
From: Viniar, David
Sent: Wednesday, December 13, 2006 8:59 AM
To: Sperto, Savina
Subject: FW: Subprime Mortgage Risk

Attachments: mortgage drilldown.pdf

Pls print thanks

From: Dinias, Michael
Sent: Wednesday, December 13, 2006 8:58 AM
To: Viniar, David; Broderick, Craig
Cc: Berry, Robert
Subject: Subprime Mortgage Risk

David & Craig

Given the recent volatility in subprime mortgage market we put together the attached analysis of the major risks in the Mortgage business. The report follows the format we use in the Credit Widening Scenario and includes details on our long positions and how they are being hedged. The specific desks that are long subprime risk are "Residential Credit", "ABX & Single Name CDS", and "CDO". We have reviewed this risk analysis with Dan, Bill, and Armen and we would be happy to walk you through the details.

Regards
Mike



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Permanent Subcommittee on Investigations

EXHIBIT #2

As of cob 12/07/06

	Credit Widening Scenario (\$mm)	Positional Details
Mortgage Trading Desk	(658)	
Mortgage Derivatives	(13)	<ul style="list-style-type: none"> Derivatives: Long \$0.3bn inventory (\$0.1bn IO, \$0.6bn PO, \$2.0bn combo, \$0.2bn Inverse IO & \$0.4bn Inverse floater) - stress impact \$83mm. Hedges: Short \$4.6bn passsthroughs (credit \$36mm) and \$2.6bn Libor swaps (credit \$14mm)
Residential Prime Agency CMO	(97) (11)	<ul style="list-style-type: none"> CMO bonds: Long \$2.8bn inventory (\$1.3bn PAC I, \$1.0bn Vanilla, \$0.4bn support, \$0.1bn Inverse floater) - stress impact \$33mm. Hedges: Short \$1.8bn passsthroughs (credit \$15mm) and \$1.4bn swaps (credit \$7mm)
Non-Agcy Prime & ARMS	(85)	<ul style="list-style-type: none"> Loans: Long \$5.1bn prime loans (\$0.4bn prime fix and \$4.6bn prime hybrid and \$0.2bn FHA/VA) - stress impact \$32mm. Bonds: Long \$7.5bn securities (\$1.6bn prime fix, \$1.9bn prime hybrid, \$3.5bn ARMS & \$0.5bn Subs) - stress impact \$64mm. Residuals: Long \$290mm inventory (\$155mm MTA negam residuals and \$158mm option ARM IO) - stress impact \$31mm. Hedges: Short \$2bn passthrus (credit \$11mm), \$1.5bn libor swaps (credit \$4mm) and \$2.6bn ABX "AAA" index (credit \$25mm)
Residential Credit	(168)	<ul style="list-style-type: none"> Loans: Long \$14bn (\$7.4B Subprime, \$4.1B Alt-A, \$1.6B Second Lien, \$0.8B S&D) - stress impact \$100mm. Bonds: Long \$595mm RMBS bonds (\$170mm Alt-A, \$70mm subprime, \$160mm 2nd Lien & \$140mm S&D) - stress impact \$7mm. Residuals: Long \$520mm (\$260 cash-flow, \$260mm non-cash flow) - stress test impact \$122mm. Hedges: Short \$5bn ABX indices - stress relief \$60mm.
Non-Resi Origination	(313)	
Acquisition commitment	(287)	<ul style="list-style-type: none"> Commitment: Long \$8.9bn debt (stress test \$89mm) and \$1.17bn bridge equity commitment (stress \$198mm)
CRE Loan Trading	(19)	<ul style="list-style-type: none"> Loans: Long \$5.0bn commercial mortgage loans (\$2.3bn fixed and \$2.7bn floating rate loans) - stress impact \$70mm. Hedges: Short \$2.0bn TROR swaps (credit \$42mm) and long \$0.5bn CMBS protection (credit \$8mm)
ABS Loans & Finance	(7)	<ul style="list-style-type: none"> Loans: Long \$0.7bn consumer and auto loans - stress impact \$7mm.
SPG Trading	(8)	
CMBS	24	<ul style="list-style-type: none"> Bonds: Long \$1.1bn (spread dv01 \$0.4mm/bp) CMBS securities - stress impact \$27mm. TROR swaps: Long \$0.2bn (spread dv01 \$0.3mm/bp) TROR swaps - stress impact \$6mm. Hedges: Long \$1.8bn (spread dv01 \$1.4mm/bp) CMBS CLN protection across the curve - stress credit \$57mm.
ABS Securities	(35)	<ul style="list-style-type: none"> Bonds: Long \$1.6bn ABS securities (\$0.7bn home equity, \$0.5bn Auto, \$0.2bn credit card & \$0.2bn student loan bonds) - stress impact \$35mm.
ABX & Single Name CDS	(39)	<ul style="list-style-type: none"> ABX: Long \$6.5bn ABX BBB- index (spread dv01 \$1.9mm/bp & stress impact \$224mm) vs. short \$4.3bn ABX AAA/A/BBB indices (spread dv01 \$1.4mm/bp & stress credit \$45mm) Single Name CDS Hedges: Long \$3bn protection on RMBS subprime sector (spread dv01 \$1.2mm/bp & stress credit \$140mm), out of which \$2.6bn (spread dv01 \$0.9mm/bp) is on BBB/BBB- sector.
Correlation	42	<ul style="list-style-type: none"> Synthetic CDO (Abacus): Long \$18bn tranche protection on structured product collateral (\$6bn RMBS subprime, \$1.7bn ABX, \$7bn CMBS and \$2.1bn CDO HG/MEZ) - stress credit \$479mm. Single Name CDS/ABX Hedges: Short \$13bn single name protection (\$2.1bn ABX, \$1.4bn RMBS subprime, \$4.2bn CMBS and \$1.3bn CDO HG/MEZ) - stress impact \$425mm. Bonds: Long \$0.3bn floater for CLN collateral and \$0.1bn Abacus notes - stress impact \$12mm.
CDO/CLO	(60)	<ul style="list-style-type: none"> CLO Debt: Long \$600mm CLO bonds (stress \$6mm) CDO Equity: Long \$70mm structured product CDO equity (stress \$35mm) CLO Debt: Long \$200mm CLO bonds (stress \$3mm) CLO Equity: Long \$40mm structured product CDO equity (stress \$20mm) Hedges: Long \$210mm single name CDS protection on CDO (credit \$4mm)
Manager Account	0	
CDO Warehouse	(189)	Comments
CDO	(82)	<ul style="list-style-type: none"> RMBS high grade (AA/A): Long \$3.5bn debt collateral (stress \$59mm) RMBS mezzanine (BBB/BBB-): Long \$1.1bn debt collateral (stress \$12mm) CMBS: Long \$0.6bn debt collateral (stress \$10mm)
CLO	(67)	
US	(59)	<ul style="list-style-type: none"> US Bank Debt: Long \$0.6bn senior bank debt collateral (stress \$59mm)
Europe	(8)	<ul style="list-style-type: none"> Euro Bank Debt: Long \$2.1bn senior bank debt collateral (stress \$8mm)