

• **From:** Chen, Dan (Exchange)  
**Sent:** Wednesday, February 06, 2008 7:13 AM  
**To:** Marano, Tom - Fixed Income  
**Subject:** Fw: Mortgage RPC memo as of 02/01/08

**Attachments:** RPC 2-1-08 OFFICIAL.doc

Tommy,

Mortgage is not on today's RPC agenda. I intend to bring this to the meeting in case Alan wants an update on positions. It includes the table I showed you yesterday, plus transaction details of cash and synthetic. We will have a new one showing domestic vs international next week.

Today on the journal there is an article about the Hilton CMBS securitization.

Dan

-----Original Message-----

**From:** Chen, Dan (Exchange)  
**To:** Alix, Michael (Exchange); Ahluwalia, Kanwardeep (Exchange)  
**CC:** Hutchinson, Elaine (Exchange)  
**Sent:** Tue Feb 05 18:45:19 2008  
**Subject:** Mortgage RPC memo as of 02/01/08

<<RPC 2-1-08 OFFICIAL.doc>> Mike, here is the mortgage memo if anyone wants an update. We didn't include the recession stress because of system issues. The numbers are expected to be lower.

Regards,

Dan

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**M E M O R A N D U M***Risk Management*

DATE: 06 February 2008  
TO: Risk Policy Committee  
FROM: Dan Chen  
RE: Weekly Mortgage Risk (1/28-2/01)

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**I. Market Summary:**

Stocks ended strong after another volatile week with the Dow finishing up 520pts or 4.4%. During the week the Fed cut rates another 50bps bringing the Fed Funds rate to 3%. On Friday a mixed jobs report was released with non farm payrolls down (17k) but unemployment decreasing from 5% to 4.9%. The Manufacturing index rose from 48.4 to 50.7, Microsoft's bid for Yahoo and a possible rescue plan for bond insurers all gave the markets a lift. For bonds the long end sold off by 6-10bps and the short end rallied about 2-12bps bringing the 2's/10's curve to 152bps, the steepest point in four years. This week the economic calendar is lighter with December factory orders, ISM Non Manufacturing Index Pending home sales and Retail sales.

**II. Major Position Change:**

The net product MV decreased (\$596mm) [cash down \$497mm and synthetics shorter \$99mm] to \$42.5Bln as of Friday 2/1/08. Some of the larger movers were:

- a. Agency RMBS +107mm: Agency CMO desks (360mm sales in CMOs) & Flow desks +502mm (in Passthrough)
- b. Non Agency RMBS (318mm): Cash (406mm) & CDS +88mm
  - Alt-A Hybrid (479mm): sold AAA's (311mm) & marked back loans & residuals (110mm)
  - Alt-A Intl (131mm): sold MANSD cash bonds (200mm) vs. short protection on GRANM 07-2 +100mm. Expecting another +100mm to be booked for GRANM
  - Alt-A Fixed +117mm: AAA's & loans
  - ABX: Covered \$135mm notional AAA's and shorter in AA's and A's by (192mm) notional.
  - Single name PAUGs: Shorter by (\$158mm) notional.
- c. CMBS down (534mm): Cash +166mm & CDS (701mm)
  - Cash: AAA +135mm, BBB +65mm, & Intl loans (90mm) [TBUF & TBUJ]
  - CDS: Primarily TRS CMBS AAA (550mm) [Comm Conduit (300mm) & Secondary (250mm)]
- d. CDO/CBO/CLO down (260mm): Cash (363) & CDS +102
  - Cash: Unwind of Pangea deal. Bear held 75% of collateral 300mm EUR deal.
  - CDS: GRANM 07-2 +100mm
- e. Corporate down (350mm): Corporate Eq Shorts & Corporate indices

**\*\*For Sales activities see appendices**

**III. 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 \$11.2Bln as of Jan. 31<sup>st</sup>, up \$480mm on the month [down (\$370mm) WTD. Some of the larger monthly increases are: Non-Agency CMOs \$102mm, Residential subs desk \$175mm, ABS \$263mm and NY CDO Desk \$278mm.
  - b. Loan inventory stands at \$19.7Bln, virtually unchanged week to week.
  - c. Residual/equity positions unchanged week to week at about \$1.8Bln.
  - d. Current CLO CDO warehouse is about \$119mm: Briar Cliff: \$35mm and Trust Preferred deal(s) \$84mm.

- e. Total Alt-A exposure stands at \$12Bln with the majority [\$6.5Bln] falling under the ARM's 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 \$14.2Bln.
  - b. Exit strategies for the mezz loan and equities, total about \$3.6Bln.

**IV. Department P&L for the week ended Friday 2/1/08 (\$mm)**

EMC desk	(0.33)	
<b>Agency CMOs</b>	<b>16.58</b>	<b>Curve steepener \$7mm, various new deal activity \$2mm and WTD financing \$8mm.</b>
<b>Non-agency CMOs</b>	<b>18.73</b>	<b>Macro-hedges \$14mm: curve steepener \$17mm, ABX \$2mm and equities (\$5mm).</b>
ABS secondary	(0.97)	
ABS primary	(0.28)	
<b>CBO Secondary</b>	<b>(1.67)</b>	<b>CDX movement (\$3.5mm) and cash trade activity \$1.3mm.</b>
CBO Primary	0.26	
<b>ARMs/SBAs</b>	<b>(63.53)</b>	<b>Cash write-downs (\$88mm): Residuals (\$52mm), subs (\$16mm), loans (\$20mm). Curve steepener \$11mm and MTD servicing income \$9mm.</b>
<b>Commercial / Projects</b>	<b>(10.12)</b>	<b>Cash write-downs (\$9mm), TRS (\$3.5mm) and CMBX \$2mm.</b>
<b>Commercial Conduit</b>	<b>(7.62)</b>	<b>Macro hedges (\$1mm): equities (\$30.5mm), TRS \$17mm, curve steepener \$5mm, and CMBX \$7mm. Cash write-downs (\$6mm).</b>
<b>International Securitization</b>	<b>14.49</b>	<b>Euro ABS \$13.5mm as the GBP and USD curves steepened.</b>
<b>Desk Hedge</b>	<b>12.50</b>	<b>ETOM [Equities] \$7.3mm and GTOM [ABX and curve steepener] \$5.6mm.</b>
Special situations /Other	0.35	
<b>Gross Revenues</b>	<b>(21.59)</b>	

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

Locale	Business	Total
JP	CMBS	1.2
	Non Agency Deriv	0.0
	Non Agency Resi	(0.0)
JP Total		1.2
UK	CMBS	0.2
	Non Agency Deriv	(1.1)
	Non Agency Resi	14.2
UK Total		13.3
US	ABS	(1.2)
	Agency	16.6
	CMBS	(17.7)
	Non Agency Deriv	(1.4)
	Non Agency Resi	(32.3)
US Total		(36.1)
Grand Total		(21.7)

Noteworthy P&L events:

- The US MBS desk(s) macro hedge positions generated gains of approximately \$33mm which includes: Equities (\$29mm), ABX \$4mm, CMBX \$9mm, TRS \$14mm, curve steepening trades \$30mm and Itraxx/Xover trade \$3mm. Cash losses totalled approximately (\$80mm) including: ARM residuals (\$52mm), subs (\$16mm), loans (\$20mm) and MTD servicing income \$10mm; CMBS secondary positions (\$9mm) and US commercial conduit positions (\$6mm).
- The agency CMO desk recorded gains totalling almost \$17mm which breaks down to: curve steepening trade \$7mm, various new deal activity \$2mm and WTD financing \$8mm.

3. UK desks recorded a gain of approximately \$13mm as Euro ABS made \$13.5mm driven by further steepening of the GBP and USD curves during the week.

## Global Executive Summary of Mortgage Positions by Collateral Type a.o. 02/01

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

Net Products (\$mm)		Net	GSE	Investment Grade	Non Investment Grade	Loans	MSR	Net Change vs. 01/25
Agency	Collateral							
	Agency CMOs	10,384	10,297	-	-	45	43	107
Non Agency	Collateral							
	Residential	14,319	-	6,553	1,436	5,629	751	(319)
	CCOs	2,477	-	1,945	532	-	-	(262)
	Asset Backed	1,139	-	698	5	625	-	(13)
	CMBS	8,435	-	(4,192)	591	12,430	-	(534)
	Subtotal	26,374	-	4,405	2,473	18,684	751	(1,125)
Corporate	Collateral	(3,319)	-	(1,726)	(1,594)	-	-	(359)
	Total	33,440	10,297	2,739	881	18,729	754	(1,368)

\* Not including non Mortgage White Book items, totaling 2,43984 MM.

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

Net Cash Products (\$mm)		Net	GSE	Investment Grade	Non Investment Grade	Loans	MSR	Net Change vs. 01/25
Agency	Collateral							
	Agency CMOs	10,384	10,297	-	-	45	43	107
Non Agency	Collateral							
	Residential	16,090	-	8,153	2,157	5,629	751	(409)
	CCOs	2,351	-	1,609	682	-	-	(352)
	Asset Backed	1,529	-	698	35	595	-	(3)
	CMBS	15,265	-	2,452	484	12,430	-	(15)
	Subtotal	35,835	-	12,782	3,357	18,684	751	(885)
Corporate	Collateral	(672)	-	-	(672)	-	-	(184)
	Total	45,647	10,297	12,782	2,685	18,684	754	(882)

\* Not including non Mortgage White Book items, totaling 2,43984 MM.

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

Synthetic Products (\$mm)		Net	GSE	Investment Grade	Non Investment Grade	Loans	MSR	Net Change vs. 01/25
Agency	Collateral							
	Agency CMOs	-	-	-	-	-	-	-
Non Agency	Collateral							
	Residential	(2,371)	-	(1,650)	(721)	-	-	88
	CCOs	127	-	276	(149)	-	-	152
	Asset Backed	(293)	-	0	(33)	(352)	-	(19)
	CMBS	(5,925)	-	(6,523)	17	-	-	(751)
	Subtotal	(9,562)	-	(8,317)	(803)	(352)	-	(529)
Corporate	Collateral	(2,647)	-	(1,726)	(922)	-	-	(165)
	Total	(12,209)	-	(10,043)	(1,804)	(352)	-	(586)

Bear Stearns Mortgages Var Summary Report												
2/01/2008	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>												
<b>MBS Desks</b>	<b>85,416</b>	-	<b>98%</b>	<b>111%</b>	<b>139%</b>	<b>97%</b>	<b>135,280</b>	<b>{196,748}</b>	<b>2,729</b>	<b>4,271</b>	<b>{1,543}</b>	<b>3,670</b>
<b>ABS/AUTO</b>	14,921	199%	93%	115%	274%	98%	3,623	{1,129}	{19}	{29}	10	265
<b>ARMS</b>	17,176	38%	95%	85%	66%	0%	15,034	{77,401}	1,396	1,084	252	
<b>CBO</b>	22,623	377%	102%	115%	159%	99%	10,674	{11,777}	8	{40}	49	140
<b>CMBS Secondary</b>	2,945	74%	87%	86%	68%	84%	19,367	{17,613}	{59}	{60}	20	{19}
<b>Commercial Conduit</b>	47,688	397%	97%	114%	173%	99%	15,643	{5,817}	{163}	{163}	{0}	3,448
<b>EMC</b>	4,182	56%	98%	80%	75%	34%	1,397	{2,582}		43		259
<b>Agency CMO</b>	16,619	83%	110%	120%	167%	93%	24,852	{26,315}	212	885	{673}	
<b>Agency CMO LT Strat</b>	5,912	118%	98%	94%	113%	90%	8,233	{16,835}	1,072	1,343	{271}	
<b>Flow Desk</b>	11,900	159%	88%	140%	193%	98%	13,765	{12,331}	14	312	{298}	
<b>Non-Agency CMOs</b>	34,347	98%	100%	90%	106%	84%	22,570	{24,949}	284	1,576	{1,292}	{463}
<b>Accumulation</b>	993	-	67%	65%	19%	1%	121	0	44	44	0	63
<b>Other</b>	0	-			0%	25%						
<b>Mtge/Govt/Deriv JV</b>	0	0%			0%	50%						
	0	-				50%						
	0	-				50%						
	0	-				50%						
	0	-				50%						
	0	-				50%						

Appendix I: US Cash Market Activity 1/25 - 2/1/08

SALES FROM TODAY (02/01)

10mm c/f LUM 06-4 A1C (AAA Mezz Floater) -- 78.00px KBC  
31mm c/f TMST 07-1 A2B (AAA Mezz Floater) -- 96.46px 139DM/15CPR Wachovia  
15mm c/f HMBT 05-4 A1 (AAA Floater) -- 91.00px BARSON 187DM/18CPR  
50mm c/f GNR 08-7 B (Support) -- 98.1875px <1.16> back of FNS Dean Witter Dealer  
25mm c/f GNR 08-7 PA (PAC) -- 99.29px I+141/ith Suntrust Dealer  
11mm c/f FHR R003 ZA (Z) - 96.3125px I+224/306 PSA NY Life  
34mm c/f FNR 06-59 FK (Secondary 7.5 Cap Floater) - 99.3125px 50DM Wama

TOTALING 176MM

SALES FROM TODAY (01/30)

20mm c/f BALTA 05-10 21A1 (AAA Hybrid PT) -- 87.25px PIMCO/WAMCO  
13mm c/f FHR 3347 PM (PAC) - 105.00px I+162/ith Teachers  
6mm c/f FNR 08-15 JM (Sequential) -- 99.4375px I+156/262 PSA Raymond James  
36mm c/f FHR 3172 PA (PAC) - 102.695px E+130/ith AIM  
10mm c/f GNR 08-7 PC (PAC) - 100.046px I+138/ith Suntrust Dealer  
100mm c/f FHR 3417 FB (7+72 Floater)

TOTALING 185MM

SALES FROM TODAY (01/29)

11mm c/f GPMF 06-AR3 3A3 (AAA Mezz) -- 80.00px 612DM/15CPR KBC  
50mm c/f TMST 06-5 A1 (AAA Floater) -- 96.0625px 155DM/10CPR Wachovia  
42mm c/f TMST 06-4 A2B (AAA Floater) -- 96.25px 152DM/10CPR PIMCO  
6mm c/f IMSA 06-1 1A2A (AAA Mezz) -- 98.19px 420DM/15CPR Structured  
19mm c/f SACO 05-8 A1 (AAA Second Lien) -- 83.00px 8CPR/25CDR/100%SEV/ 13% Yield PIMCO  
10mm c/f SACO 05-8 A3 (AAA Second Lien) -- 83.5px 8CPR/25CDR/100%SEV/ 13% Yield Marathon  
54mm c/f 7.5 cap floater off rx-remic of FHR 3382 FG -- 99.96px Allied Irish  
26mm c/f FHR 3146 FP (PAC Floater) - 99.4375px 45dm/6CPR Vining  
10mm c/f FHR 3417A Z (New Issue Z) - 99.00px I+476/427 PSA Shinkong  
10mm c/f FHR R003 ZA (Sequential Z) - 97.59px I+149 ith NY Life  
29mm c/f FHR 3149 PB (PAC) - 103.99px I+220 ith Perm School Fund  
10mm c/f FHR 2703 CA (Sequential) - 100.67px E+45/175PSA Golden  
6mm c/f FHR 2740 PD (PAC) - 100.03px I+265/306PSA 5th/3rd  
25mm c/f FNR 08-15 JM (Sequential) - 99.56px I+157203PSA Vining  
28mm c/f FNR 08-15 BA (Sequential) - 98.59px <1.21>FN 5.5 LaSalle

TOTALING 342MM

SALES FROM TODAY (01/28)

162mm c/f WAMU 03-AR3 A5 (AAA Seasoned 5/1 PT) -- 99.5px E+170/50CPR Wachovia  
10mm c/f CWALT 06-OA9 2A2 (AAA MTA PT Mezz) -- 84.5px 595DM/15CPR Prop Cap  
12mm c/f GPMF 07-HE1 A1 (AAA XL Wrapped Heloc) -- 70.00px 688DM/5CPR Moore Cap  
15mm c/f CWALT 06-OA9 2A2 (AAA Second Lien) -- 71.5625px 5CPR/25CDR/100%Sev 10% Yield Varde  
25mm c/f FHR 2699 TG (Sequential) -- 100.625px E+45/167 PSA Port of Seattle  
177mm c/f FNS 381 13 (Excess Servicing) - 16.53px FHLMC  
20mm c/f FHR 3174 LF (PAC Floater) - 99.5625px 43DM Ferris

TOTALING 421MM

Appendix II: ABX and Synthetic Trading

ABX Notional Changes (1/25 - 3/1/08)

	06-1	06-2	07-1	07-2	Total
AAA	\$ 110.0	\$ -	\$ 25.0	\$ -	\$ 135.0
AA	\$ 15.0	\$ (105.0)	\$ (25.0)	\$ (2.0)	\$ (117.0)
A	\$ 10.0	\$ (90.0)	\$ -	\$ -	\$ (80.0)
BBB	\$ 10.0	\$ (15.0)	\$ 10.0	\$ -	\$ 5.0
BBB-	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL</b>	\$ 145.0	\$ (210.0)	\$ 10.0	\$ (2.0)	\$ (57.0)

ABX Market Value Changes (1/25 - 2/1/08)

	06-1	06-2	07-1	07-2	Total
AAA	\$ 104.7	\$ -	\$ 18.3	\$ -	\$ 123.0
AA	\$ 12.6	\$ (93.9)	\$ (10.1)	\$ (0.6)	\$ (62.2)
A	\$ 6.0	\$ (28.5)	\$ -	\$ -	\$ (22.5)
BBB	\$ 2.9	\$ (2.5)	\$ 1.5	\$ -	\$ 1.9
BBB-	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL</b>	\$ 126.3	\$ (94.9)	\$ 9.7	\$ (0.6)	\$ 40.2

	Notional	MV
A3	\$ (10.0)	\$ (1.9)
Baa2	\$ (48.4)	\$ (13.6)
Baa3	\$ (100.0)	\$ (19.2)
<b>TOTAL</b>	\$ (158.4)	\$ (34.6)

Appendix III: CMBS Loan Activity

Commercial Loan Sales from Nov 2007

Position	Jurisdiction	BSC Portion	Closed Date
Hilton Unsecured Debt	US	\$115,000,000	11/28/2007
Hilton 1st Loss-M7	US	\$115,000,000	12/28/2007
	US	\$69,000,000	12/28/2007
	US	\$69,000,000	12/28/2007
	US	\$46,000,000	12/28/2007
Hilton 2nd Loss-M6	US	\$57,500,000	12/28/2007
	US	\$11,500,000	12/28/2007
	US	\$23,000,000	1/16/2008
	US	\$23,000,000	1/25/2008
	US	\$12,650,000	1/7/2008
Beacon Mezz	US	\$71,066,667	12/18/2007
PWR 18 Securitization	US	\$806,343,357	12/27/2007
ESH Mezz H	US	\$25,670,000	11/2/2007
ESH Mezz I	US	\$25,670,000	11/2/2007
AG Industrial B Note	US	\$4,350,000	12/10/2007
Parkway Chevrolet B Note	US	\$1,483,874	1/31/2008
Market Square Mezz	US	\$3,000,000	2/1/2008
Orco B Securitization	Tok	\$82,000,000	11/28/2007
Shell Mex A Note	UK	\$721,116,600	12/6/2007
OBB Arena	FR	\$6,202,542	11/12/2007
OBB Arena	FR	\$6,507,247	11/19/2007
OBB Germany B Note	GER	\$10,329,629	11/6/2007
OBB Europarc B Note	GER	\$6,638,693	11/6/2007
<b>TOTAL</b>		<b>\$4,483,874</b>	



