Important Acronyms

ACRONYM	TYPE OF SECURITY
RMBS	**Residential Mortgage-Backed Securities** — Pools of residential mortgages
CMBS	**Commercial Mortgage-Backed Securities** — Pools of mortgages for commercial properties
ABS	**Asset-Backed Securities** — Pools of student loans, credit card receivables, corporate account receivables, etc.

Important Acronyms

ACRONYM	TYPE OF SECURITY
CP	**Commercial Paper** — Short-term, highly rated debt issued by companies
ABCP	**Asset-Backed Commercial Paper** — Short-term, highly rated debt secured by RMBS and ABS
MTN	**Medium Term Notes** — Slightly longer term (than ABCP or CP), highly rated debt

What Are Structured Finance Securities?

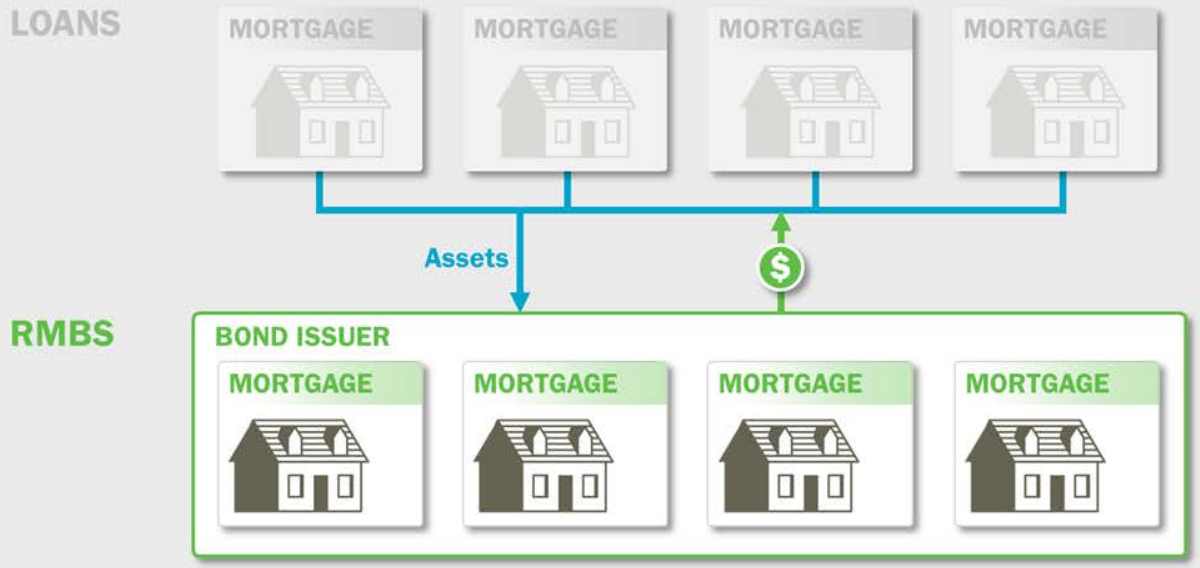
When **pooled together, assets** such as loans and receivables offer **reasonably predictable cash flows**.

LOANS

What Are Structured Finance Securities?

When pooled together, assets such as loans and receivables offer reasonably predictable cash flows.

A **Bond Issuer buys pools of assets** and issues bonds that pay principal and interest to Investors.

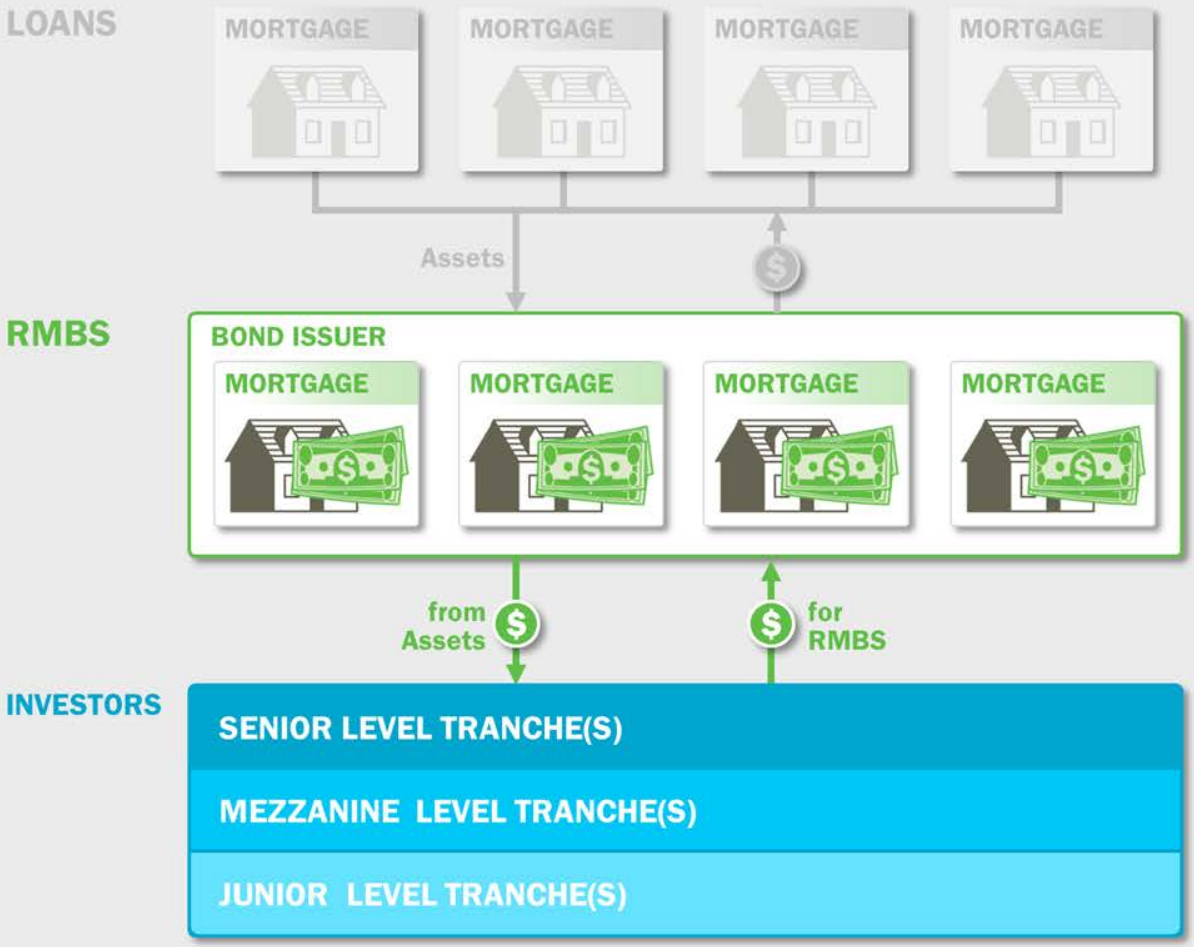


What Are Structured Finance Securities?

When pooled together, assets such as loans and receivables offer reasonably predictable cash flows.

A Bond Issuer buys pools of assets and issues bonds that pay principal and interest to Investors.

Such bonds are backed by **cash flows** from the **pooled assets** prioritized to different Investors.



TX29527-00003

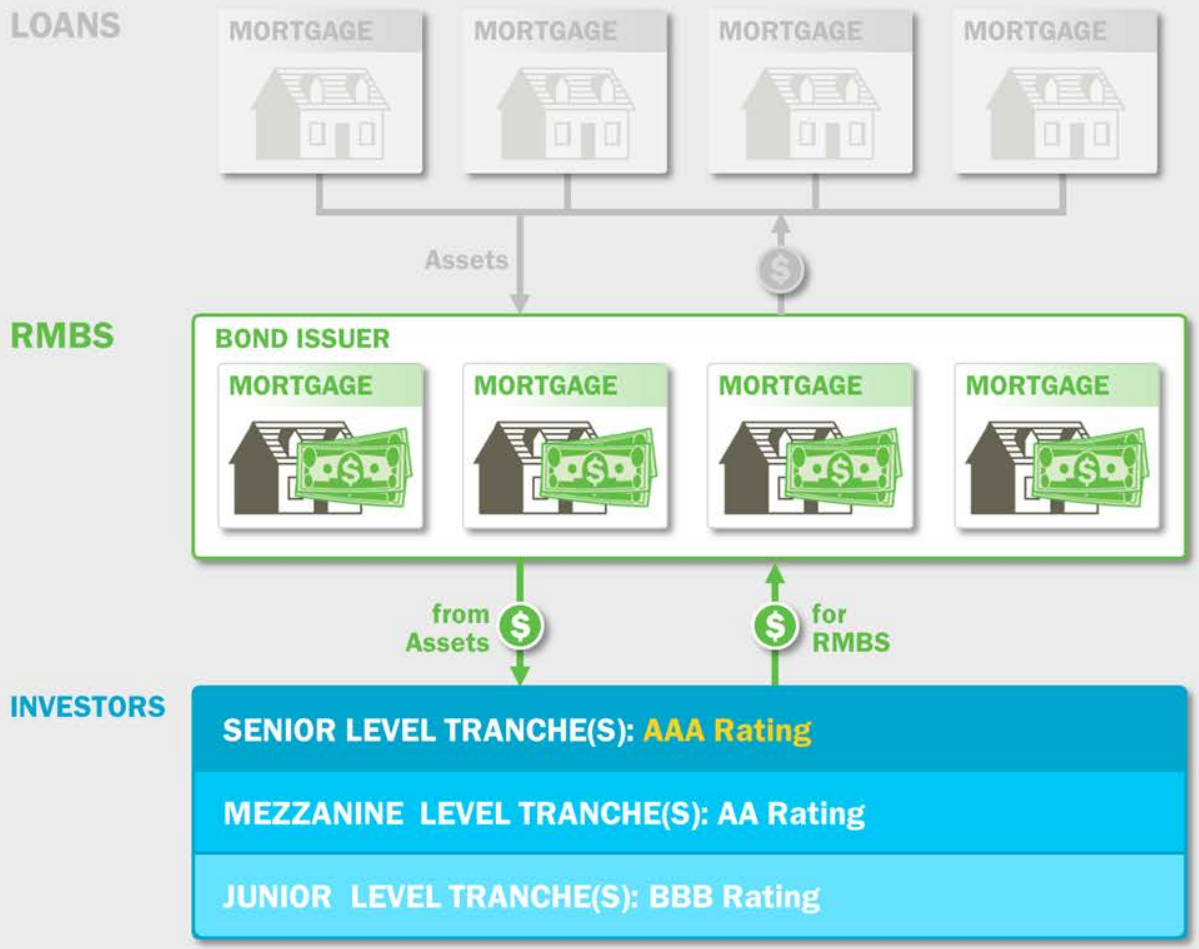
What Are Structured Finance Securities?

When pooled together, assets such as loans and receivables offer reasonably predictable cash flows.

A Bond Issuer buys pools of assets and issues bonds that pay principal and interest to Investors.

Such bonds are backed by cash flows from the pooled assets prioritized to different Investors.

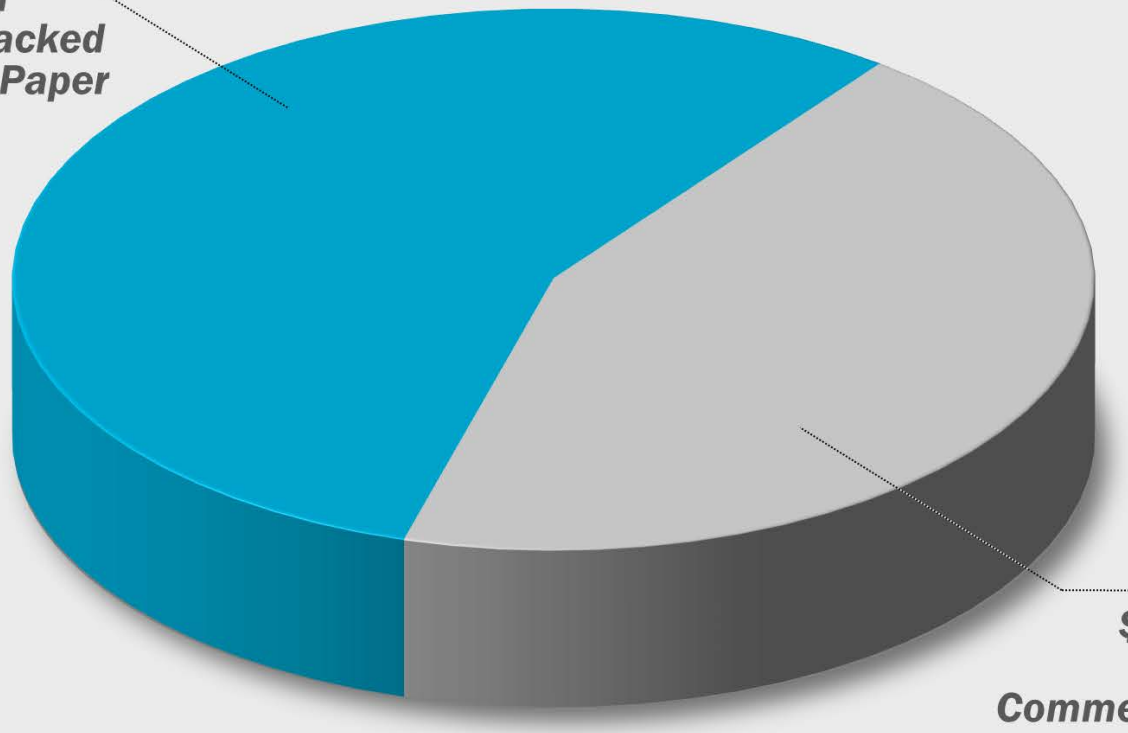
Senior level tranches have the **highest ratings.**



TX29527-00004

As of July 2007, U.S. Asset-Backed Commercial Paper Accounted for OVER HALF of All Outstanding U.S. Commercial Paper

TOTAL OUTSTANDING U.S. COMMERCIAL PAPER: $2.11 TRILLION



Source: TX15014

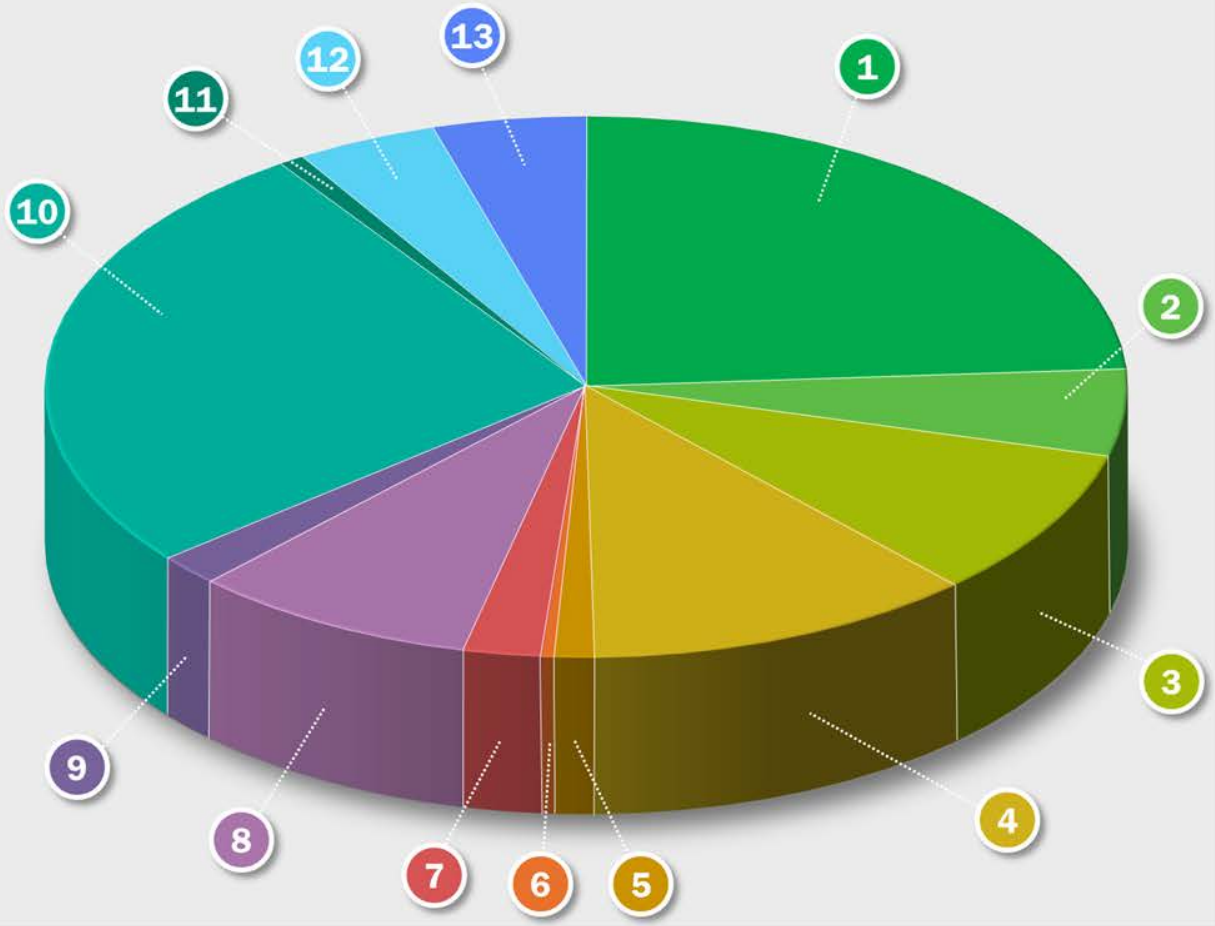
TX29528

Composition of All SIVs' Underlying Assets by Asset Type

As of June 30, 2007

ASSETS		
1.	RMBS:	23.90%
2.	Credit Cards:	5.20%
3.	CMBS:	8.81%
4.	CDO/CLO:	11.70%
5.	Auto Loans:	1.17%
6.	Other Financials:	0.36%
7.	Investment Banks:	2.35%
8.	Insurance Companies:	8.55%
9.	Finance Companies:	1.82%
10.	Commercial Banks:	26.26%
11.	Other Securities:	0.77%
12.	Other Structured:	4.24%
13.	Student Loans:	4.57%
TOTAL:		100%

*Percentages are calculated as the average of all SIVs, weighted by portfolio size.



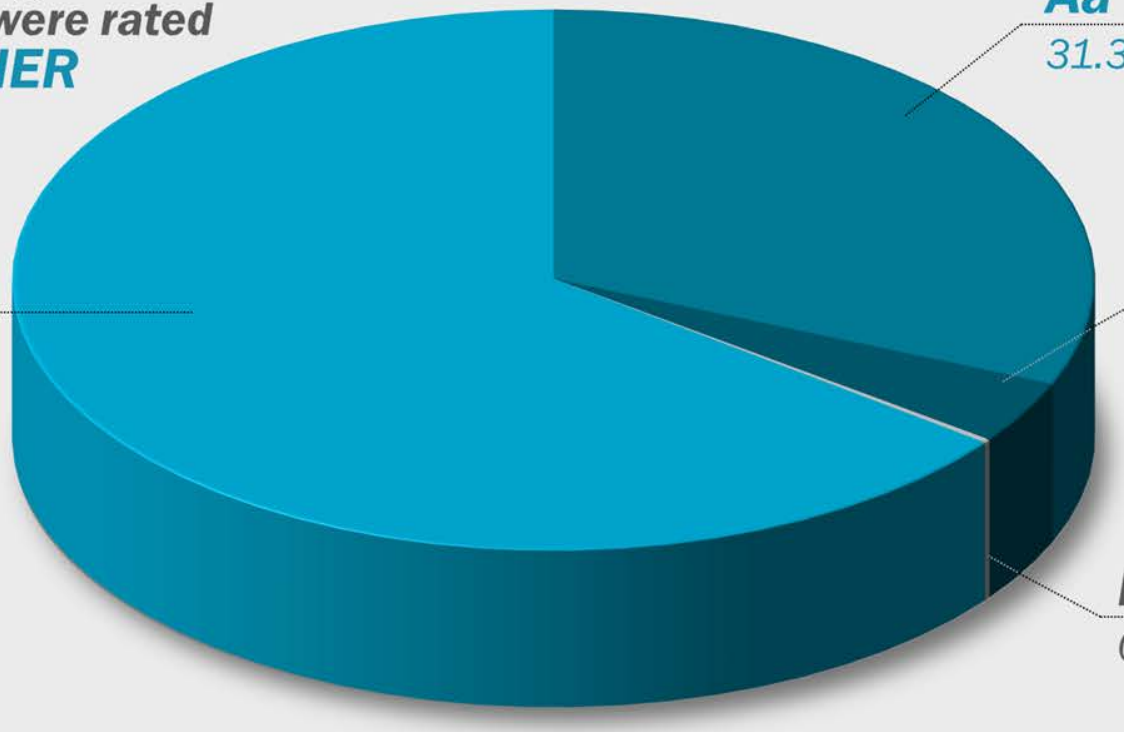
Source: TX15016

TX29529

Composition of All SIVs' Underlying Assets by Moody's Rating

As of June 30, 2007

99.78%
of Underlying Assets of All SIVs were rated A or HIGHER



*Percentages are calculated as the average of all SIVs, weighted by portfolio size.

Source: TX15017

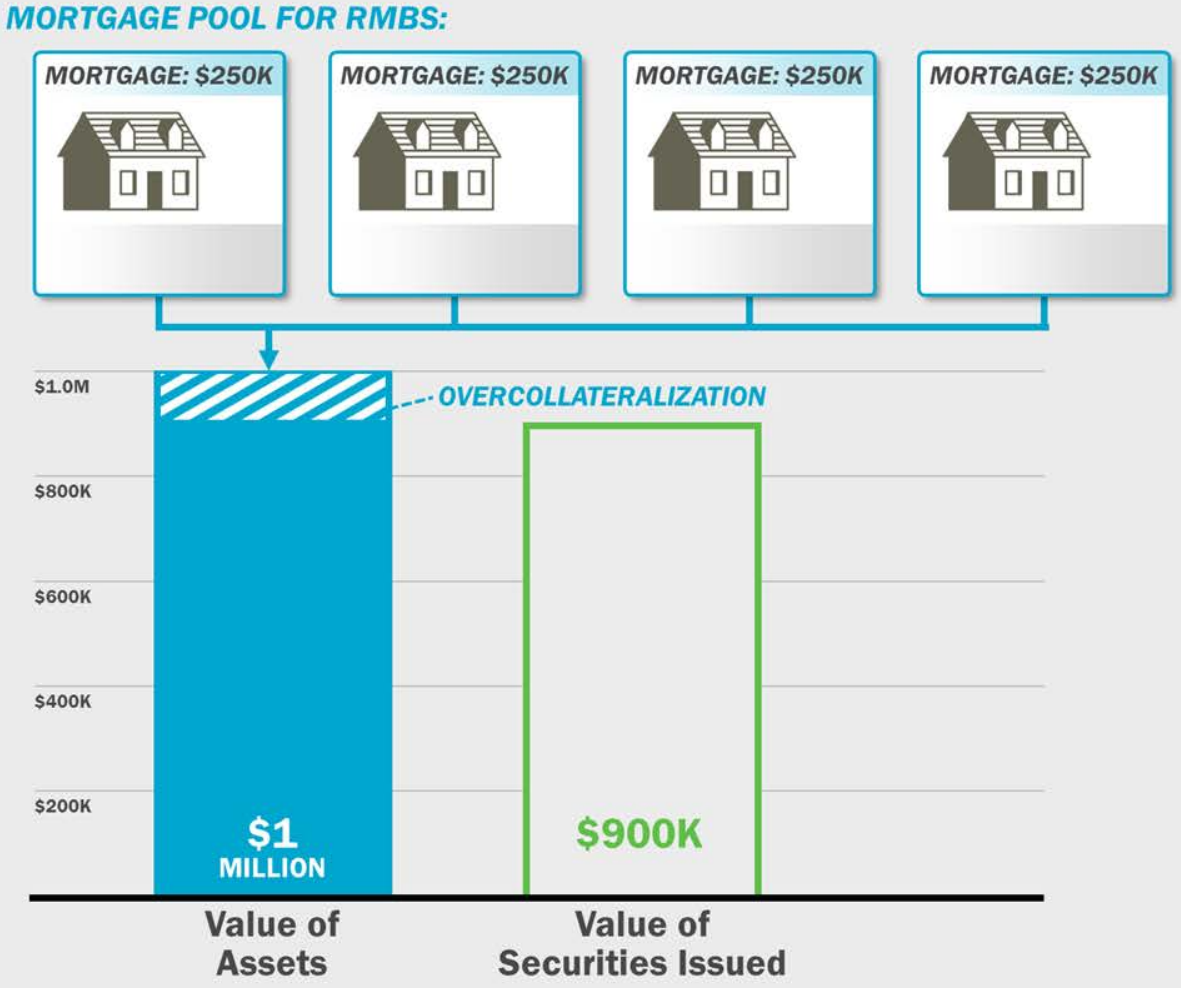
TX29530

Credit Enhancement – Overcollateralization

The sum of the pooled mortgage loans (assets) is **$1 MILLION.**

ONLY $900,000 of securities are issued.

Assets are overcollateralized by $100,000.



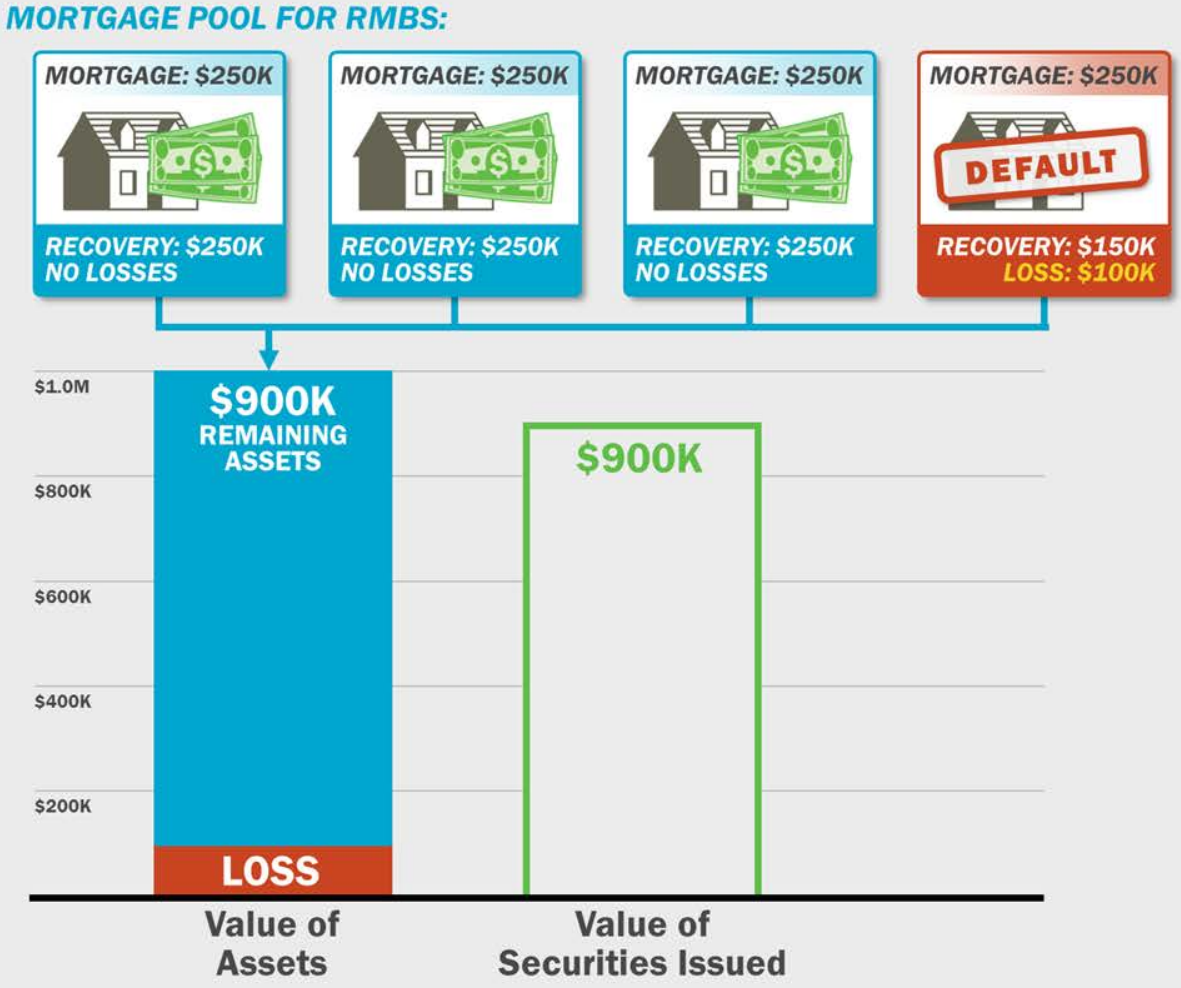
TX29531-00001

Credit Enhancement – Overcollateralization

SCENARIO 1

A mortgage in the RMBS defaults.

The loss after recovery is $100,000.



TX29531-00002

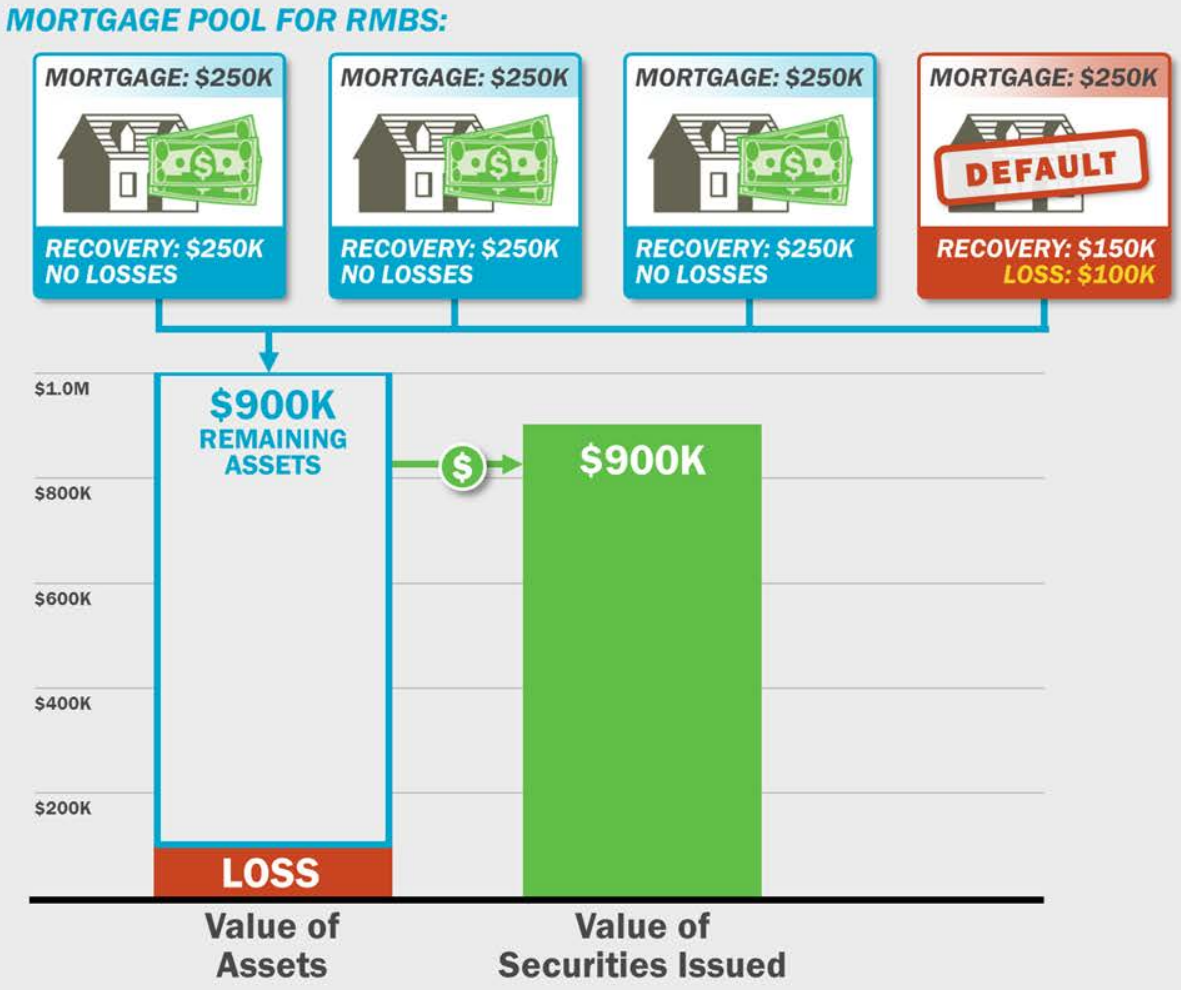
Credit Enhancement – Overcollateralization

SCENARIO 1

A mortgage in the RMBS defaults.

The loss after recovery is $100,000.

NO LOSS TO INVESTORS because the **overcollateralization** of the assets absorbs the loss.



TX29531-00003

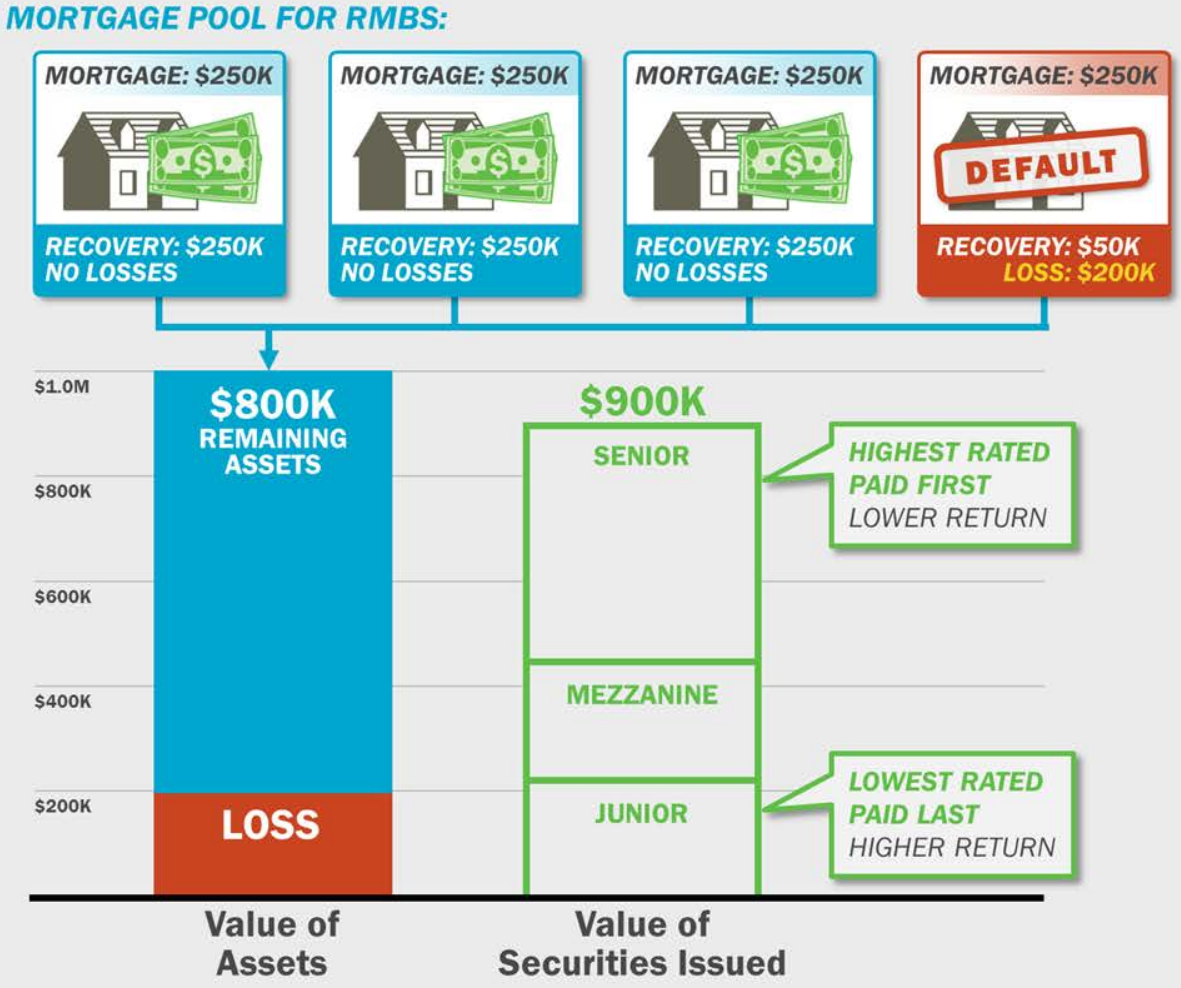
Credit Enhancement – Overcollateralization and Subordination

SCENARIO 2

Bonds are structured into **tranches** that offer **different levels of risk and reward** to investors.

The loss after recovery is $200,000.

$100,000 is absorbed by the RMBS due to overcollateralization.



TX29531-00004

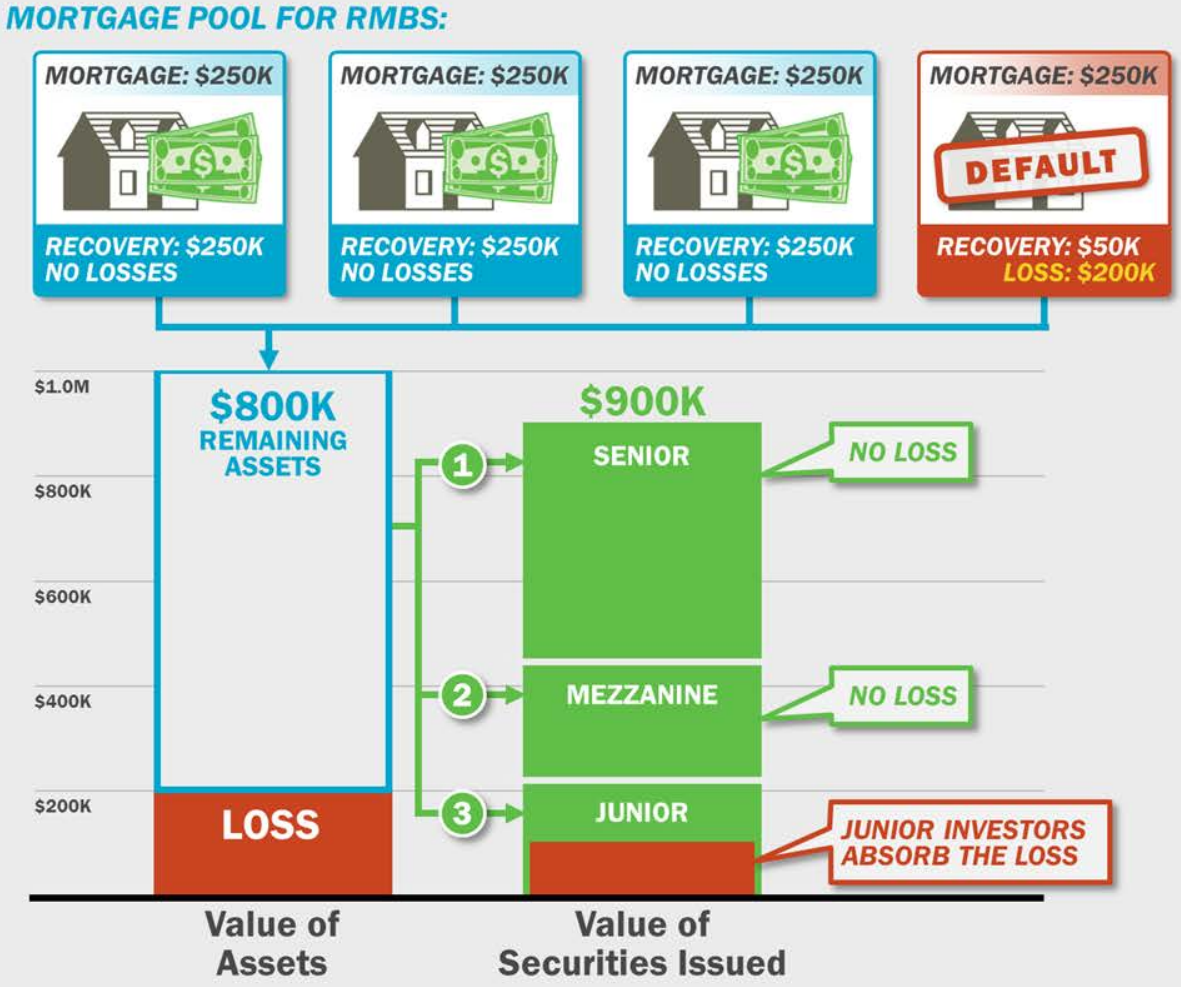
Credit Enhancement – Overcollateralization and Subordination

SCENARIO 2

Bonds are structured into tranches that offer different levels of risk and reward to investors.

$100,000 is absorbed by the RMBS due to overcollateralization.

NO LOSS TO SENIOR INVESTORS because **subordination** of Junior Investors absorbs remaining $100,000 loss.



TX29531-00005

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders

MANY LAYERS OF CREDIT ENHANCEMENT

LOAN

DELINQUENCY

Late payments don't necessarily result in loss

Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders

MANY LAYERS OF CREDIT ENHANCEMENT

LOAN

DELINQUENCY

Late payments don't necessarily result in loss

→

DEFAULT

Foreclosure on asset results in some recovery

Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders

MANY LAYERS OF CREDIT ENHANCEMENT

LOAN

DELINQUENCY

Late payments don't necessarily result in loss

→

DEFAULT

Foreclosure on asset results in some recovery

→

RECOVERY

LOSS

Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders

MANY LAYERS OF CREDIT ENHANCEMENT

LOAN

DELINQUENCY
Late payments don't necessarily result in loss

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DEFAULT
Foreclosure on asset results in some recovery

→

RECOVERY

↓

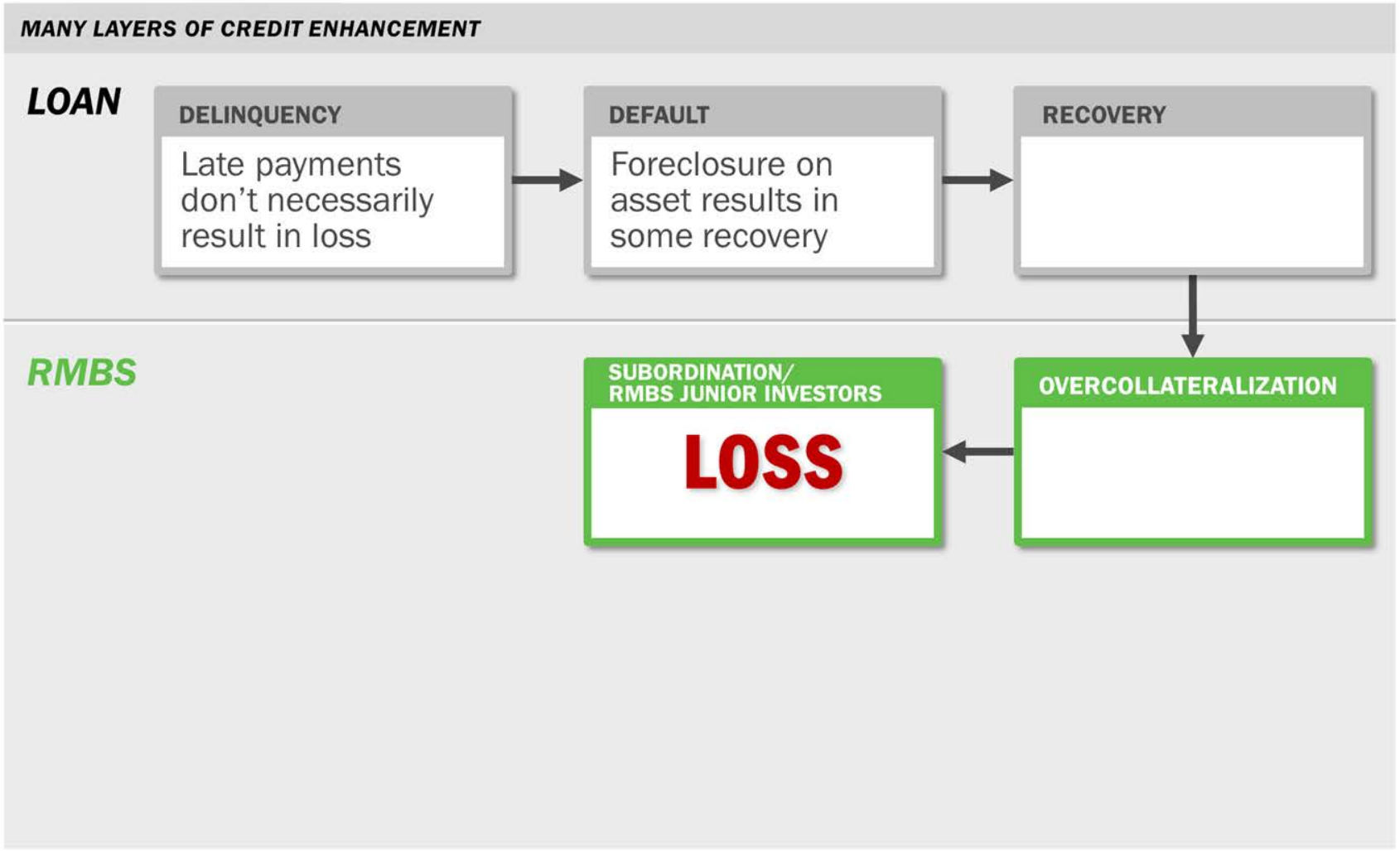
RMBS

OVERCOLLATERALIZATION

LOSS

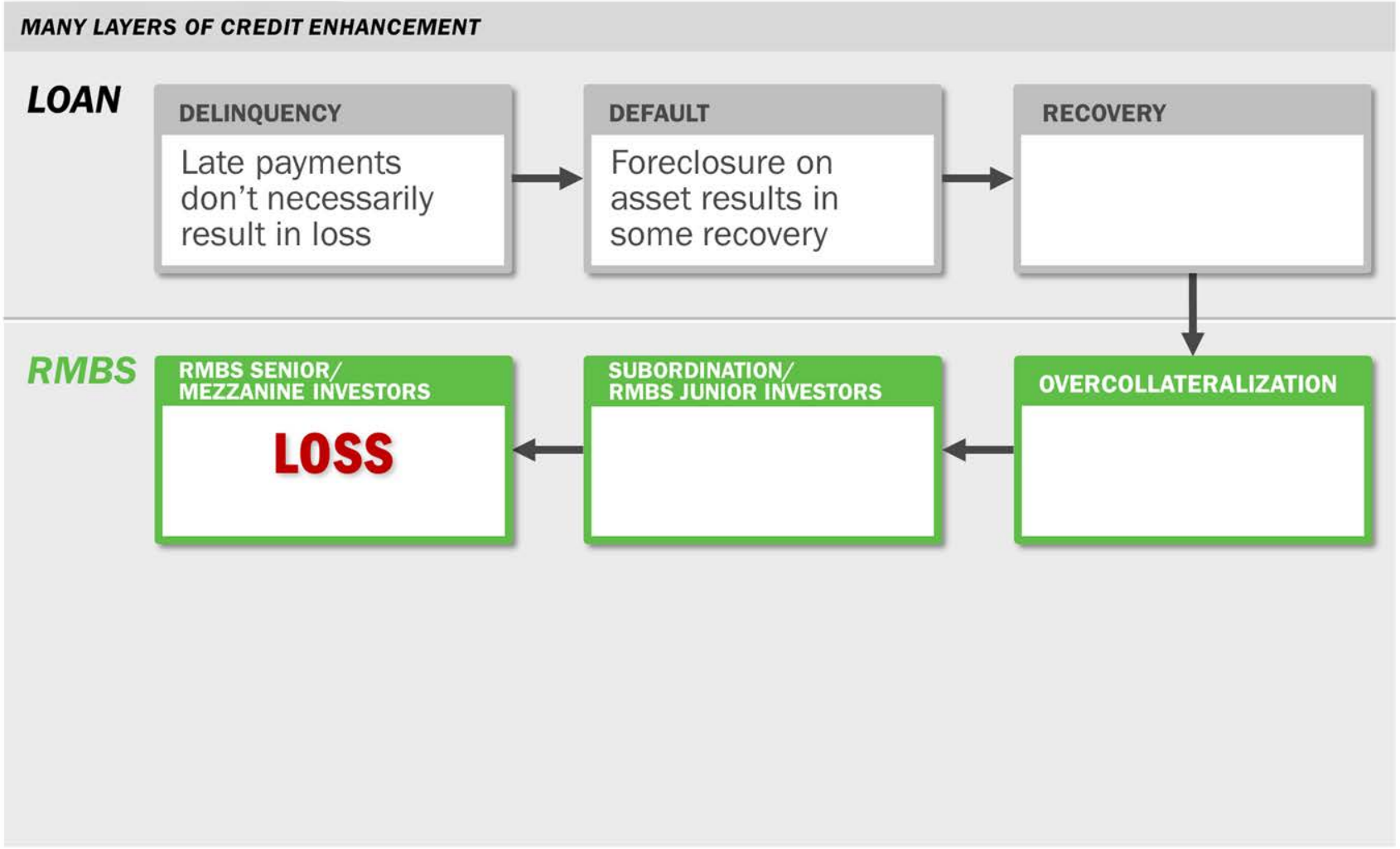
Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders



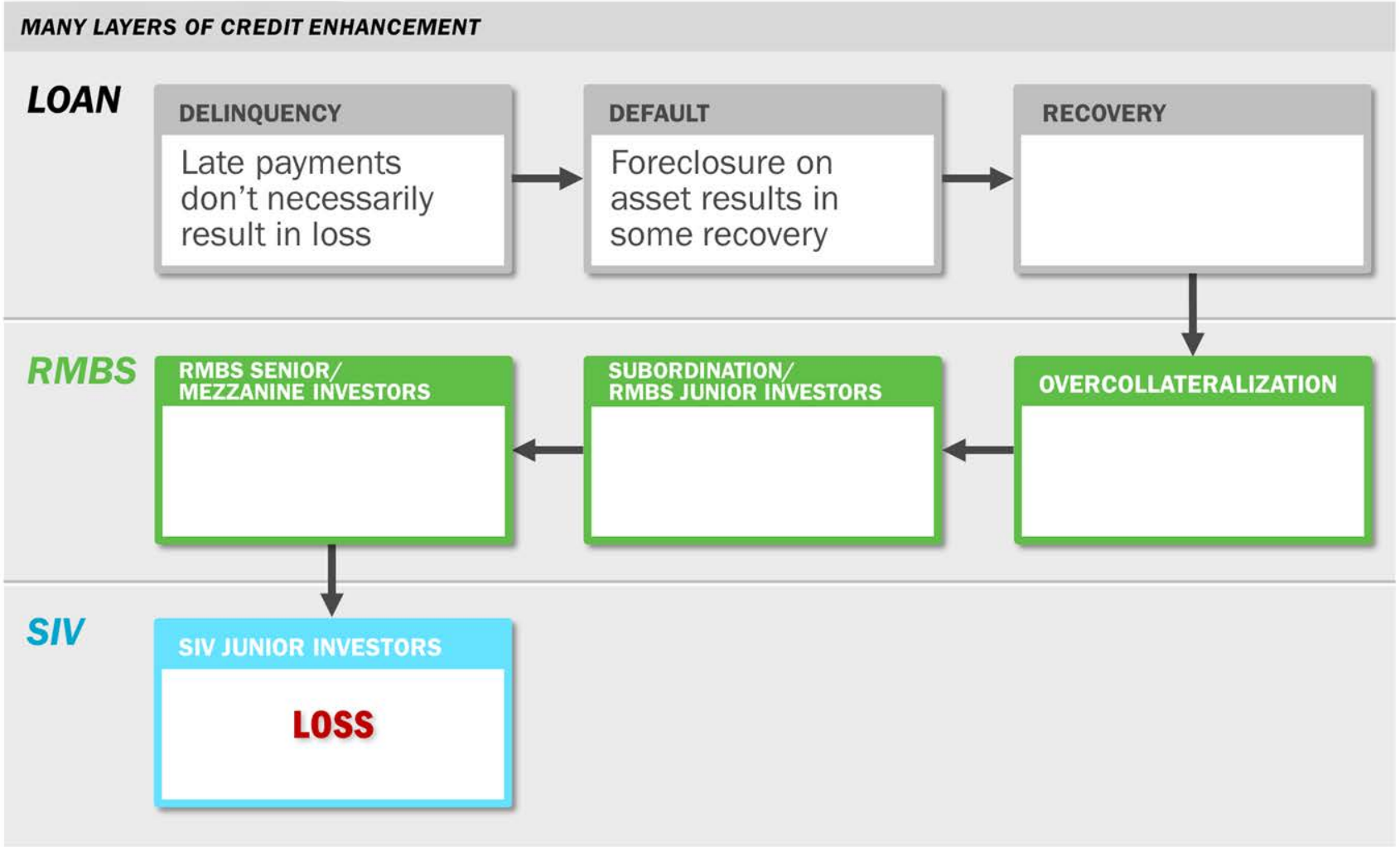
Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders



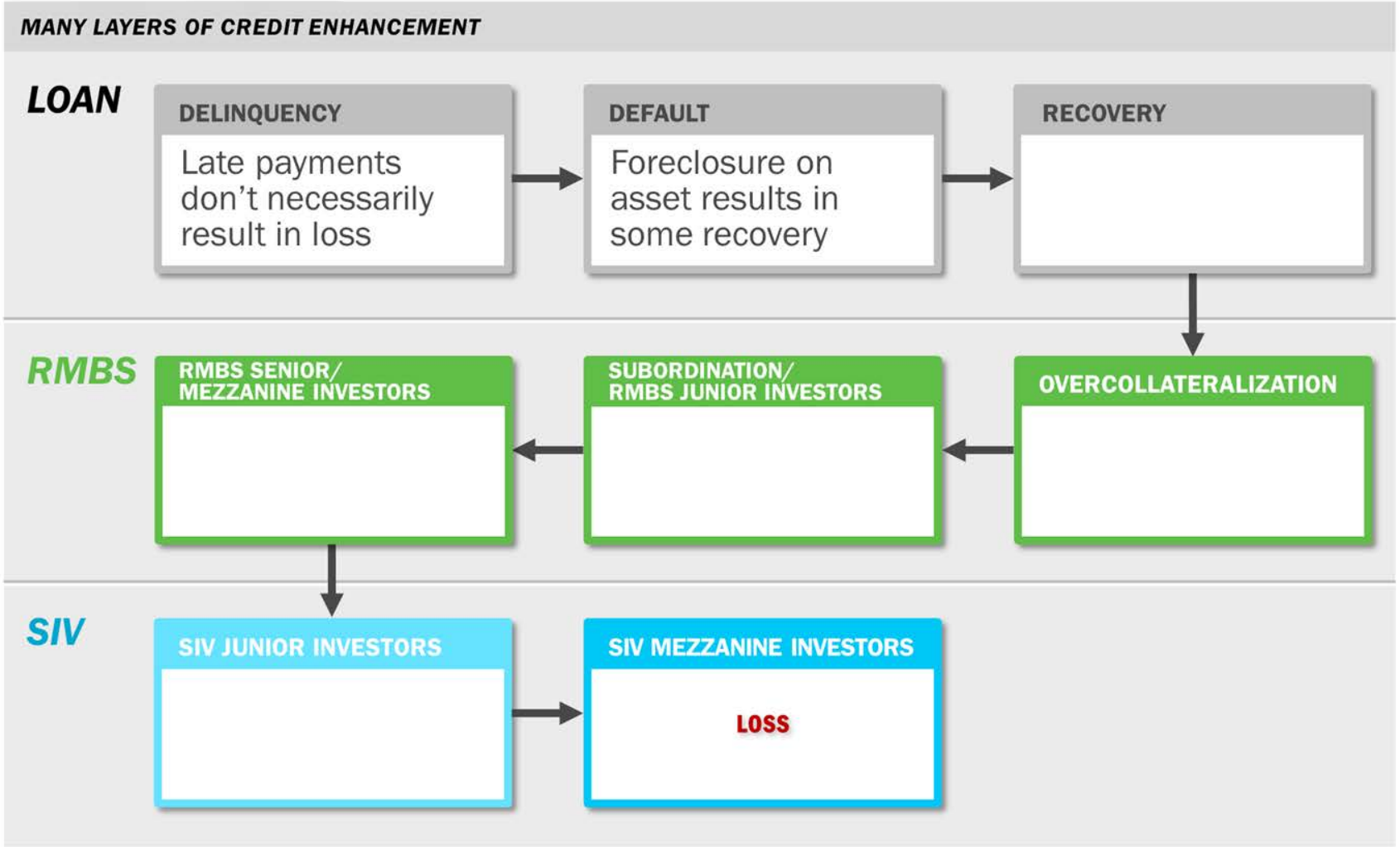
Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders



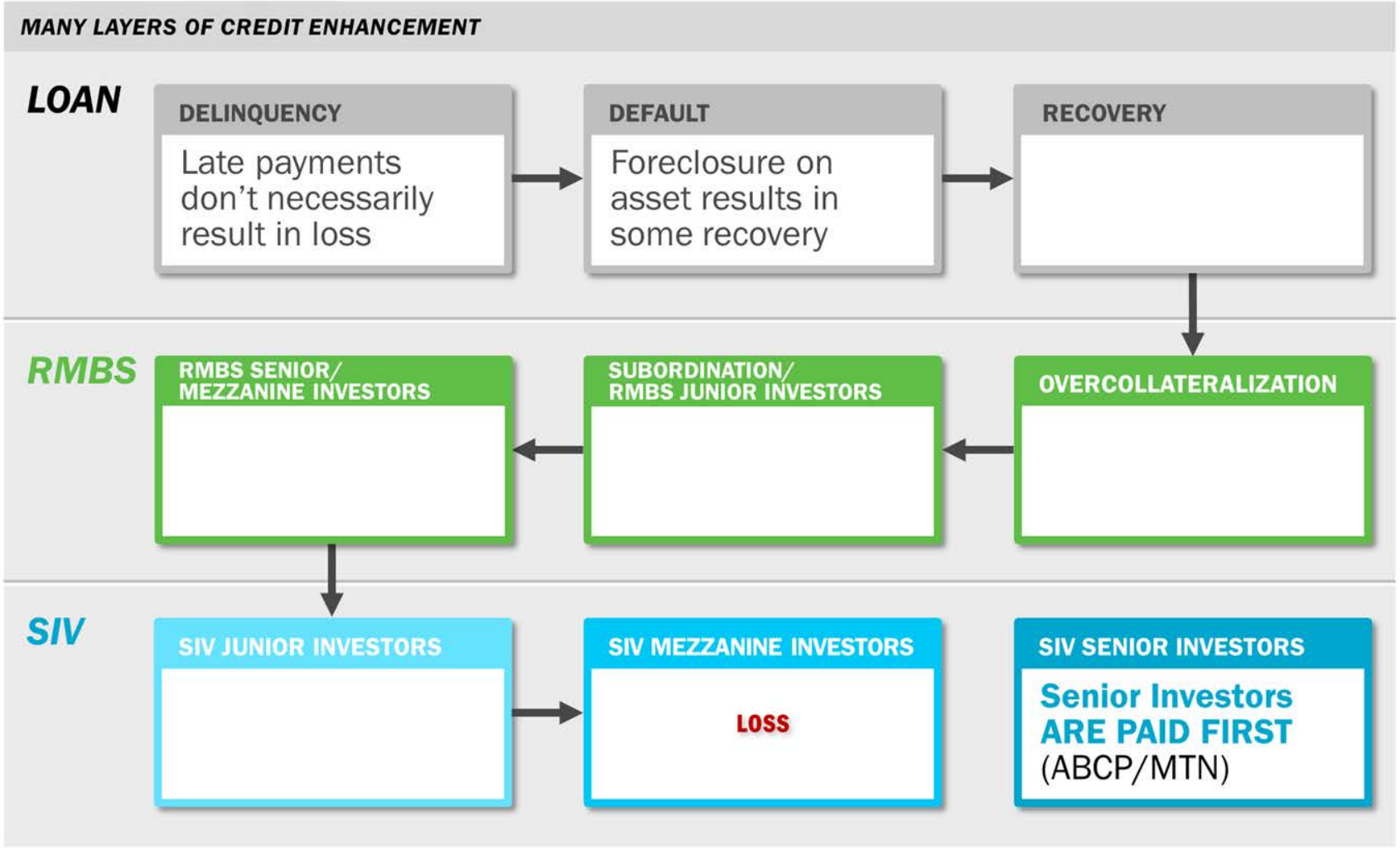
Source: TX15031

SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders



Source: TX15031

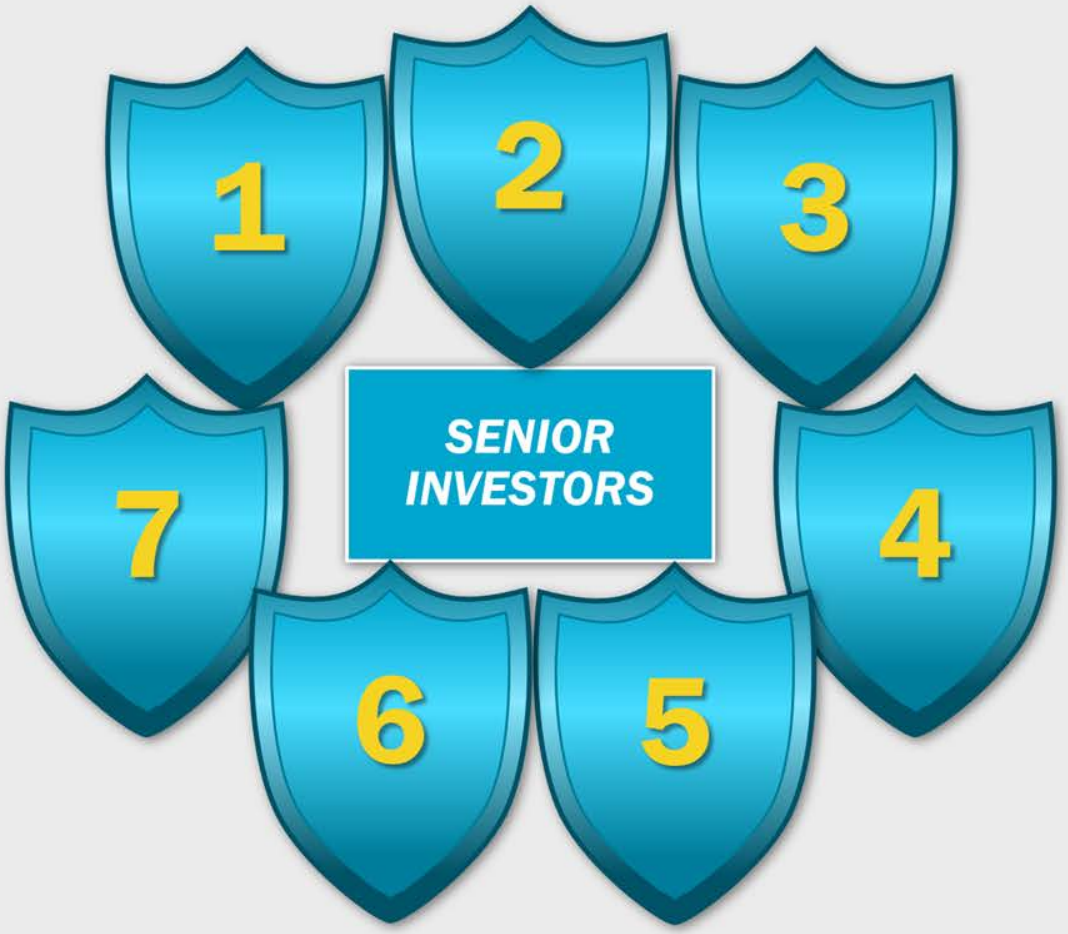
SIVs Were Structured So Losses Would Be Absorbed BEFORE They Reached Senior Noteholders



Source: TX15031

SIVs Provided MANY PROTECTIONS to Their Senior Investors

1. CAPITAL
2. SUBORDINATION
3. ASSET CRITERIA
4. PORTFOLIO CRITERIA
5. NET ASSET VALUE TESTS
6. LIQUIDITY TESTS
7. DAILY/WEEKLY COMPLIANCE TESTS



Source: TX13973

TX29533

SIV Senior Notes Held the Highest Long-Term Ratings at the Time of Purchase

	Moody's Long-Term Ratings	S&P's Long-Term Ratings
	MATURITIES OF 1 YEAR OR MORE	MATURITIES OF 1 YEAR OR MORE
INVESTMENT GRADE	Aaa	AAA
ALLOWED BY BUSINESS TRUST INVESTMENT GUIDELINES	Aa1	AA+
	Aa2	AA
	Aa3	AA–
	A1	A+
	A2	A
	A3	A–
	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB–
NON-INVESTMENT GRADE	Ba1	BB+
	Ba2	BB
	Ba3	BB–
	B1	B+
	B2	B
	B3	B–
	Caa1	CCC+
	Caa2	CCC
	Caa3	CCC–
	Ca	CC
	C	C
	N/A	D

Source: TX15027

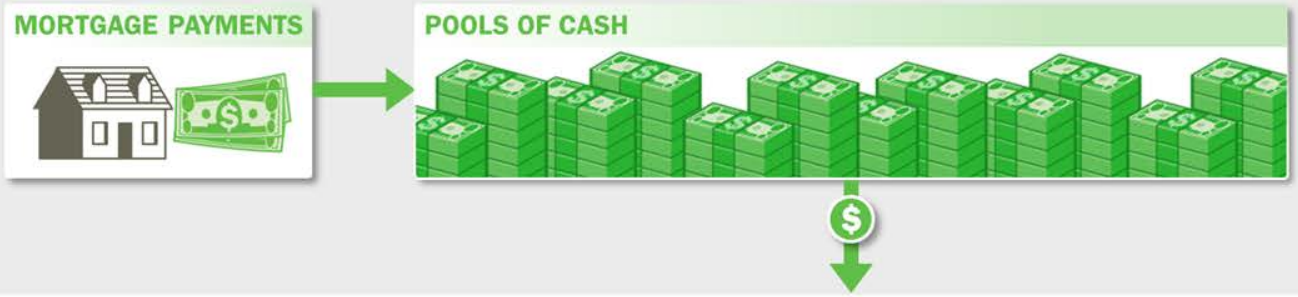
SIV Senior Notes Held the Highest Short-Term Ratings at the Time of Purchase

	Moody's Short-Term Ratings	S&P's Short-Term Ratings
	MATURITIES OF 13 MONTHS OR LESS	MATURITIES OF 365 DAYS OR LESS
INVESTMENT GRADE	P-1	A-1+
ALLOWED BY BUSINESS TRUST INVESTMENT GUIDELINES		A-1
	P-2	A-2
	P-3	A-3
NON-INVESTMENT GRADE	Not Prime	B
		C
		D

Source: TX15026

Losses Were NEVER EXPECTED to Reach the Highest-Rated, Senior Tranches of Securities

STRUCTURE OF RMBS TRUST SERIES



RISK	EXPECTED RETURN	CLASS	POSITION	TRANCHE RATING	SUBORDINATION
LEAST	LOWEST	A-1	Super Senior	AAA/Aaa/AAA	25.70%
		A-2	Senior	AAA/Aaa/AAA	11.67%
		M-1	Mezzanine	AA+/Aa2/AA+	8.52%
		M-2	Mezzanine	AA–/A2/AA	5.83%
		B-1	Subordinated	BBB+/Baa1/A+	4.54%
		B-2	Subordinated	BBB–/Baa2/A	4.03%
MOST	HIGHEST	B-3	Subordinated	NR/Baa3/BBB+	3.10%

Source: TX15013

TX29548