Presentation To
Merrill Lynch & Co.
Board of Directors

Leveraged Finance and Mortgage / CDO Review

October 21, 2007
1. Financial Performance

2. Leveraged Finance Review

3. Mortgage / CDO Review
   - Mortgage and CDO Background
   - ABS Warehouse / CDO Inventory Chronology
   - Business Review
   - Other Supplemental Information
## Merrill Lynch & Co.
### 3Q07 Operating Results

**With Net Losses**

<table>
<thead>
<tr>
<th>($Billions)</th>
<th>3Q07</th>
<th>3Q06</th>
<th>3Q07</th>
<th>3Q06</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICC</td>
<td>(2.8)</td>
<td>(233)%</td>
<td>2.4</td>
<td>17%</td>
</tr>
<tr>
<td>Equity</td>
<td>1.6</td>
<td>39%</td>
<td>1.5</td>
<td>25%</td>
</tr>
<tr>
<td>IBK</td>
<td>1.0</td>
<td>23%</td>
<td>1.0</td>
<td>23%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>(0.1)</td>
<td>(118)%</td>
<td>(0.1)</td>
<td>(118)%</td>
</tr>
<tr>
<td>Total GMI</td>
<td>(0.2)</td>
<td>(104)%</td>
<td>4.9</td>
<td>10%</td>
</tr>
<tr>
<td>GWM</td>
<td>3.5</td>
<td>29%</td>
<td>3.5</td>
<td>29%</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>3.4</td>
<td>(57)%</td>
<td>8.4</td>
<td>7%</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>(0.3)</td>
<td>(115)%</td>
<td>1.8</td>
<td>(6)%</td>
</tr>
<tr>
<td>EPS</td>
<td>$(0.43)</td>
<td>(122)%</td>
<td>$1.94</td>
<td>(2)%</td>
</tr>
<tr>
<td>ROE</td>
<td>(3.8)%</td>
<td>(26.0) pts</td>
<td>18.5%</td>
<td>(3.7) pts</td>
</tr>
</tbody>
</table>

**Without Net Losses**

**(1)** "Without Net Losses" normalized for 46.5% Comp Ratio and 29% Tax Rate. Includes aggregate net losses across U.S. Subprime, CDOs, Leveraged Finance, Structured Notes, and write-off of First Franklin intangible asset.
Business - Revenue Performance
3Q07 vs. 3Q06

FICC(1) [Credit, Credit ex. marks, GSFI/Mortgages, CRE]

Equity(1) [Prop Trading, Total FICC, Total FICC ex. marks]

IBK

GWM

(1): Global Markets product detail internally

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Merrill Lynch & Co.
3Q07YTD Operating Results

<table>
<thead>
<tr>
<th></th>
<th>3Q07YTD</th>
<th>3Q06YTD</th>
<th>B/(W)</th>
<th>3Q07YTD</th>
<th>3Q06YTD</th>
<th>B/(W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICC</td>
<td>2.6</td>
<td></td>
<td></td>
<td>8.4</td>
<td></td>
<td>44%</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>22.8</td>
<td>(4)%</td>
<td>28.4</td>
<td>19%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Earnings</td>
<td>4.0</td>
<td>(23)%</td>
<td>6.7</td>
<td>30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>$4.11</td>
<td>(21)%</td>
<td>$7.12</td>
<td>37%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>13.7%</td>
<td>(6.2) pts</td>
<td>23.2%</td>
<td>3.5 pts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1): "Without Net Losses" normalized for 46.5% Comp Ratio and 29% Tax Rate. Includes aggregate net losses across U.S. Subprime, CDOs, Leveraged Finance, Structured Notes, and write-off of First Franklin Intangible asset.
Business - Revenue Performance
3Q07YTD vs. 3Q06YTD

<table>
<thead>
<tr>
<th>FICC⁽¹⁾</th>
<th>Equity⁽¹⁾</th>
<th>IBK</th>
<th>GWM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>(146)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit ex. marks</td>
<td>68%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GSF1/Mortgages</td>
<td>(121)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRE</td>
<td>34%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Global Markets product detail internal basis.
Competitor Comparison
3Q07 vs. 3Q06

<table>
<thead>
<tr>
<th>Metric</th>
<th>MER Reported</th>
<th>MER Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>FICC</td>
<td>(233)%</td>
<td>(63)%</td>
</tr>
<tr>
<td>Total Net Revenues</td>
<td>(57)%</td>
<td>(5)%</td>
</tr>
<tr>
<td>Net Earnings</td>
<td>(115)%</td>
<td>(11)% - (30)</td>
</tr>
<tr>
<td>EPS</td>
<td>(122)%</td>
<td>(9)%</td>
</tr>
<tr>
<td>ROE</td>
<td>(26.0) pts</td>
<td>(3.9) pts</td>
</tr>
</tbody>
</table>

Pro forma August quarter-end assumes normalized 46.5% Comp Ratio and 29% Tax Rate. August MER Pro forma results do not reflect additional marks taken in September month.
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Leveraged Finance Commitments Update
Background: Recent Credit Market Conditions

July / August Review

- Market conditions have been exceptionally strong over the last couple of years culminating with a very "frothy" marketplace in the late spring and early summer.
  - Conditions deteriorated very rapidly in late July, however.
  - Spreads widened significantly in the leveraged loan and bond markets.
  - To a large extent this was a technical correction with no documented change in economic/credit fundamentals.
- As a result secondary prices plunged.
  - Hedge funds sold securities to meet margin calls.
  - CLOs and CDOs could no longer raise new funds.
- New issue demand was non-existent.
  - Traditional cash buyers were unwilling to buy in a declining market.
  - Numerous aggressively structured transactions that had been launched failed to syndicate and others were held back from the market.

Spreads Widened Significantly

Monthly High Yield New Issue Volume
Overview

- Senior business management in conjunction with Global Credit and Commitments formed a clear, conservative posture towards the increasingly aggressive Leveraged Finance Market in the 12 months prior to the eventual 2007 summer fall-out
- The firm made some good risk-related decisions by declining to participate in several transactions, the terms of which we felt had become too aggressive
  - Those transactions did not fare well in the subsequent market downturn
- Market credit conditions have improved in September, which has generally resulted in more favorable marks on outstanding commitments
  - Did not force sales in early August at severely distressed levels

Commitment Reduction History

- 4.5% Reduction
Summary of Outstanding Financing Commitments

As of 9/28/07 - $30.6 Billion (33 Commitments)

By Size

- <500MM: $2.5
- $500MM-$1BN: $5.2
- $1BN-$2.5BN: $8.4
- $2.5BN-$5BN: $3.0
- >$5BN: $10.6

By Commitment Status (1)

- Closed: $10.2
- Not Closed: $20.4

By Timing of Expected Closing (Commitments Not Closed)

- >6mo: $2.0
- 3-6mo: $15.4
- 1mo: $2.8
- 2mo: $2.2

Sponsor/Corporate

- Sponsor: $16.0
- Corporate: $14.6

Bank vs. Bond/Bridge

- Bank: $20.1
- Bond/Bridge: $10.5

Notes:
(1) Closed commitments include financing commitments that have closed but not yet been successfully syndicated down to the target hold level. Not Closed commitments represent financing commitments that have not yet been documented and closed.

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## Leveraged Finance Commitments Update

### Competitor Reporting Analysis

### Credit Exposure and Mark-to-Market Disclosures *(1)*

<table>
<thead>
<tr>
<th>($Millions)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Leveraged Finance Exposure:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closed</td>
<td>$10,172</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Not Closed</td>
<td>20,447</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$30,619</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Leveraged Finance Mark-to-Market Disclosures:

<table>
<thead>
<tr>
<th>Amount of Exposure Marked</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Mark-to-Market</td>
<td>$967</td>
<td></td>
</tr>
<tr>
<td>Financing Fees</td>
<td>(504)</td>
<td></td>
</tr>
<tr>
<td>Net Mark-to-Market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Gross Mark as a % of Total Exposure Marked | 3.2%    |         |
| Net Mark as a % of Total Exposure Marked   |         |         |

### FQ2 to FQ3 Exposure Reduction:

| FQ2 Commitments | $92,795 |         |
| Less: Reductions | (79,120) |         |
| Plus: Additions | 6,944   |         |
| FQ3 Commitments |         | $30,619 |

| Net Commitment Reduction | 13.4%   |         |

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Overview

Asset Backed Securities ("ABS")
- Bonds secured by financial receivables such as consumer or commercial loans
- Mortgage Backed Securities ("MBS") is a subset of ("ABS")

CDOs
- An asset-backed security collateralized by a pool of different bonds
- The assets could include bonds from several different assets classes including ABS, MBS, corporate bonds, leveraged loans, or other CDOs
- These assets are aggregated, then structured into different tranches of seniority, and sold to investors
- The tranches of a CDO have meaningful difference in performance across the various tranches and structures

Structured trades, such as CDOs, allow investors the ability to hedge, take on or transfer credit risk on their books, leveraging an investment across a diversified basket of credits

Both the ABS and CDO markets have grown significantly over last several years
Residential Mortgage-Backed Security (RMBS)

US Mortgages Comprise a Significant Share of Total Fixed Income Market(1)

<table>
<thead>
<tr>
<th>US Fixed Income - $35.0 trillion</th>
<th>US Mortgage Market - $7.5 trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Financial Sectors</td>
<td>Conforming</td>
</tr>
<tr>
<td>Commercial</td>
<td>Non-Conforming Sub-Prime ($1.3 trillion)</td>
</tr>
<tr>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>State and Local Gvts</td>
<td>Non-Conforming Other</td>
</tr>
<tr>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td>Home Mortgage</td>
<td></td>
</tr>
<tr>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Consumer Credit</td>
<td></td>
</tr>
<tr>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Federal Government</td>
<td></td>
</tr>
<tr>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Residential Mortgage-Backed Security (RMBS) Structure Overview

ML Primary Activities:
- Whole Loan Origination & Purchase

1. Loan Sourcing
2. Loan Underwriting / Loan Closing
3. Loan Made to Borrower
4. Loans Originated
5. Loans Aggregated into Pools and Auctioned
6. Loans Pooled and Structured to Create RMBS

Residential Mortgage-Backed Securities (RMBS) are created through the process of aggregating loans into pools and structuring them to create securities for investors. The process involves several key steps:

1. **Loan Sourcing**
2. **Loan Underwriting / Loan Closing**
3. **Loan Made to Borrower**
4. **Loans Originated**
5. **Loans Aggregated into Pools and Auctioned**
6. **Loans Pooled and Structured to Create RMBS**
7. **Securities Distributed to Investors**

Typical Investors:
- **AAA:** Banks, ABCP Conduits, Special Investment Vehicles (SIVs)
- **AA - BBB:** CDOs, Hedge Funds
- **Equity:** Hedge Funds, Investment Banks

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Market Overview and Environment
Market Dislocation
3Q07 Key Events

- BNP announces withdrawal from 3 funds citing inability to "fairly" value
- LEH shuts down BNC Mortgages (1,000 job cuts)
- ABCP market drops additional 9% to <$900mm
- GE shuts down WMC Mtg
- IKB's Rhinebridge $4.8 bn bailout by German gov't
- Fed cuts Discount Rate 50bps
- GMAC infuses $775 mm into mortgage unit
- Northern Rock given emergency support by BOE
- Wells Fargo exits sub-prime business
- Fed injects $38bn of reserves, largest amt. since 9/11/01
- Countrywide exits sub-prime (12,000 job cuts)
- Countrywide reevaluated ratings criteria
- Fed cuts Target & Discount Rate again by 50bps
- ECB injects liquidity into market
- ABCP market dropped 16% to <$1 trillion

July

- S&P & Moody's reevaluated ratings criteria
- Wells Fargo exits sub-prime business
- Fed injects $38bn of reserves, largest amt. since 9/11/01

August

- ECB injects liquidity into market
- ABCP market dropped 16% to <$1 trillion
- Countrywide exits sub-prime (12,000 job cuts)

September
Market Dislocation
Trends and Metrics

Slowling Home Price Appreciation

60+ Day Delinquency

ABX Index

CDO (AAA) Spread Moves

High Grade
Mezzanine

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ABS Warehouse / CDO Inventory Chronology

Backdrop to Summer 06

- ML #1 in CDO's.
- Aggregate positions as of end of August 06: CDO's: 7.2 Billion (5.6 B Senior, 1.6 B Mezzanine); ABS Warehouse: 8.0 Billion (4.5 B Senior; 3.5 Mezzanine)
- C. Riccardi just exited; strong desire to retain #1 position.
- Discussion ongoing regarding purchase of sub-prime mortgage originator; FICC Management bullish on growth; bullish on asset-class.
- Citigroup had recently taken a more aggressive view on senior tranche pricing; AIG retreats as significant purchaser of senior tranches, both developments make pricing unattractive; changing certain dynamics of CDO business.

Late Summer – Year End 06

- Late July, O. Semerci becomes head of FICC.
- In August, D. Lattanzio becomes head of FICC Americas; relocates from UK.
- CDO Inventory continues to ramp up through Year-end (7.2 Billion to 17.3 Billion (12.8 B Senior; 4.5 B Mezzanine))
- ABS Warehouse continues to ramp up through Year-end (8.0 Billion to 11.9 Billion (5.3 B Senior; 6.6 B Mezzanine))
- In order to execute deals, ML continues to take down senior tranches into inventory.
- During this period:
  - ABS Deals are being priced and sold;
  - New warehouses are opened;
  - Limited first position protection is purchased (to provide limited protection and verify pricing) and some warehouse sharing agreements are executed to assist in mitigating exposure.

January – February 07

- Subprime deterioration becomes increasingly evident.
- Business is focused on deteriorating subprime market.
- Consensus view: Deterioration is confined to the subprime market/no leakage to CDO market/ subprime market and CDO Market are different.
- Positions as of end of February 07: CDO's 20.3 Billion (15.2 B Senior; 5.1 B Mezzanine and below; from 17.3B YE); ABS Warehouse 12.8 Billion (6.2 B Senior; 6.6 B Mezzanine and below; from 11.9 YE)
ABS Warehouse / CDO Inventory Chronology

March – May 07

- Active risk-mitigation strategy is undertaken.
- Attempt to actively reduce the warehouse by printing deals.
- ML required to take senior tranches into inventory to execute deals.
  - Over time, ML required to take certain mezzanine tranches to execute the deals.
  - Over time, certain mezzanine pieces need to be enhanced (contractually) in order to be made more attractive for sale; to the detriment of senior tranches.
  - Over 10 Billion in deals executed over this period with ML taking significant senior and mezzanine tranches into inventory.
- Certain hedges effected to hedge various mezzanine exposure.
- Positions as of May 07: CDO 30.7 Billion (23.2 B Senior; 7.5 B Mezzanine and below); ABS Warehouse: 3.5 Billion (3.0 Billion Senior; .5 B Mezzanine and below)
- Market: During this period:
  - It appears that there was still a market to sell senior positions (albeit at a loss).
  - It appears that during the early part of this period there was still a market to sell the mezzanine positions (albeit at a loss).
  - It appears that there was still a market to hedge exposure.
- Expectation was that spreads had blown out temporarily; that they would come back in; 1998 experience reinforced that view; liquidity was still present.
- May 16th, Dow Kim announces desire to leave ML to establish a hedge fund.

June – July 07

- Bear Stearns Asset Management (BSAM) insolvencies.
- Liquidity dissipates; market is impaired.
Market Risk Chronology
U.S. Sub-prime Residential Mortgages
U.S. Sub-prime Residential Mortgage
Exposures & Marks – 3Q07

Exposure

Impact of Marks

<table>
<thead>
<tr>
<th></th>
<th>Net Losses</th>
<th>OCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>(1.0)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Investments</td>
<td>(0.1)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Repo</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>(1.1)</td>
<td>(0.3)</td>
</tr>
</tbody>
</table>

Total Exposure: $13.7 bn
U.S. Sub-prime Residential Mortgages

**Whole Loans:**
- First Franklin
  - Significant product changes / pricing increases
  - Product mix adjusted to market and regulatory environment
  - Employing multiple risk distribution strategies
  - Cost reductions

- Discontinued 3rd party purchases
- Whole loan sales, forward sales and hedging
- Current subprime balances primarily represent Scratch & Dent loans

**Whole Loans:**
- 3rd Party

**Warehouse Financing**
- $20bn facilities terminated since early 2006
- Covenant & collateral monitoring
- Margin calls
U.S. Sub-prime Residential Mortgage Business

Exposure Reduction

<table>
<thead>
<tr>
<th></th>
<th>3Q06</th>
<th>4Q06</th>
<th>1Q07</th>
<th>2Q07</th>
<th>3Q07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse Financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whole Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RMBS Trading</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residuals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>vs. 3Q06</th>
<th>vs. 1Q07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse Financing</td>
<td>(93)%</td>
<td>(80)%</td>
</tr>
<tr>
<td>Whole Loans</td>
<td>(73)%</td>
<td>(72)%</td>
</tr>
<tr>
<td>RMBS Trading</td>
<td>(91)%</td>
<td>NM</td>
</tr>
<tr>
<td>Residuals</td>
<td>14%</td>
<td>(20)%</td>
</tr>
</tbody>
</table>

3Q07 Net Revenue Losses

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residuals</td>
<td>$(0.5)</td>
</tr>
<tr>
<td>Whole Loans</td>
<td>(0.4)</td>
</tr>
<tr>
<td>All Other</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Total</td>
<td>(1.0)</td>
</tr>
</tbody>
</table>

Balances include funded and unfunded commitments.
U.S. Sub-prime Residential Mortgages
Breakdown of Whole Loan Exposure

<table>
<thead>
<tr>
<th></th>
<th>3Q06</th>
<th>4Q06</th>
<th>1Q07</th>
<th>2Q07</th>
<th>3Q07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Party</td>
<td>11.1</td>
<td>12.7</td>
<td>6.0</td>
<td>4.7</td>
<td>3.0</td>
</tr>
<tr>
<td>First Franklin</td>
<td></td>
<td></td>
<td></td>
<td>0.6</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Balances include funded and unfunded commitments.
## First Franklin Residential Mortgages

<table>
<thead>
<tr>
<th>Monthly Originations</th>
<th>Product</th>
<th>Business Model</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition / 2Q07</strong></td>
<td><strong>Current</strong></td>
<td><strong>Planned</strong></td>
<td></td>
</tr>
<tr>
<td>~ $2.0 bn</td>
<td>$110 mm</td>
<td>4Q 07-1Q08: &lt; $100 mm</td>
<td></td>
</tr>
<tr>
<td><strong>Product guidelines changed 6x</strong></td>
<td><strong>GSE-focus</strong></td>
<td><strong>4Q 07-1Q08: $100-$300 mm (Alta &amp; Prime)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Coupons increased 11x</strong></td>
<td><strong>Eliminated all 2nd lien, high loan-to-value, stated doc</strong></td>
<td><strong>4Q 07-1Q08: &lt; $100 mm</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Subprime focus</strong></td>
<td><strong>Increased coupon 8x</strong></td>
<td><strong>2Q-4Q08: $100-$300 mm (Alta &amp; Prime)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Originate ➔ Securitization</strong></td>
<td><strong>Higher credit quality migration</strong></td>
<td><strong>REDACTED</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Risk distribution:</strong></td>
<td><strong>Proactive volume reduction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 8 securitizations</td>
<td><strong>Risk distribution:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 4 3rd party whole loan sales</td>
<td>✓ 4 Fannie Mae sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Fannie Mae forward sale</td>
<td>✓ 3 securitizations</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Phase I:</strong></td>
<td>✓ 3rd party whole loan sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 222 FTEs reduced</td>
<td>✓ Phases II – IV:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 5 branches closed</td>
<td>✓ 937 FTEs reduced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ $23 mm cost savings</td>
<td>✓ 15 branches closed</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Model</strong></td>
<td><strong>Risk distribution:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Phase I:</strong></td>
<td><strong>Securitization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Phase II – IV:</strong></td>
<td><strong>3rd party sale</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 222 FTEs reduced</td>
<td><strong>GSE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 5 branches closed</td>
<td><strong>Leverage NationPoint online retail platform</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ $23 mm cost savings</td>
<td><strong>Optimize execution of capital markets exits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td><strong>Adapt to changing regulatory and rating agency environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Phases V – VII (by Feb 08):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 837 FTEs to be reduced</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ 7 branches to be closed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ $150 mm cost savings</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### IMPAIRMENT
- Intangible assets - $100mn write-off in 3Q07
- Goodwill - At the ML&Co. level First Franklin has been integrated into overall GMI
  ✓ Goodwill testing therefore done at GMI level
  ✓ Since GMI fair value > book value (= $13bn) no impairment charge at GMI or ML&Co. level (only at legal entity level)
U.K. Residential Mortgages
Collateralized Debt Obligations (CDOs)
CDO Business Strategy
Aggressive Build-out

ML Global League Table Ranking

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
<th>VOL ($MM)</th>
<th>MKT SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1H07</td>
<td>1</td>
<td>34,177</td>
<td>13.1</td>
</tr>
<tr>
<td>2006</td>
<td>1</td>
<td>55,280</td>
<td>11.6</td>
</tr>
<tr>
<td>2005</td>
<td>1</td>
<td>28,028</td>
<td>12.3</td>
</tr>
<tr>
<td>2004</td>
<td>1</td>
<td>16,508</td>
<td>13.1</td>
</tr>
<tr>
<td>2003</td>
<td>1</td>
<td>9,259</td>
<td>10.7</td>
</tr>
<tr>
<td>2002</td>
<td>11</td>
<td>2,999</td>
<td>3.6</td>
</tr>
<tr>
<td>2001</td>
<td>10</td>
<td>2,960</td>
<td>3.7</td>
</tr>
<tr>
<td>2000</td>
<td>13</td>
<td>1,665</td>
<td>2.4</td>
</tr>
</tbody>
</table>

U.S. ABS CDO League Table - 1H07

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bookrunner</th>
<th>Volume (US $ Mil)</th>
<th>Mkt. Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Merrill Lynch</td>
<td>25,648</td>
<td>22.4%</td>
</tr>
</tbody>
</table>

Industry Total 114,582 100.0%

U.S. CDO Securitization Volume Growth ($bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>1H07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>35</td>
<td>50</td>
<td>94</td>
<td>187</td>
<td>97</td>
</tr>
</tbody>
</table>

- Asset Backed Securities
- Other

BAC-ML-CDO-000077073
Exposure and P&L

U.S. ABS CDO Exposure and P&L

Exposure Reduction vs. 2Q07

- Super Senior: (45)%
- Retained / Hedges: (24)%

3Q07 Net Revenue Losses

- Super Senior: $(3.2)
- Retained / Hedges: $(0.9)
- Total: $(4.1)

Super Senior reflected as net notional exposure (Funded & Unfunded) and net of Marks. Retained / Hedges are reflected as bond equivalent values.
Overview

- ML & Co. valuation policies require the trading desk to mark to Fair Value under FAS 157 using market inputs from various sources:
  - Exchanges, external quotes, vendor pricing services & contemporary trades and quantitative models
- Independent control groups within CFO are responsible for validating trading desk valuation inputs and results
- In observable markets where prices and model inputs are readily obtainable and reliable:
  - BU Finance validate the portfolios via independent market quotations
- In more complex, less liquid or opaque markets where the desk uses a higher degree of estimation:
  - CFO is involved through development of quantitative methods to assess and validate portfolio valuations
- The above validation steps are shared through regular dialogue with external auditors and regulators:
  - D&T, SEC and U.K. FSA

3Q07 Valuation Methodologies and Review Procedures

- Dislocation in the U.S. Residential Mortgage market led to massive illiquidity in the RMBS asset class
- As a result, valuation of the Firm's ABS CDO positions became increasingly challenging
- The firm utilized a combination of:
  - Cash flow, loss curve and other valuation modelling techniques
  - Relevant index movement guidance
  - Observable market price and trade indication levels
# U.S. ABS Super Senior CDO Mark and Pricing Detail

## As of September 2007

<table>
<thead>
<tr>
<th>Type / Attachment</th>
<th>Current Net Notional Value (Sbn)</th>
<th>3Q Marks (Sbn)</th>
<th>Bond Equivalent Value (Sbn)</th>
<th>3Q % Markdown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Weighted Avg Price</td>
</tr>
<tr>
<td><strong>HG</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40-100</td>
<td>6.09</td>
<td>(0.28)</td>
<td>5.81</td>
<td>99.29</td>
</tr>
<tr>
<td>25-40</td>
<td>2.60</td>
<td>(0.10)</td>
<td>2.50</td>
<td></td>
</tr>
<tr>
<td>15-25</td>
<td>1.12</td>
<td>(0.86)</td>
<td>0.25</td>
<td>-57.58</td>
</tr>
<tr>
<td>10-15</td>
<td>0.36</td>
<td>(0.25)</td>
<td>0.13</td>
<td></td>
</tr>
<tr>
<td><strong>Total HG</strong></td>
<td>10.18</td>
<td>(1.50)</td>
<td>8.69</td>
<td>88.12</td>
</tr>
<tr>
<td><strong>MEZZ</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60-100</td>
<td>5.59</td>
<td>(0.20)</td>
<td>5.39</td>
<td>90.96</td>
</tr>
<tr>
<td>50-60</td>
<td>1.13</td>
<td>(0.05)</td>
<td>1.08</td>
<td></td>
</tr>
<tr>
<td>30-50</td>
<td>1.74</td>
<td>(0.84)</td>
<td>0.83</td>
<td>-65.22</td>
</tr>
<tr>
<td><strong>Total MEZZ</strong></td>
<td>8.47</td>
<td>(1.09)</td>
<td>7.30</td>
<td>84.45</td>
</tr>
<tr>
<td><strong>CDO^2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70-100</td>
<td>0.88</td>
<td>(0.25)</td>
<td>0.63</td>
<td>63.81</td>
</tr>
<tr>
<td>30-70</td>
<td>0.62</td>
<td>(0.39)</td>
<td>0.17</td>
<td>26.84</td>
</tr>
<tr>
<td><strong>Total CDO^2</strong></td>
<td>1.50</td>
<td>(0.64)</td>
<td>0.81</td>
<td>53.83</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.15</strong></td>
<td><strong>(3.23)</strong></td>
<td><strong>16.80</strong></td>
<td></td>
</tr>
</tbody>
</table>
ABS CDO Super Senior
4Q07 Focus and Strategy

- Restructuring Ideas / Sales Efforts
- Risk Mitigation
- Model / Valuation Infrastructure
- Business Model Going Forward
Other Supplemental Information
ABCP Conduit Funding

- Total assets in conduits have declined by $20bn from a peak of $46bn in July 2007
  - Approximately $6bn in CDO assets transferred from black box conduits to commercial bank term funding vehicles
  - Assets in MLBUSA-sponsored conduits declined by approximately $7bn as the bank purchased assets back on to the balance sheet
  - Additional $7bn in conduit assets were either repo financed, funded on balance sheet or sold
- ABCP market conditions have improved from most severe dislocation in early September
  - Businesses continue to seek opportunities to replace conduit funding
- Remaining liquidity exposure to conduits is approximately $26bn, of which $20bn would require ML&Co financing and the remainder would be supported by MLBUSA and MLIB
  - Both the parent company and the banks are well positioned to handle conduit financing needs
  - Liquidity modeling assumes ML&Co. to fund $17bn (net of 3rd party liquidity) in conduit assets through year end - $9bn if credit conditions continue to deteriorate and additional $8bn under severe stress
  - Approximately $6bn in conduit financing would need to be replaced if ML's short-term rating is downgraded by S&P to A-1+ from A-1
Aggregate Residential Mortgage & CDO Exposure and P&L (3Q07)

Global Residential Mortgage Exposure - On / Off Balance Sheet
- U.S. Sub-prime - on B/S
- U.S. Sub-prime - off B/S
- U.S. Other - On B/S
- U.S. Other - Off B/S
- Non U.S. - On B/S
- Non U.S. - Off B/S
Total: $62.8bn

Global ABS CDO Exposure
- U.S. ABS CDO
- CDOs - Retained
- Non U.S.
Total: $18.1bn

Global Residential Mortgage - P&L
- U.S. Sub-Prime
- U.S. Other
- Non U.S.
Total: $(1.5)bn

Global ABS CDO P&L
- ABS CDO
- CDOs - Retained
Total: $(4.1)bn

*Alt A / Prime only
CDOs and Off-Balance Sheet Funding
($85.3bn as of 10/07)

Gross Notional CDO Composition

- Super Senior Portfolio: $42.9
- Hedged Exposure: $20.2

Total: $63.1bn

Other Assets in Conduits

- ABS: $3.1
- Hedge Fund Loans: $2.0
- Emerging Market Loans: $1.6
- Leveraged Loans: $1.4
- Equities: $1.4
- Other: $2.0

Total: $22.2bn
**Business Model and Strategy Overview**

*ML Acquisition to Build a Vertically Integrated Mortgage Platform Strategy*

### ML FICC Platform Expansion

- **Origination**
  - First Franklin / NationPoint
- **Capital Markets**
  - Warehouse Financing
  - Whole Loan Purchase
  - Structuring / Distribution
- **Investing**
  - Resi Principal Investing

### HLS Servicing

### Wilshire Servicing

#### Movement towards a vertically integrated platform strategy

- **Historically a third party-focused model**
  - Reliant on third party mortgage originators, their underwriting guidelines and origination practices
  - Competitive bidding for mortgage pools limited the margin opportunity
  - Increase in whole loan purchases and retention of mortgage residuals drove rationale to own servicing platform
- **Benefits of vertical integration**
  - Direct "access to assets"
  - Ability to tailor origination profile and pricing to specific risk appetite and capital markets strategy
  - Mortgage originators integrated downstream into capital markets; Wall Street firms and commercial banks integrated upstream into owning origination platforms
Creation of a Typical CDO Structure

Warehouse Financing

Examples Based on Actual CDO Deals

High Grade CDO Warehouse
- Non-Prime AAA: 60%
- CDOs AA: 25%
- Non-Prime BBB: 8%
- Prime: 7%

Mezz CDO Typical Structure

- Senior Super AAA (60-100)
- Mezz CDOs

ML Primary Activities:

Financing
Securitization

Typical Investors By Ratings Category

- Global Banks
- Prop. Desk
- Hedge Funds
- SIV/Conduits

- Asian Banks
- CDOs
- Hedge Funds
- Insurance Co.
- REITS
- Insurance Co.
- CDO Equity Funds
- ML Wealth

ML Confidential

Street Inventory

Underlying Collateral

Resi Securities
- Prime
- Non-Prime

CDOs
- ABS Hi Grade
- ABS Mezz
- CLOs
- TruPS

Other Securities
- CMBS
- Corporates
- Emrg Mkts
- Lev Loans

Manager Selects Assets

CDO Warehouse
- Non-Prime BBB: 10%
- CDOs BBB: 10%

CDO2 Warehouse

Assets are Pooled and Structured to Create CDOs

Ratings Agencies
- Moody's

Mezz Securities Distributed to Investors

Typical Investors

- Global Banks
- Prop. Desk
- Hedge Funds
- SIV/Conduits

- Asian Banks
- CDOs
- Hedge Funds
- Insurance Co.
- REITS
- Insurance Co.
- CDO Equity Funds
- ML Wealth

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ABS CDO Risk Summary

What is an ABS CDO?
ABS Collateralized Debt Obligations are Special Purpose Vehicles ("SPVs") that offer investors non-recourse, leveraged exposure to a variety of Asset Backed Securities.

Portfolio of Asset Backed Securities
- Senior Notes
- Junior Notes
- Preferred Share

Securities issued by HG CDO
- Alt-A Resi
- Subprime Resi
- Prime Resi

Principal and Coupon Cashflows

By Collateral Type
- Alt-A Resi 15%
- Subprime Resi 30%
- Prime Resi 25%

By Rating
- BBB 5%
- A 30%
- AAA 15%

Representative Portfolio for HG CDO

Representative Portfolio for Mezz CDO

Representative Portfolio for CDO^2 CDO

By Collateral Type
- BB 5%
- BBB 9%
- Mezz ABS CDO 20%

By Rating
- BB 20%
- BBB 15%
EMEA portfolio has grown steadily over the past year with the principal portfolio turning over regularly via Newgate and Ludgate RMBS transactions; more recently, whole loan sales have been preferred takeout.

US mortgage commitments (ex. First Franklin) meanwhile have declined from $23 billion to under $2.5 billion over the same period; remaining committed facilities are closer to $1 billion.
## Non-U.S. Mortgage Exposure Detail

### 3rd Party Workouts Facility

<table>
<thead>
<tr>
<th>Country</th>
<th>Product Type</th>
<th>Equity (%)</th>
<th>Capital (%)</th>
<th>Total CHF</th>
<th>Total USD</th>
<th>Total HSJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Non-Conforming Mortgage</td>
<td>0%</td>
<td>3%</td>
<td>103,718</td>
<td>103,718</td>
<td>103,718</td>
</tr>
</tbody>
</table>

### Mt. Principal Platforms/Flow Arrangements

<table>
<thead>
<tr>
<th>Country</th>
<th>Product Type</th>
<th>Equity (%)</th>
<th>Capital (%)</th>
<th>Total CHF</th>
<th>Total USD</th>
<th>Total HSJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Non-Conforming Mortgage</td>
<td>0%</td>
<td>3%</td>
<td>103,718</td>
<td>103,718</td>
<td>103,718</td>
</tr>
</tbody>
</table>

### Product Type

- Non-conforming Mortgage: 53%
- Prime Mortgage: 40%
- Small Balance Commercial: 2%
- Reverse Mortgage: 4%

### Capital Structure

- Flow: 6%
- Equity: 1%
- Mezz: 1%

### Total

- Total as of Sept 28, 2007: $343,715, $11,899,896, $5,138,044
### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABCP Conduit</td>
<td>A special purpose entity that purchase assets such as mortgage-backed securities, commercial loans, collateralized bond obligations, and collateralized loan obligations. The conduit funds these purchases by issuing commercial paper (CP), with the ongoing cash flow from the assets used to service the commercial paper.</td>
</tr>
<tr>
<td>ABS (Asset-Backed Securities)</td>
<td>Bonds secured by financial receivables, such as consumer or commercial loans originated by banks, finance companies or mortgage originators.</td>
</tr>
<tr>
<td>ABX Index</td>
<td>A specific market index of home equity asset-backed securities for a particular credit grade and origination vintage; there are 20 referenced securities underlying the index which are equally weighted</td>
</tr>
<tr>
<td>All-A</td>
<td>The All-A mortgage market is generally characterized by lending to borrowers of a higher credit quality than so-called &quot;B&quot; and &quot;C&quot; borrowers but with characteristics that would disqualify the borrower from a traditional &quot;A&quot; or &quot;prime&quot; loan are considered &quot;All-A&quot; mortgage loans. All-A lending characteristics may include less than full documentation (e.g. &quot;low doc&quot; or &quot;no doc&quot;), LTVs in excess of 80% but lacking primary mortgage insurance, borrowers who are resident aliens, loans secured by non-owner occupied properties or non-warrantable condominiums, debt-to-income ratios above normal limits, or a combination of these factors.</td>
</tr>
<tr>
<td>Attachment / Detachment Points</td>
<td>The risk of loss on the reference pool is divided into tranches of increasing seniority where the losses will first affect the equity (first loss) tranche, then the mezzanine tranches, and finally the senior and super senior tranches. The upper tranche boundary is called the attachment point, while the lower tranche boundary is called the detachment point.</td>
</tr>
<tr>
<td>Bond Equivalent Value</td>
<td>A calculation that converts the value of a synthetic (e.g. CDS contract on an underlying security) instrument into the equivalent cash bond value of the underlying in order to facilitate direct comparison of risk.</td>
</tr>
<tr>
<td>CDO (Collaterized Debt Obligation)</td>
<td>An asset backed security collateralized by a pool of different bonds. These assets could include bonds from different sectors including: ABS; MBS; corporate bonds; leveraged loans; and other CDOs.</td>
</tr>
<tr>
<td>CDO Tranche</td>
<td>Division or slicing of the credit risk of the reference portfolio into different classes, known as tranches, within the capital structure. In accordance with its seniority, each tranche enjoys rights and priorities concerning payments generated by its collateral.</td>
</tr>
<tr>
<td>CDO Warehouse</td>
<td>A loan provided by the financial institution arranging the CDO transaction to assist the CDO manager in purchasing assets. The warehouse bridges the funding requirements of the CDO until enough assets have been accumulated to generate sufficient cash flow to warrant the issuance of the CDO's notes.</td>
</tr>
<tr>
<td>CLO (Collaterized Loan Obligation)</td>
<td>A structure that is similar to a CDO, however, it is backed primarily by leveraged loans.</td>
</tr>
<tr>
<td>CMBS (Commercial Mortgage-Backed Security)</td>
<td>A mortgage-backed security backed by mortgages on commercial property, rather than residential real estate.</td>
</tr>
<tr>
<td>Conforming Loan</td>
<td>&quot;Conforming&quot; is most often used when speaking specifically about a mortgage amount. The terms of &quot;conforming&quot; and &quot;conventional&quot; are often used interchangeably referring to a mortgage that is equal to or less than the dollar amount established by the conforming loan limit set by Fannie Mae and Freddie Mac's eligible loan criteria.</td>
</tr>
</tbody>
</table>
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV01</td>
<td>A measure of how much a bond's price will change in response to a one basis point movement in spread.</td>
</tr>
<tr>
<td>FHLMC (Federal Home Loan Mortgage Corp)</td>
<td>A government-sponsored enterprise (GSE) authorized to make loans and loan guarantees. FHLMC buys mortgages on the secondary market, pools them, and sells them as mortgage-backed securities to investors in the open market.</td>
</tr>
<tr>
<td>FICO Score (Fair Isaac Corporation)</td>
<td>The industry standard credit scoring model used to rank order the risk of consumers, based on a statistical model, with the higher FICO indicating better expected credit performance. FICO scores take into account past payment history and the number of negative events in a borrower's credit file.</td>
</tr>
<tr>
<td>First Loss CDO Tranche</td>
<td>The final tranche within the CDO structure, in terms of seniority of sequential payment claims, is the equity portion. As this is the junior most position in the capital structure, the equity is also described as the 'first-loss' piece.</td>
</tr>
<tr>
<td>FNMA (Federal National Mortgage Assoc)</td>
<td>A government-sponsored enterprise (GSE) authorized to make loans and loan guarantees. FNMA buys mortgages on the secondary market, pools them, and sells them as mortgage-backed securities to investors in the open market.</td>
</tr>
<tr>
<td>High Grade CDO</td>
<td>CDO whose collateral has an average credit rating of Aa3/A1 by Moody's.</td>
</tr>
<tr>
<td>Junior / Senior CDO Tranche</td>
<td>The bottom 33% of the total Super senior tranche of a high grade CDO is termed as the junior super senior and the top 67% remaining is termed as the senior super senior tranche. For a mezzanine CDO deal the bottom 40% of the super senior tranche is termed the junior super senior tranche and the remaining top 60% of the super senior tranche is termed the senior super senior tranche.</td>
</tr>
<tr>
<td>Leveraged Loans</td>
<td>Loans extended to companies or individuals that already have substantial amounts of debt. These loans carry higher interest rates since the risk of default is greater.</td>
</tr>
<tr>
<td>MBS (Mortgage Backed Securities)</td>
<td>Asset backed securities specifically secured by mortgages, including either commercial or residential. MBS is a subset of the more general ABS market.</td>
</tr>
<tr>
<td>Mezzanine CDO</td>
<td>CDO whose collateral has an average credit rating of Baa2/Baa3 by Moody's.</td>
</tr>
<tr>
<td>Non-Conforming Loan</td>
<td>Loans outside of the agency eligible criteria which include tiers of mortgage products down to and including sub-prime.</td>
</tr>
<tr>
<td>OCI</td>
<td>Other comprehensive income is the difference between net income and comprehensive income and represents the unrealized gains and losses of the enterprise. In practice, it comprises four general items:</td>
</tr>
<tr>
<td>Prime</td>
<td>Mortgage loans to borrowers of excellent credit quality are considered &quot;A&quot;, or prime loans. Prime borrowers generally have FICO scores above 850, fully documented income and assets, debt to income ratios below 35%, two months of mortgage payments in reserves after closing and loan-to-value (LTV) ratios below 80%.</td>
</tr>
</tbody>
</table>
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>REIT (Real Estate Investment Trust)</td>
<td>A tax designation for a corporation investing in real estate that reduces or eliminates corporate income taxes. As a requirement, REITs must distribute 90% of their income, which may be taxable in the hands of the investors. The REIT structure was designed to provide a similar structure for investment in real estate as mutual funds provide for investment in stocks.</td>
</tr>
<tr>
<td>Residential Mortgage-Backed Security (RMBS)</td>
<td>RMBS is a subset of the more general Asset Backed Securities which is specifically secured by residential mortgages.</td>
</tr>
<tr>
<td>Residuals</td>
<td>Residual Tranches are subordinated classes and first-loss pieces from RMBS.</td>
</tr>
<tr>
<td>Retained-CDOs</td>
<td>CDO assets securitized, unpledged and retained on balance sheet; and ramp-up inventory in warehouses with intention of securitizing for which warehouse agreement has now expired.</td>
</tr>
<tr>
<td>Scratch &amp; Dent Loan</td>
<td>Scratch &amp; Dent mortgage loans are those that fall out of compliance with the customary prime, Alt-A and sub-prime originator guidelines and performance expectations. Scratch &amp; Dent loans often contain non-compliance issues such as mis-assigned credit ratings, poor appraisal quality or missing loan documentation. Loans are usually performing and as a result may be securitized with added credit support. Scratch &amp; Dent loans may also be classified as re-performing, non-performing, or sub-performing.</td>
</tr>
<tr>
<td>Servicing</td>
<td>The act of collecting mortgage principal and interest payments from borrowers and remitting proceeds to the holder of the mortgage typically held in a securitization trust on behalf of investors. Servicers are authorized by investors to take action to mitigate losses with delinquent borrowers, including loan workouts, modifications and foreclosures.</td>
</tr>
<tr>
<td>SES (Spread Event Scenario)</td>
<td>An estimate of the change in economic value of the current static position based on a severe but not unrealistic credit spread steepening and widening event, of a magnitude which would be expected once in a ten year period. The amount of widening and steepening is calibrated to asset type and to credit ratings. It is not an estimate of income statement impact. (Many affected positions do not have MTM accounting.)</td>
</tr>
<tr>
<td>SIV (Structured Investment Vehicle)</td>
<td>A credit arbitrage fund that may invest in a range of asset-backed securities, as well as corporate bonds. A SIV seeks to make profits from the difference between short term borrowing rate and long term returns on the assets held in the vehicle.</td>
</tr>
<tr>
<td>Sub-prime</td>
<td>The sub-prime mortgage market is generally characterized by lending to borrowers with less-than-perfect credit histories. Borrowers with FICO scores below 620 (out of a possible 900) are generally considered by lenders to be considered &quot;sub-prime&quot;, although scores below 660 are considered sub-prime by bank regulatory agencies. Typical sub-prime lending guidelines consist of credit quality ranges from &quot;B&quot; to &quot;D&quot; and which are determined by lenders based on credit scores, credit history allowances (credit lines, bankruptcies, foreclosures, etc.) and debt service ratios.</td>
</tr>
<tr>
<td>Super Senior CDO Tranche</td>
<td>Senior most tranche in a CDO capital structure. In bankruptcy the proceeds from liquidated cash CDO assets will first be used to meet the claims of the most senior, triple-A rated debt tranche. Once the most senior tranche is satisfied, cash proceeds will be applied to the next lowest tranche.</td>
</tr>
<tr>
<td>TruPS (Trust Preferred Securities)</td>
<td>A &quot;hybrid&quot; security possessing characteristics of both equity and debt. TruPS may offer tax deductibility for the issuer while being considered capital under certain circumstances.</td>
</tr>
<tr>
<td>Warehouse Financing</td>
<td>The process of providing a collateralized revolving loan facility to an originator of assets. The warehouse financing allows the originator to finance their funding requirements until enough assets have been accumulated to securitize or sell in a bulk package.</td>
</tr>
<tr>
<td>Whole Loan</td>
<td>A term used to describe an original mortgage loan in its unserviced form. Whole loans are usually larger in size than the maximum amount allowed by GNMA, FNMA and, FHLMC. Credit enhancements ensure investors receive timely interest payments.</td>
</tr>
<tr>
<td>Wholesale Origination</td>
<td>The process of originating mortgage loans through intermediaries, such as mortgage brokers.</td>
</tr>
</tbody>
</table>