment Grade | Loans | MSR | Net Change vs. 02/08 |
|---|---|---|---|---|---|---|---|---|
| Agency | Collateral | | | | | | | |
| | Agency CMOs | 11,207 | 11,121 | - | - | 48 | 42 | 1,977 |
| Non Agency | Collateral | | | | | | | |
| | Residential | 14,332 | - | 6,882 | 1,137 | 5,644 | 749 | (183) |
| | CDOs | 2,672 | - | 2,242 | 530 | - | - | 146 |
| | Asset Backed | 1,137 | - | 552 | 18 | 558 | - | (3) |
| | CMBS | 7,8[illegible] | - | (4,8[illegible]) | 664 | 11,774 | - | ([illegible]) |
| | Subtotal | 25,5[illegible] | - | 4,878 | 2,8[illegible] | 18,0[illegible] | 749 | ([illegible]) |
| Corporate | Collateral | (4,887) | - | (1,522) | (2,245) | - | - | ([illegible]) |
| | Total | 32,[illegible] | 11,121 | 2,857 | (158) | 18,058 | 791 | 963 |

* Not including non Mortgage Whole Book items, totaling [illegible]

### Cash Position by Collateral ($mm's)

| Net Cash Products ($mm) | | Net | GSE | Investment Grade | Non Investment Grade | Loans | MSR | Net Change vs. 02/08 |
|---|---|---|---|---|---|---|---|---|
| Agency Collateral | | | | | | | | |
| | Agency CMOs | 11,207 | 11,121 | - | - | 48 | 42 | 1,977 |
| Non Agency Collateral | | | | | | | | |
| | Residential | 16,222 | - | 7,882 | 2,[illegible] | 5,644 | 749 | ([illegible]) |
| | CDOs | 2,625 | - | 1,844 | 880 | - | - | 148 |
| | Asset Backed | 1,4[illegible] | - | 832 | 47 | 628 | - | (3) |
| | CMBS | 14,[illegible] | - | 2,[illegible] | 654 | 11,774 | - | ([illegible]) |
| | Subtotal | 34,7[illegible] | - | 12,[illegible] | 3,1[illegible] | 18,[illegible] | 749 | ([illegible]) |
| Corporate Collateral | | (728) | - | - | (728) | - | - | (84) |
| | Total | 45,[illegible] | 11,121 | 12,[illegible] | 2,4[illegible] | 18,[illegible] | 791 | 1,[illegible] |

* Not including non Mortgage Whole Book items, totaling [illegible]

### Synthetic Position by Collateral ($mm's)

| Synthetic Products ($mm) | | Net | GSE | Investment Grade | Non Investment Grade | Loans | MSR | Net Change vs. 02/08 |
|---|---|---|---|---|---|---|---|---|
| Agency | Collateral | | | | | | | |
| | Agency CMOs | - | - | | | | | |
| Non Agency | Collateral | | | | | | | |
| | Residential | (2,[illegible]) | - | (1,[illegible]) | (873) | - | - | 87 |
| | CDOs | 47 | - | 388 | (151) | - | - | [illegible] |
| | Asset Backed | (3[illegible]) | - | 10 | (29) | (348) | - | 1 |
| | CMBS | (6,[illegible]) | - | (6,[illegible]) | ([illegible]) | - | - | ([illegible]) |
| | Subtotal | ([illegible]) | - | (7,[illegible]) | (1,[illegible]) | (348) | - | ([illegible]) |
| Corporate | Collateral | (3,[illegible]) | - | (1,522) | (1,517) | - | - | ([illegible]) |
| | Total | (12,[illegible]) | - | (8,[illegible]) | (2,[illegible]) | (348) | - | ([illegible]) |

## IV. Significant Risk Positions and Transactions

***Agency CMO Desk***
The desk's position stands at a combined $7.6Bln [down $700mm on the week], which breaks down to $4.5Bln on the core desk and $3.1Bln on the Long Term Strategy desk. The primary driver(s) being a reduction in fixed rate positions [down $420mm] and Trust PO's [down $530mm]. Par IO equivalent position is net short ~($100mm) IO's, a reduction of ~$25mm on the week. Note: On the month, the desk has reduced overall position size by approximately ($1.4Bln).

**Large transactions:**
The desk priced almost $500mm of new deals on the week, of which ~$220mm bonds from these deals were sold and a profit of ~$3mm was recorded [which does not include gains from previously structured new deals].

**Aged:**
Month-end Projected Aged ending February 29th stands at $1.6Bln, an increase of $916mm on the month. Some of the larger changes are: Pass-Thru's $497mm, Floaters $212mm and Long Term Strategy $128mm.

**P/L:**
WTD p/l stands at just under $3mm, which is comprised of a gain of $14mm from various new deal activity, Arb book ($20mm), primarily from a net long UST position and a long basis trade position and with the remaining gains coming from WTD financing.

***ARMs Desk***
Residual mark backs totaled ($20mm) for the week. Additionally, the desk resecuritized approximately $250mm C.Face of AAA, Alt-A Hybrid collateral – BSSP 08R3A & BSSP 08R3B. We were able to move the super senior pieces @ 100-28+ & 91-21+, respectively and retained the back-end AAAs of ~$35mm MV. The super senior pieces were ran to a 8% cum loss with estimated yields at 5.6% and 6.5%, respectively under base models. In terms of spread to Tsy – 330bp and 400bps, respectively.

The desk is long $3.6Bln (excl. $1.94Bln Mandatory Puts & $0.02Bln GSE) of total securitized cash products, which consist of: $1.5Bln Alt-A / A-Quality, $2Bln Option ARMs and $0.08Bln in other product areas. In terms of rating category, we are long $2.7Bln IG, $0.4Bln Non IG and $0.87Bln Residuals. Our unsecuritized position stands at around $940mm, primarily made up of Alt-A / A-Quality ($514mm), Option ARMs ($306mm) and B/C-Quality ($106mm) collateral.

The overall securitized cash book has a net DV01 $1.9mm. We are long about $3.7mm DV01 in products, which are hedged by being short Euro$ contracts ($1.8mm DV01), short 15/30yr TBAs ($0.2mm DV01), and net long Treasuries +$0.1mm DV01. VaR is estimated at $25mm (as of 2/13).

***Non-Agency Desk***
Overall cash position includes $1.4bln in loans, $180mm in Servicing, $101mm in Residuals, and $1.9bln in rated cash securities [$1.6 bln in IG, and $338mm in NIG]. ABX overall sold off with AAs seeing the steepest decline [down 2 pts to 34]. VaR remains in the mid 30s.

***Secondary Commercial Desks***
Spread changes for the week as of 2.11.08
Super-senior 10yr AAA's widened 65bps to 235bps, AA's widened 175bps to 600bps, single A's widened 150bps to 800bp and BBB/BBB- widened 250bps to 1250bps and 1400bps, respectively. Floating rate spreads, AAA's stand at 300bps, AA's widened 5bps to 355bps, single A's tightened 40bps to 435bps, BBB's tightened 40bps to 610bps and BBB- tightened 75bps to 675bps.

CMBS Desk position is net long $215mm market value, which includes a long $1.5Bln cash position, short ($930mm) CDS CMBX Index, ($205mm) Credit Derivatives and ($250mm) Total Return Swaps. The book is hedged with ($744mm) US interest rate swaps.

Spreads on CMBX indices were mixed during the week for a loss of ($6mm). Spreads tightened about 15-20bps on AAA's, 18bps for AA's and 4-35 for single A's, BBB/BBB- were mixed with some widening 25bps and some tightening 10-30bps and BB 07-2 and 07-1 widened 18-37bps.

***Commercial Conduit Desk***

Total inventory stands at $11.6Bln [US $8.9Bln, London $1.5Bln, Tokyo $1.2Bln] in loans, $248mm in EOP equity. The U.S. Fixed Rate Book, about $1.3Bln is hedged with ($975mm) TRS CMBS Lehman index, ($790mm) US interest rate swaps and ($120mm) U.S. Treasuries. The 7.6Bln U.S. Floating Rate book is hedged with ($70mm) single name CDS, ($2.4Bln) of TRS CMBS Lehman, Wachovia and GS index, ($443mm) MV of iShares US Real Estate Index Fund, ($2.9Bln) CMBX indices and a 2/10 curve steepening trade where they are long $2Bln 2yr's and short ($460mm) 10yr's.

The desk booked a profit of $17mm with the Macro hedge up $20mm [CMBX ($17mm), TRS $28mm and Curve trade $5mm] and cash positions down ($4mm). The largest sector of exposure in the floating rate book is in the hospitality sector standing at around $5.8Bln [this includes $4Bln of Hilton senior and Mezz debt].

**Key risk positions:** ESH Mezz Loans $562mm, EOP Equity $248mm, and $4Bln Hilton loan

***ABS Desk***

$635mm U.S. total net position– which includes ($135mm) CDS AAA rated ABSHE Index hedged with Swaps and Treasuries. $700mm of the cash position is aged.

***Euro ABS Desk***

The London Commercial Conduit [EREF] took a ($15.4mm) writedown last week marking their loan portfolio to a syndication exit. This loss was offset by a transfer of $15.6mm from NY's department hedge gains. EREF carved their positions into A and B notes at a 60% LTV threshold and marked the As to 125dm and the Bs to 500dm. The desk remains long $1.4bln with $830mm in the Sterling book and $570m in Euros.

Euro ABS marked their position by ($5.7mm) which was offset by gains of $10mm their Global Trade driven by further curve steepening.



| DATE / DAY | **WTD end** | **2/15/2008** | |
|---|---|---|---|
| **WTD total** | *Totals* | | |
| ***NON AGENCY*** | Sum [a+b] | look up | |
| Equities | 431 | 431 | |
| Itrax/Xover | 6,236 | 6,236 | |
| Curve trades | 11,952 | 11,952 | |
| IO's | - | - | |
| FNM/UST basis | - | - | |
| **Non-ABX Total** | **18,619** | **18,619** | |
| | | | |
| AAA ABX | (477) | (477) | |
| SUB ABX | 12,423 | 12,423 | |
| **Hedges all-in** | **30,565** | **30,565** | |
| | | | |
| **CMBS Secondary** | | | |
| | | | |
| CMBX Hedge vs CDO | (1,185) | (1,185) | |
| CMBX Hedge vs CDMI | 85 | 85 | |
| IG Hedge vs CDO | 57 | - | |
| CMBX | (4,929) | (4,929) | |
| TRS | 2,670 | 2,670 | |
| CDS | - | - | |
| Cash | (2,411) | (2,411) | |
| **Total** | **(5,770)** | **(5,770)** | |
| | | | |
| **CMBS Whole Loan** | | | |
| | | | |
| Curve Trade | 5,168 | 5,168 | |
| CDS 2 | 151 | 151 | |
| TRS 2 | 27,942 | 27,942 | |
| CDX | - | - | |
| Equity | (140) | (140) | |
| CMBX 2 | (14,154) | (14,154) | |
| **Macro Hedge** | **18,967** | **18,967** | |
| Cash 2 | (3,755) | (3,755) | |
| **Total 2** | **17,312** | **17,312** | |
| | | | |
| **Equities 2** | **(4,232)** | **(4,232)** | |
| **ABX** | **9,734** | **9,734** | |
| **Total GTOM** | **5,502** | **5,502** | |
| | | | |
| ***Across All Desks*** | | | |
| Curve Trade | 17,120 | | |
| CDS | 151 | | |
| CMBX | (19,083) | | |
| Equity | 291 | | |
| iTraxx/Xover | 6,236 | | |
| TRS | 30,612 | | |
| ABX [AAA & Sub] | 11,946 | | |
| Total GTOM | 5,502 | incl eq/curve and ABX | |
| GTOM ABX | 9,734 | | |
| GTOM Equities 2 | (4,232) | | |
| Cash | (6,166) | | |