

From: Friedman, Paul

Sent: Wednesday, February 27, 2008 4:58 PM

To: Mayer, Jeff - Fixed Income (Exchange); Overlander, Craig (Exchange); Molinaro, Sam (Exchange)

Cc: Biel, Barbara (Exchange); Alix, Michael (Exchange)

Subject: Non-Agency AAA financing for non-IG clients

Attachments: 20080227 AAA Comments.xls

Attached is a detailed description of the customers we are financing who are in the same AAA space as Peloton. The summary is as follow (see also the notes below):

Financing Summary for Non-Investment Grade Counterparties by Residential Non-Agency AAA collateral
2/27/2008

Manager	Loan Amount	Repo MV
	\$mm	\$mm
Peloton	692	770
Susquehanna	749	751
Babson Capital Management (incl. Norges Bank)	505	570
Annaly	485	534
Thornburg	406	450
Drake	278	310
Libertyview Capital Management	189	219
The Midway Group	432	518
Ellington Management	275	330

BlackRock		138
	126	
Structured Portfolio Investment		174
	141	
MFA		106
	101	
Total		4,870
	4,379	

Babson is a fully owned sub of Mass Mutual

Drake has suspended redemptions and working on an unwind plan

Libertyview is affiliated with Lehman and Lehman has said that they will be taking the fund in house and paying off our repo

Midway is managed by Mariner

Manager	Client	BS Rating	Net Exposure (\$mm)	AUM (\$ mm)		Returns (%)			PE Limit \$ mm
				Fund	Mngr	2007	YTD	As of:	
Peloton	Peloton ABS Master Fund	10	22	1,700	2,800	86.88%	-12% to -15%	Includes MTD estimates up to 02/25/2008	
Susquehanna	Susquehanna International Holdings and Group, LLP	6	0	2bn+ (3/2007)	2bn+ (3/2007)	Unknown	Unknown	N/A	
Susquehanna		6	3.2					N/A	
Babson Capital Management	EMBS III	5	0	214	93,000	-7.96%	-	-	

Babson Capital Management	QED	-6	0	111	93,000	-25.00%	-	-	
Babson Capital Management	EMBS IV	-6	0	184	93,000	-63.67%	-	-	
Babson Capital Management	Norges Bank	1	91		93,000	-	-	-	
Annaly	Chimera Investment Corporation	6+	0	500	3,000	n/a		Newly Formed via Nov. 07 IPO	
Thornburg	Thornburg Mortgage, Inc.	7	0	2,000	n/a	-875MM net income		12/31/2007	
Drake	Drake Global Opportunity (Master) Fund, Ltd.	7+	0	2,760	4,465	-24.62%	-4.29%	Includes MTD estimates up to 02/25/2008	

Drake	Drake Offshore Master Fund, Ltd.	6-	0	1,520	4,465	-14.10%	-2.09%	Includes MTD estimates up to 02/25/2008	
Libertyview Captial Management	Libertyview Income Fund	7+	0	42	3,000	-38.00%	-	-	
The Midway Group	Mariner LDC/Midway	6	0	230	390	16.90%	-	-	
The Midway Group	Midway Market Neutral Fund	6+	0	160	390	16.90%	-	-	

Ellington Management	Lyxor/Ellington	6	0.287	227	5,000	4.73%	-	-	
BlackRock	Obsidian Master Fund	6	0	847	2,500,000	29.00%	2.06%	1/31/2008	
Structured Portfolio Investment	Structured Servicing Holdings Master Fund	6	0	444	750	15.00%	-	-	
Structured Portfolio Investment	SPM Directional Mortgage Credit Master	6	0	18	750	-6.00%	-	-	
MFA	MFA Mortgage Investments	5	0	1,100	n/a	+22MM net income		12/31/2007	

Hedge Funds: Counterparty-specific concerns. Feb 27, 2008

PE Usage \$ mm	Activity with Bear (from our point of view)
	<p>Repo (total loan \$705 mm):</p> <ul style="list-style-type: none"> * \$692 mm loan against AAA MBS @ average haircut of 11.2% * Balance \$13 mm loan against AA/BB/B MBS @ average haircut 23% <p>Deriv:</p> <ul style="list-style-type: none"> * Bear bought protection \$235 mm of which \$200 mm is on ABX AAA 06-1 @5% h/c, rest on individual deals @15% * Bear sold protection \$473 mm on PAUG swaps. <p>Portfolio mark \$345 mm in client's favour</p>
	<p>Susquehanna International Holdings</p> <p>Repo (total loan \$683 mm):</p> <ul style="list-style-type: none"> * \$683 mm loan against AAA RMBS @ 10% <p>MTG FWD:</p> <ul style="list-style-type: none"> * Bear Long 400MM pools, short 400MM TBAs
	<p>Susquehanna International Group</p> <p>Repo (total loan \$285 mm):</p> <ul style="list-style-type: none"> * \$219 mm loan against UST @ 0% * \$66 mm loan against AAA ABS/RMBS @ 10% <p>Deriv:</p> <ul style="list-style-type: none"> * 2 cds index positions (Bear buy EM / sell HV) * 1 cds tranche position (Bear buy equity tranche of HV) * 2 cds basket trades (Bear buy prot) <p>Muni: Bear Sells \$188mm AAA Muni</p>
	<p>Repo :</p> <ul style="list-style-type: none"> ▪ Total loan \$80mm against \$91mm of AAA Non-agency collateral @ average haircut of 15% <p>Derivatives and swaptions</p> <ul style="list-style-type: none"> ▪ \$1.1bn notional, no net exposure currently ▪ Babson does not post initial margin on interest rate swaps

	<p>Repo :</p> <ul style="list-style-type: none"> ▪ Total loan \$65mm against \$73mm of AAA Non-Agency collateral @ average haircut of 10% <p>Derivatives</p> <ul style="list-style-type: none"> ▪ Babson does not post initial margin on interest rate swaps and swaptions ▪ \$1.5bn notional, no net exposure currently
	<p>Repo :</p> <ul style="list-style-type: none"> ▪ Total loan \$34mm against \$39mm of AAA Non-Agency collateral @ average haircut of 13% <p>Derivatives</p> <ul style="list-style-type: none"> ▪ Babson does not post initial margin on interest rate swaps and swaptions ▪ \$170mm notional, no net exposure currently
	<p>Repo :</p> <ul style="list-style-type: none"> ▪ Total loan \$326mm against \$369mm of AAA Non-Agency collateral
\$485mm advanced at 10% haircut on AAA CMOs. \$470mm notional in interest rate swaps put on to hedge, transacted on a cross-margining basis.	\$485mm advanced at 10% haircut on AAA CMOs. \$470mm notional in interest rate swaps put on to hedge, transacted on a cross-margining basis.
\$1.1bn advanced vs. resi subs and AAA CMOs at 25% blended haircut. Clearing activity through CTC. Interest Rate Swaps used for hedging (no current exposure)	\$1.1bn advanced vs. resi subs and AAA CMOs at 25% blended haircut. Clearing activity through CTC. Interest Rate Swaps used for hedging (no current exposure)
	<p>Repo (total loan \$20 mm):</p> <ul style="list-style-type: none"> * Against AAA MBS @ average haircut of 15% <p>Deriv:</p> <ul style="list-style-type: none"> * 4 single name CDS positions, 1 where Bear buys protection * 2 interest rate swaps <p>Portfolio mark \$3 mm in client's favour</p>

	<p>Repo (total loan \$287 mm):</p> <ul style="list-style-type: none"> * \$258 mm loan against AAA MBS @ average haircut of 15% * Balance \$29 mm loan against AA MBS @ average haircut 27% <p>Deriv:</p> <ul style="list-style-type: none"> * 13 single name CDS positions, 9 where Bear buys protection * 4 Index positions (Bear sells protection on CMBX.NA.AJ.3 and CDX HY BB; 2 positions where Bear buys protection on CDX.NA.HY) * 2 interest rate swaps <p>Portfolio mark \$41 mm in Bear's favour (generated largely from the 2 CDX.HY positions where Bear has bought protection)</p>
	<p>Repo</p> <ul style="list-style-type: none"> ▪ \$189mm loan against AAA MBS @ average haircut of 16% ▪ \$0.769mm loan against AA MBS @ 50% haircut
	<p>Repo :</p> <ul style="list-style-type: none"> * Client lend \$101 mm UST @ 0% * Client borrow \$206mm against AAA Non-Agency mort deriv @ 20% <p>TBA: client long \$682MM TBAs</p> <p>Deriv:</p> <ul style="list-style-type: none"> * 3 IR sold options
	<p>Repo:</p> <ul style="list-style-type: none"> * Client lend \$116 mm UST @ 0% * Client borrow \$226mm against AAA Non-Agency mort deriv @ 20% <p>TBA: client long \$544MM TBAs</p> <p>Deriv:</p> <ul style="list-style-type: none"> * 2 IR Swaps <p>Futures</p> <ul style="list-style-type: none"> * Eurodollar IM = \$5.4MM

	<p>Repo: * <u>Client borrow \$275 mm against AAA Non-Agency and Agency mort deriv @ 20%</u> TBA: client long \$880MM TBAs Deriv: * 53 IR Swaps Futures * Eurodollar IM = \$8.8MM</p>
	<p>Repo : * <u>\$126 mm loan against AAA Non-Agency @ 10%</u> TBA: client long \$2.5 BN, short 2.2BN Deriv: * 9 CDS trades (PAUG) Bear selling protection on 87MM * 3 IR Swaps</p>
	<p>Repo : * <u>\$122 mm loan against AAA Non-Agency Mortgage Deriv @ 25%</u> TBA: client long \$1.6 BN TBAs Deriv: * 12 IR Swaps intended to partially hedge repo and TBA activity</p>
	<p>Repo : * <u>\$19 mm loan against AAA Non-Agency @ 12%</u></p>
<p>\$673mm total advanced, \$101mm of which is AAA private label. Agencies financed at 3% haircut, private label at 5%. Interest Rate Swaps to hedge with stub of initial margin posted and financial covenants agreed to.</p>	<p><u>\$673mm total advanced, \$101mm of which is AAA private label.</u> Agencies financed at 3% haircut, private label at 5%. Interest Rate Swaps to hedge with stub of initial margin posted and financial covenants agreed to.</p>

Actions Taken	
Discussions with client on-going	
We will ask for additional margin on roll date	
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<ul style="list-style-type: none"> • Babson SPV Mass Mutual performance basis, it's delevered significantly • Bonds are older vintage and have paid down 	<ul style="list-style-type: none"> • Babson is a wholly owned subsidiary of ▪ Though the fund is down on a

<ul style="list-style-type: none"> •Babson hedge fund majority internal money, with one other investor ▪ Leverage is high at 8x but parent has provided additional repo facility •Client has been put on line full
<ul style="list-style-type: none"> •Babson SPV, had came close to OC triggers, but delevered and received signoff from investors to avoid liquidation ▪Entity had been more levered but has since reduced leverage to 2x
None -- Babson is advisor
This client is not in distress. Recently formed in Nov. 2007 via a \$500mm IPO. Not yet fully invested, and thus un-invested cash is used as liquidity. Shares back office and infrastructure with market leader Annaly Mortgage Management, whose investment management arm, FIDAC, manages \$15bn gross assets/\$3bn net assets across several funds.
Bear currently re-securitizing subordinates in order to free up liquidity, which would be used to pay down our line. Thornburg Management at Bear today (2/27) to discuss other options, including re-distributing subordinate collateral among dealers more proportionately. Monthly updates provided to Credit Committee.
Discussions with client on-going. We have increased the haircut on the repo positions to the current 15% levels. The fund is working on a restructuring where investors will be given the choice to either roll capital into a new fund or keep capital at existing fund, which will be wound down. Investors will need to make the election by 4/1/08.

<p>Discussions with client on-going. We have increased the haircut on the repo positions to the current 15%, 25% and 30% levels. The fund is working on a restructuring where investors will be given the choice to either roll capital into a new fund or keep capital at existing fund, which will be wound down. Investors will need to make the election by 4/1/08.</p>	
<ul style="list-style-type: none"> • Client's total current leverage is about 13x and an additional \$3.5mm in premise currently • LB to pay down repo 3/17/08 	<ul style="list-style-type: none"> • \$2.5mm clearance deposit
<p>Last discussion with manager approximately Jan 2008. Fund has had strong performance through '07 and continued through Feb '08. Excess cash of more than \$50MM held at Fortis. They are raising additional capital anticipating distressed sellers of their product.</p>	
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Discussions with client on-going. Bear to specify how much additional liquidity needs to be raised in the account.

n/a

Brief call on 2/27 -- more thorough discussion next week. Fund has traditionally run with modest leverage and had 30% of NAV in cash throughout the summer.

• Brief call on 2/27 -- more thorough discussion next week • The fund has been around since 2004, but in mid 2007 shifted it's investment focus to long subprime credit hedged against ABX shorts

This client is not in distress. Continues to raise new capital, with planned follow-on offering for March/April 2008 lead by Bear. \$400mm in liquidity via cash and unpledged securities. Credit Committee has been updated monthly given new Repo requests. Private Label portion of MFA's portfolio is approx. \$500mm, representing only 5% of a 10bn portfolio (remainder is all agency product).