

# The Future of Securitization

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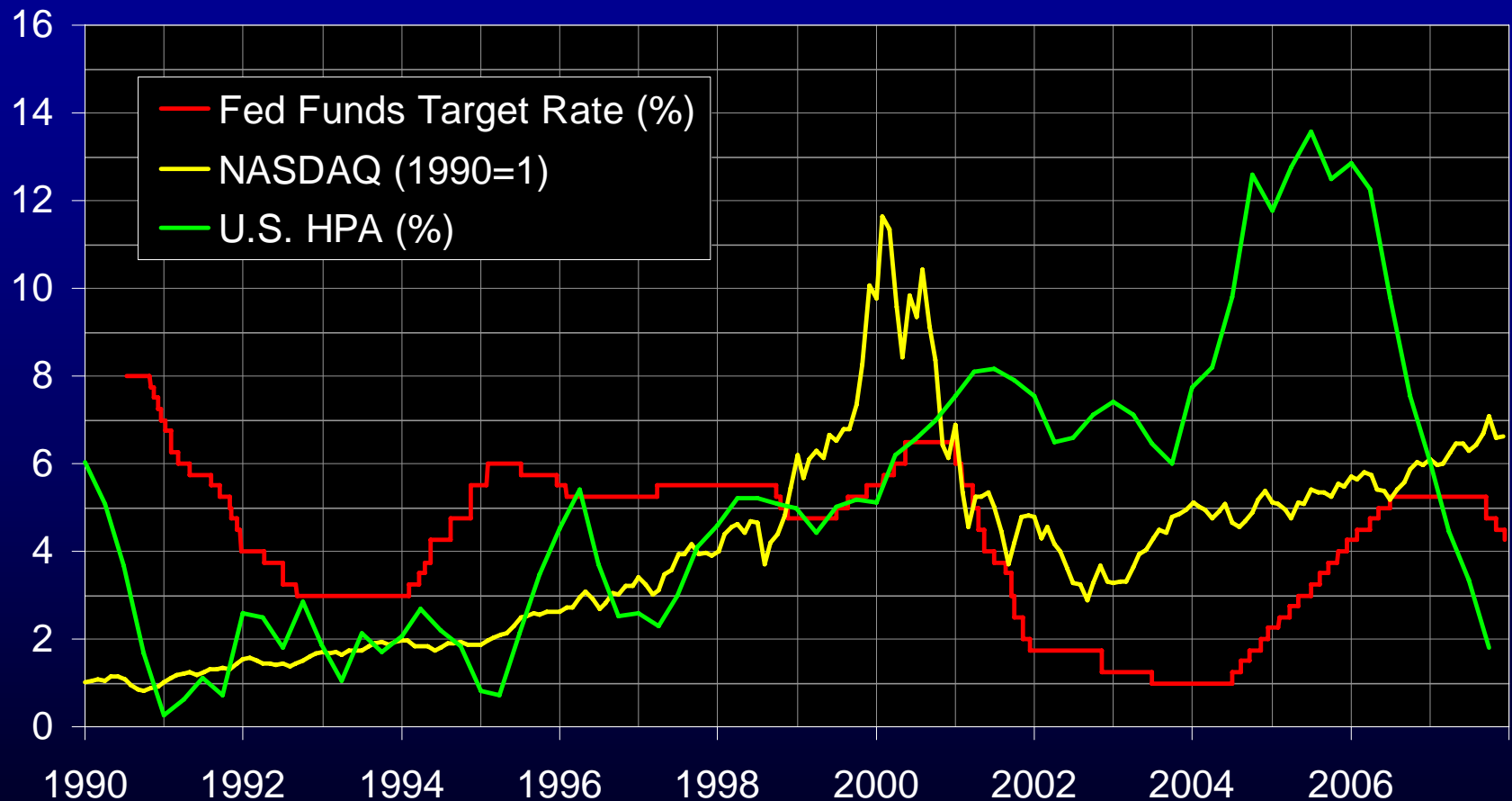
**5<sup>th</sup> Annual Credit Risk Conference**

Skirball Center at 566 LaGuardia Place

New York City

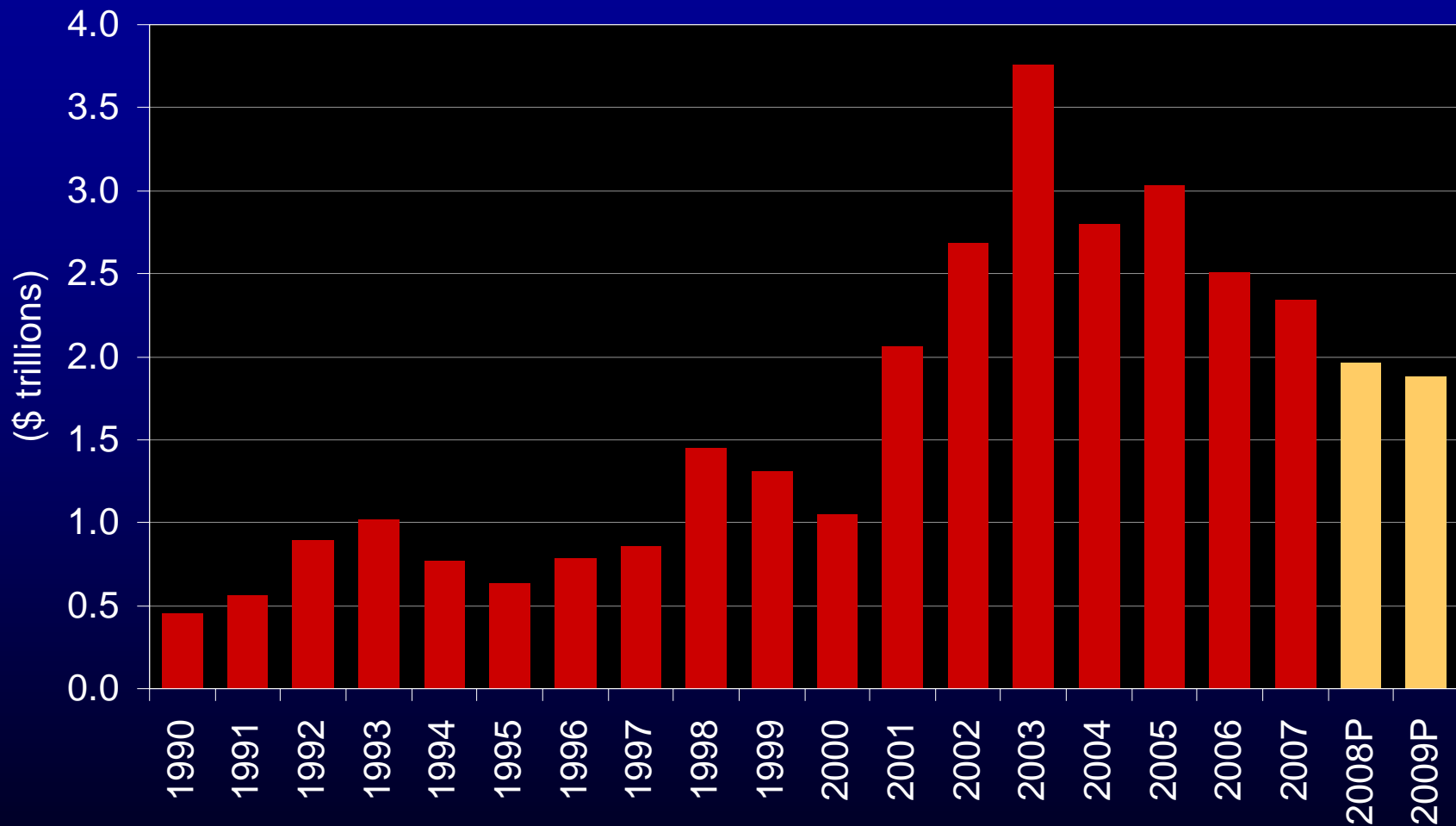
14 May 2008

# Fed Funds Target Rate, NASDAQ Composite Index, and Annual Rate of U.S. Home Price Appreciation



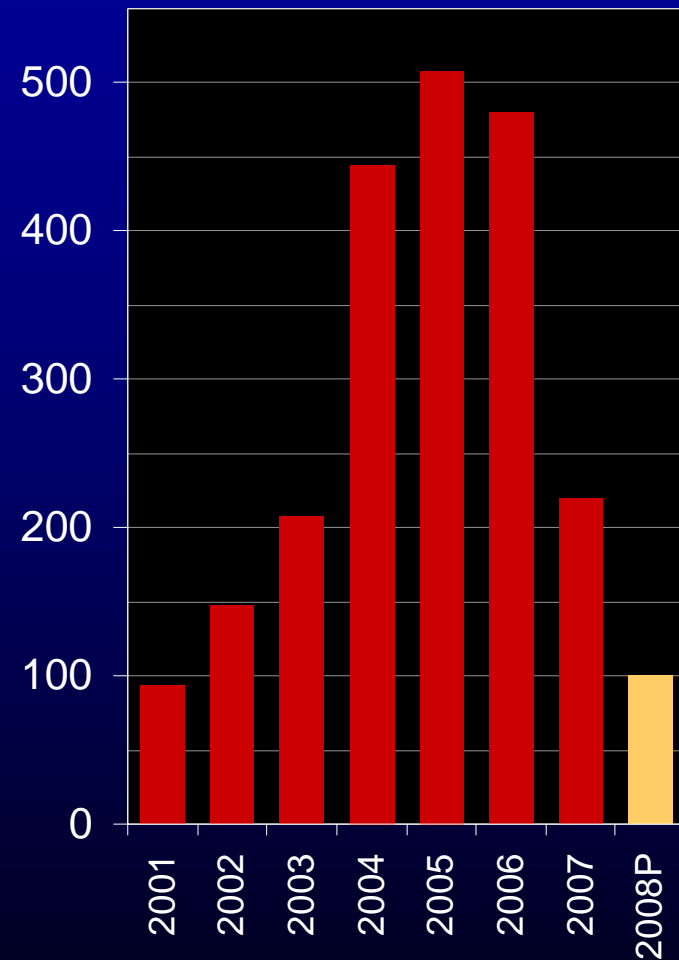
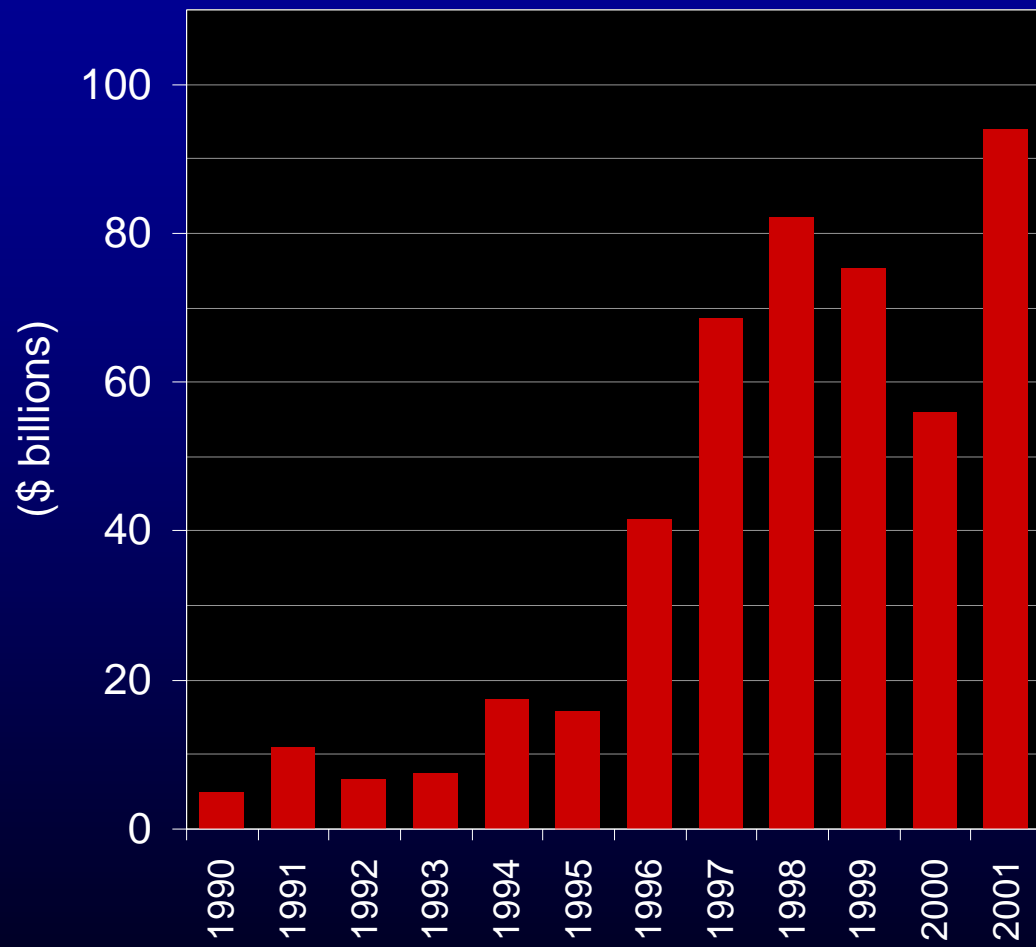
Source: Federal Reserve, Yahoo

# U.S. Mortgage Originations



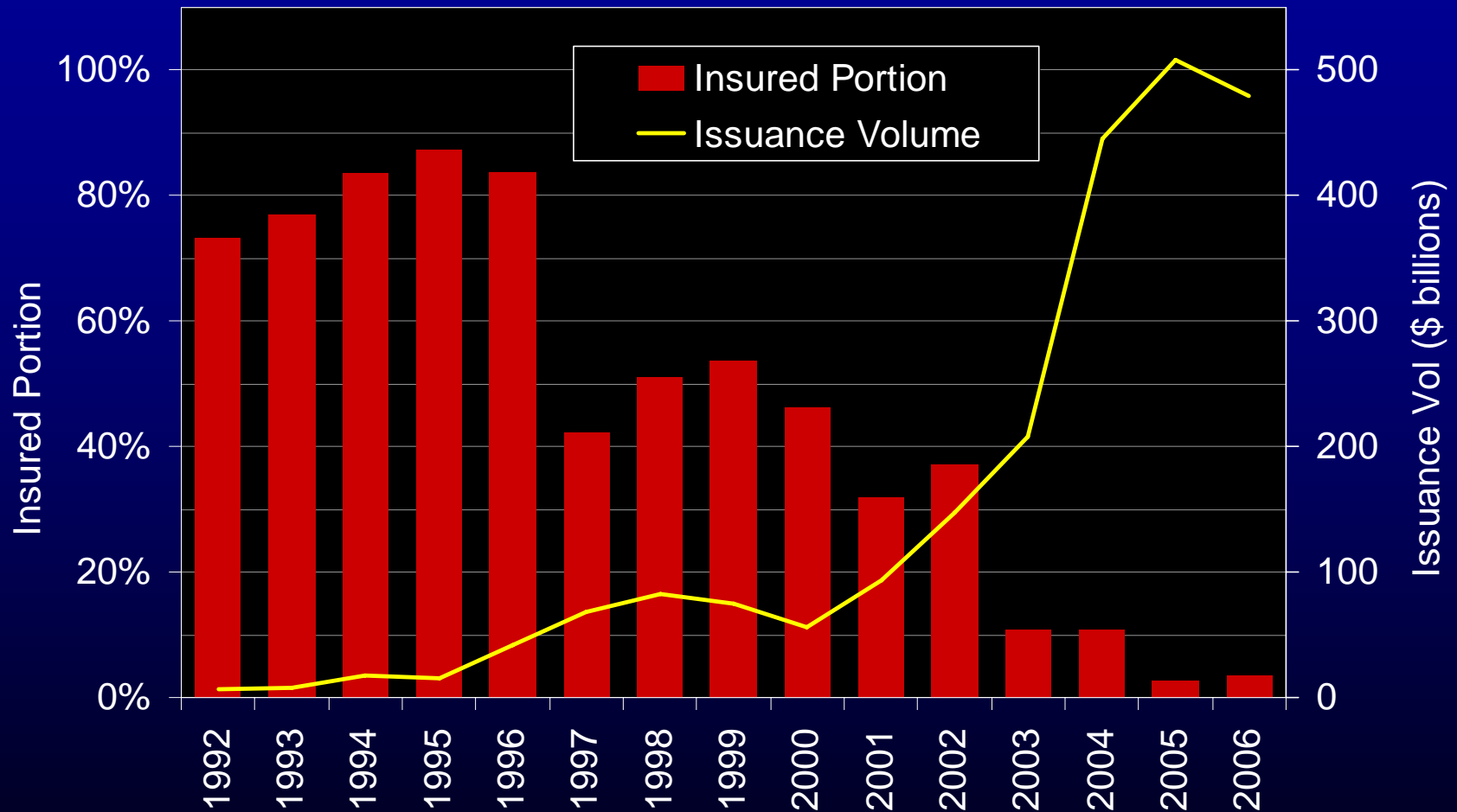
Source: Inside Mortgage Finance, Mortgage Bankers Associations

# U.S. Public Home Equity ABS Issuance



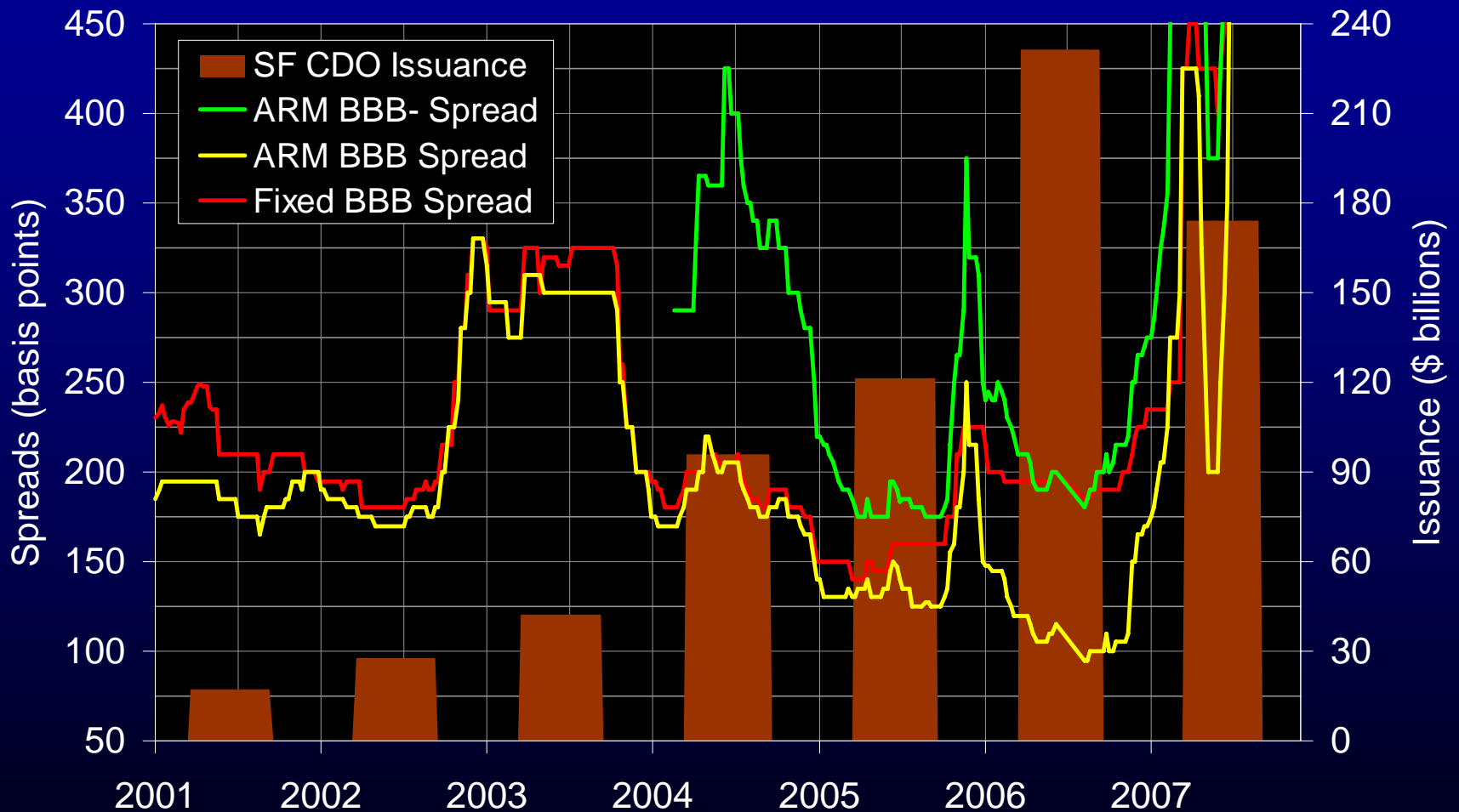
Source: Moody's, Bloomberg, Asset Securitization Report

# Insured Portion of U.S. Home Equity ABS Issuance



Sources: Asset-Backed Alert Database (insured portion), Moody's, Bloomberg, Asset Securitization Report

# Home Equity ABS Yield Spreads over Swaps/LIBOR and Annual Structured Finance CDO Funded Issuance Volume



Source: JPMorgan

# Sub-prime Performance (12/2007)

Figure 11

Subprime Serious Delinquencies by Vintage of Securitization

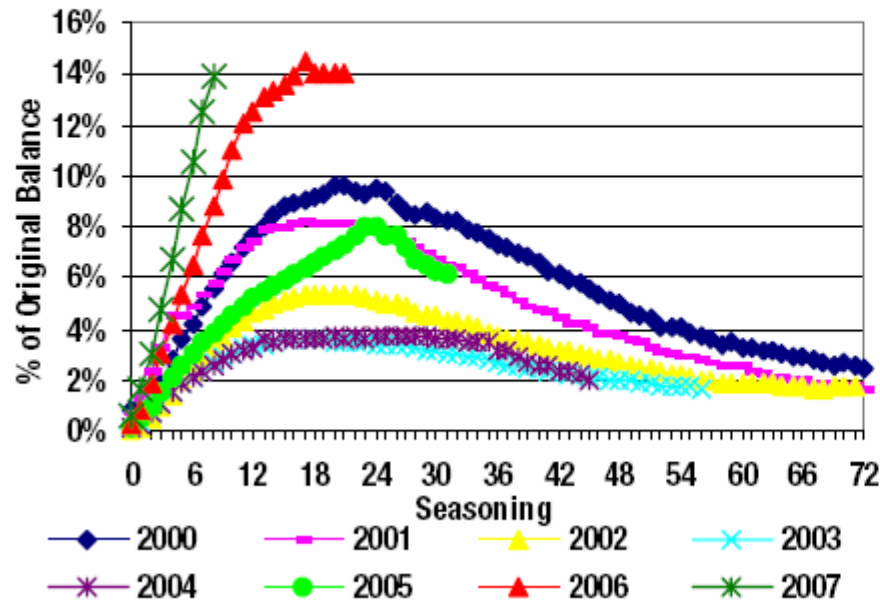
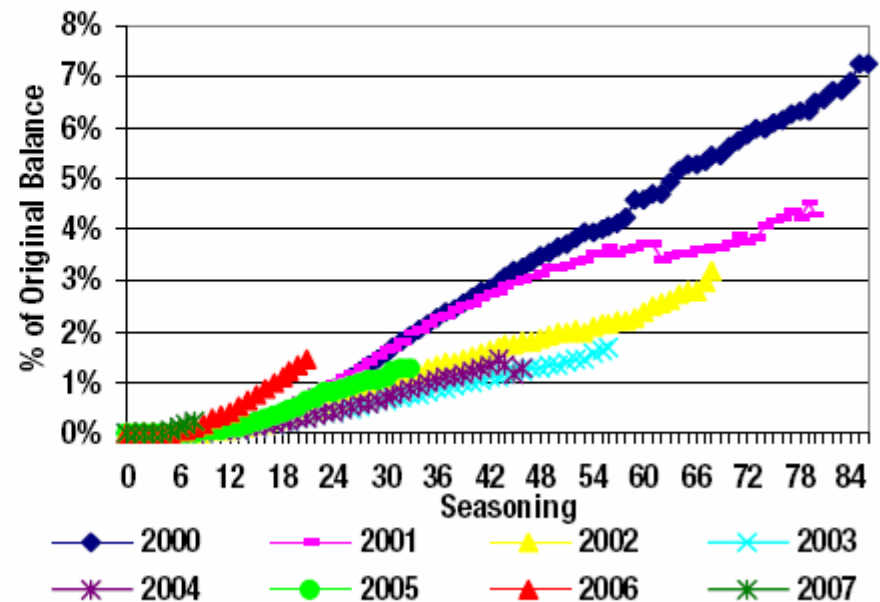


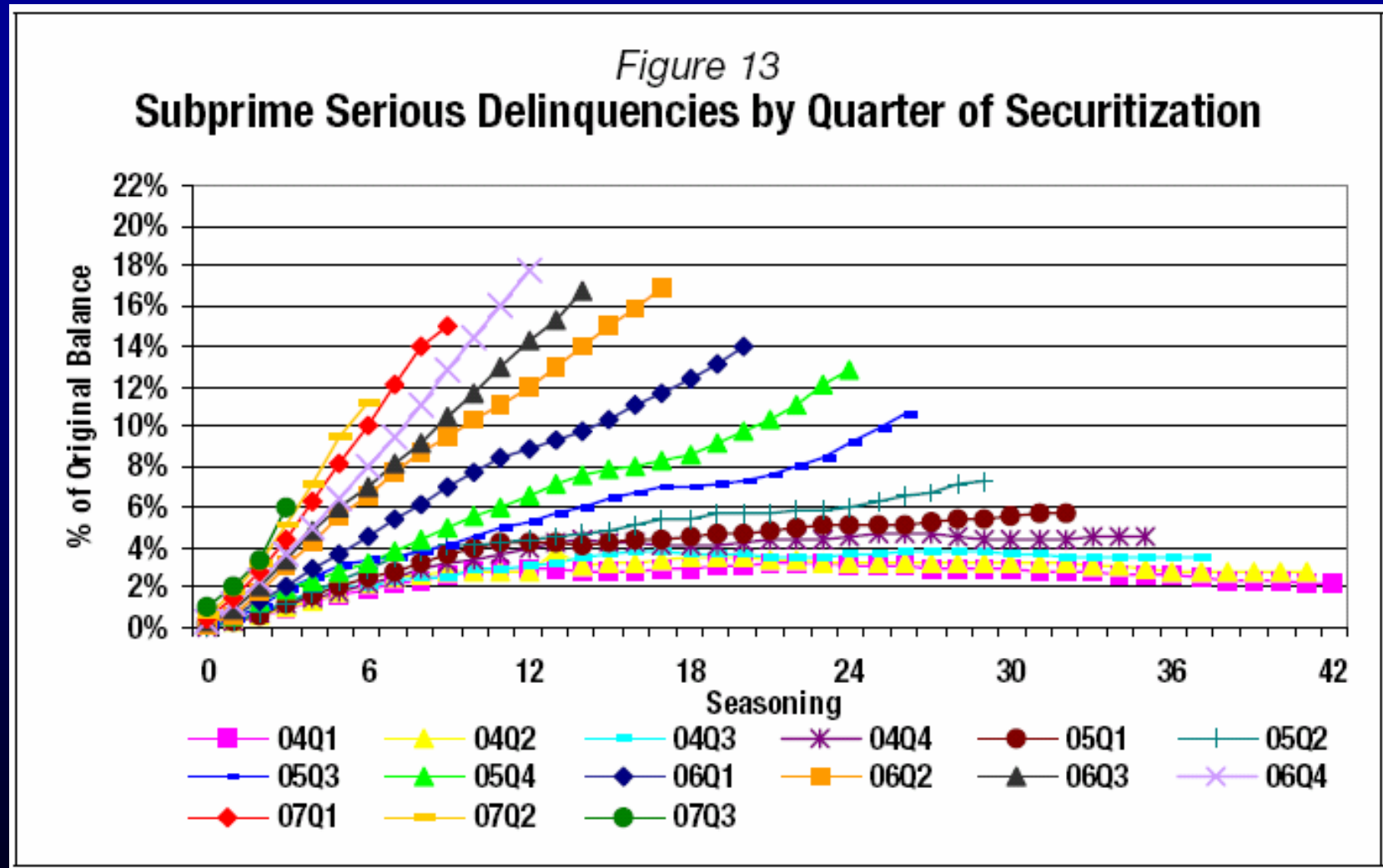
Figure 12

Subprime Cumulative Losses by Vintage of Securitization



Source: Moody's

# Sub-prime Performance (12/2007)



Source: Moody's

# Sub-prime Downgrades in 2007

Exhibit 15: US HEL Downgrades in 2007

Exhibit 15A: Downgrades by Vintage

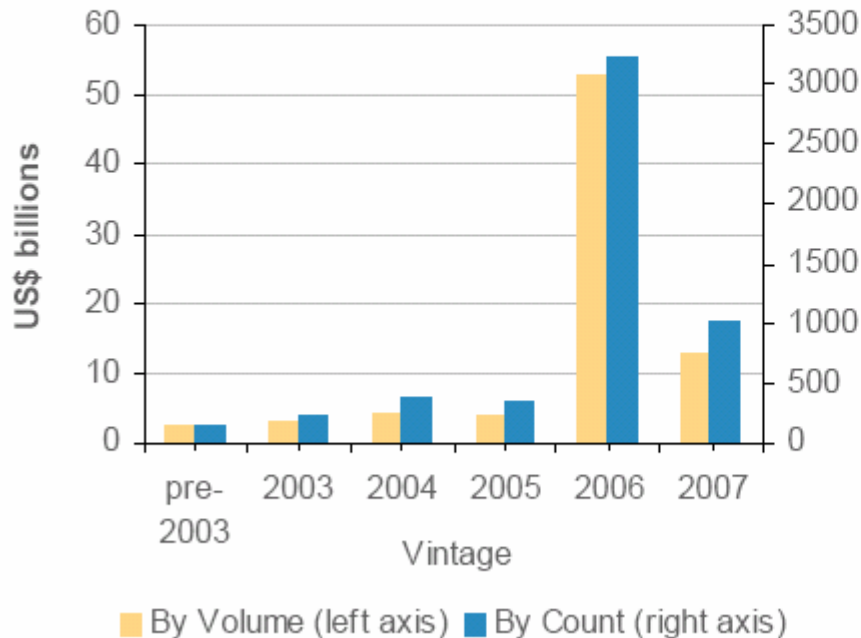
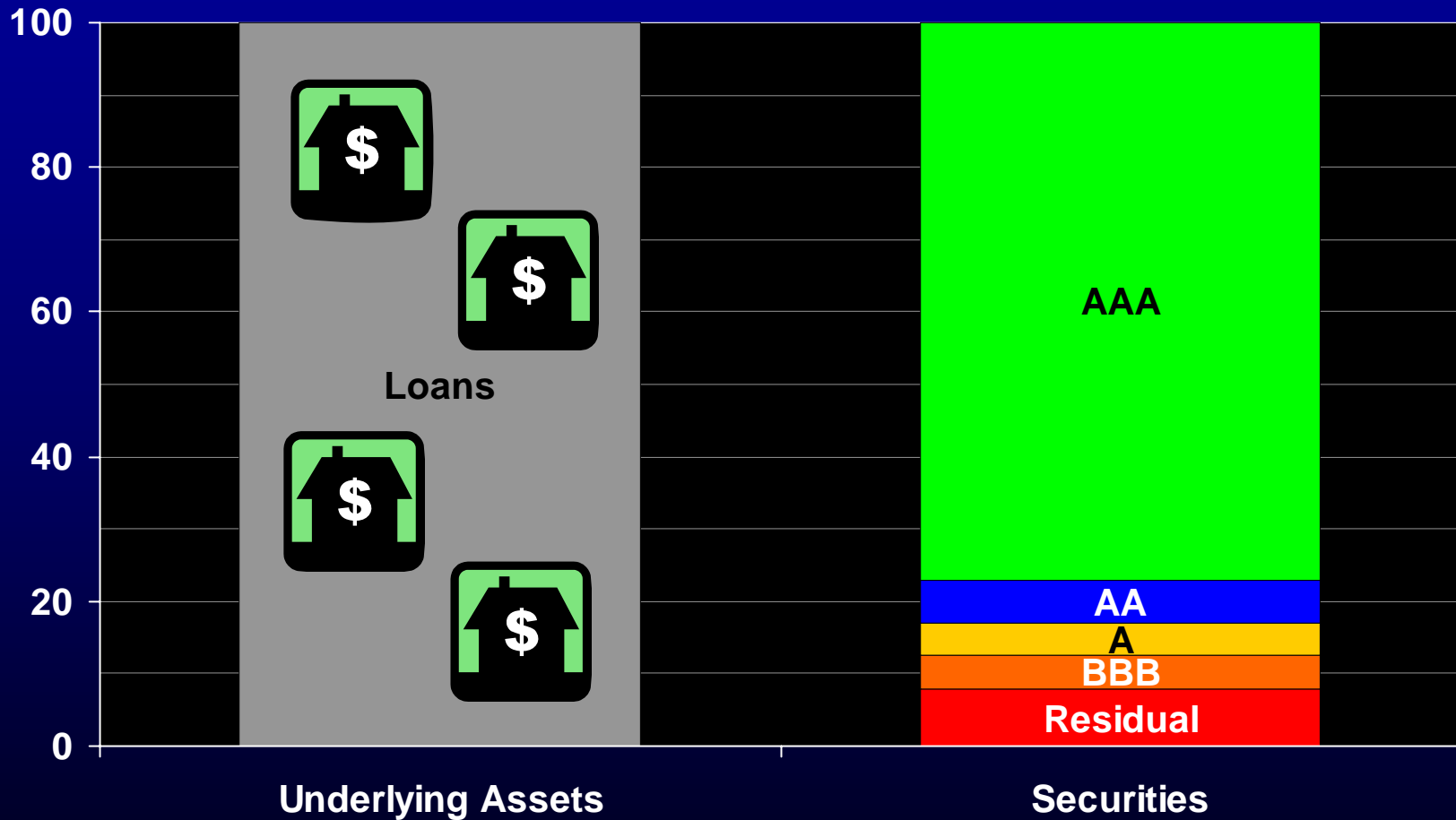


Exhibit 15B: Downgrades by Original Rating

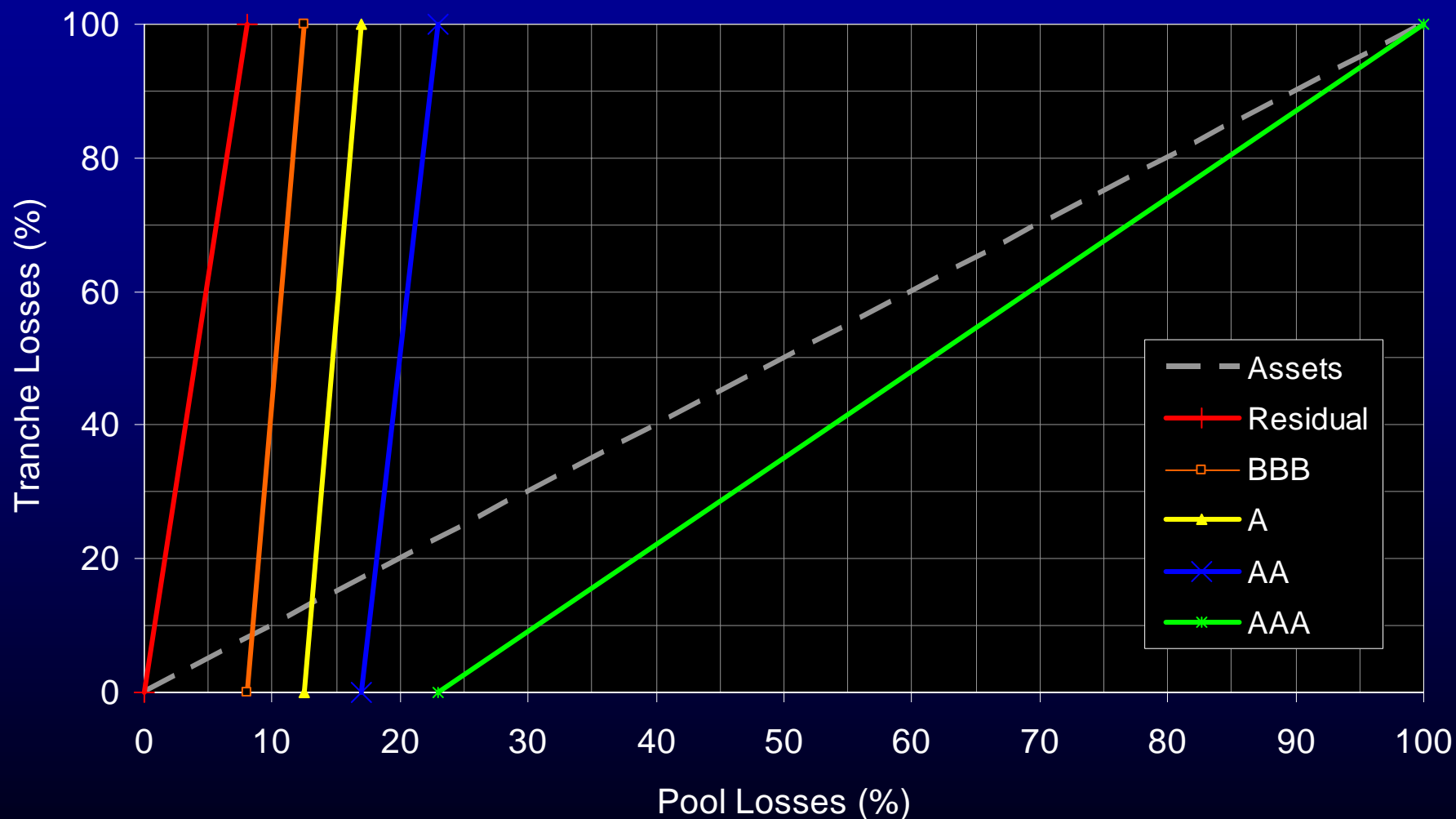


Source: Moody's

# Basic HEL ABS Structure – Tranching



# HEL ABS Deal Structure – Tranching



# CDO Downgrades in 2007

Exhibit 26: US CDO Downgrades in 2007

Exhibit 26A: Downgrades by Vintage

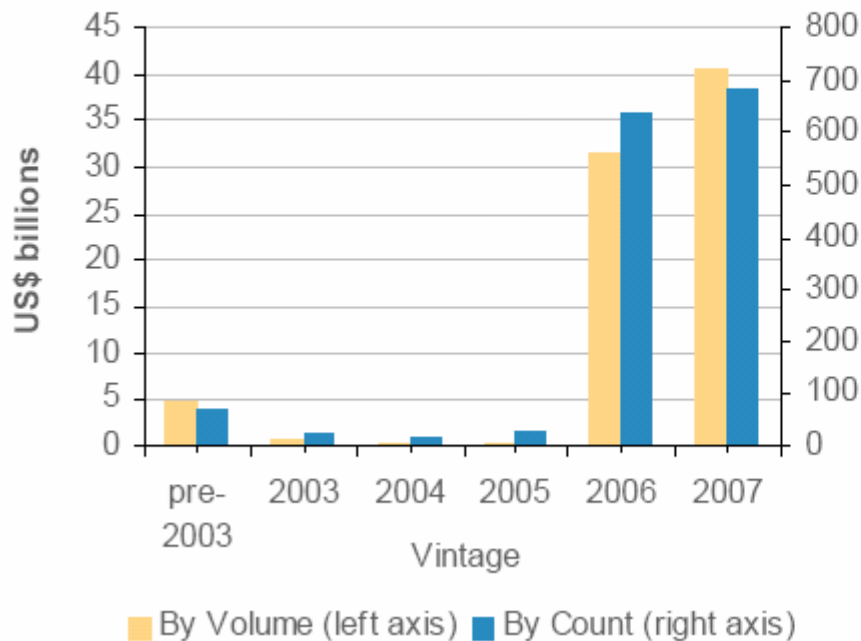
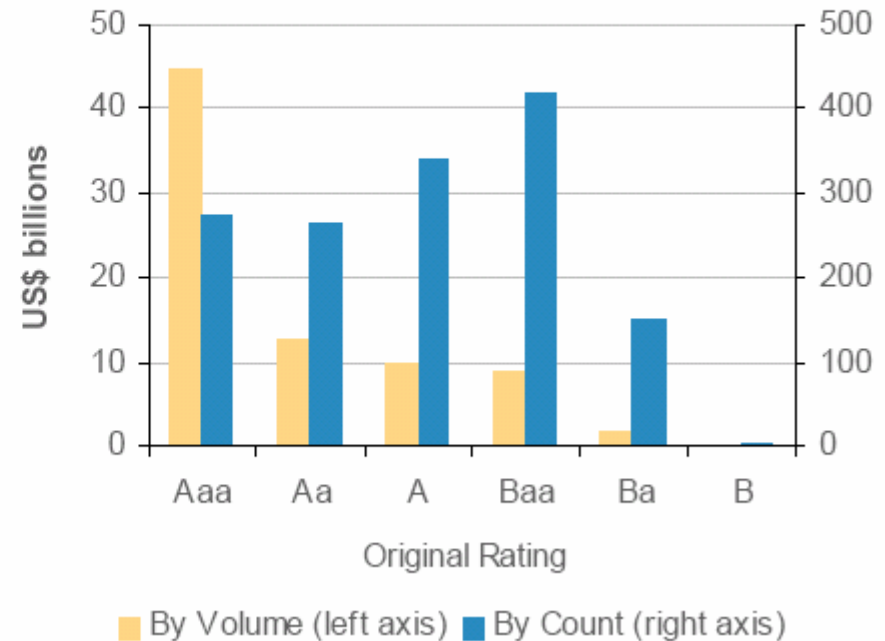


Exhibit 26B: Downgrades by Original Rating



Source: Moody's

# The Current Situation

- Defaults are likely for **most** 2006-07 sub-prime mortgage ABS tranches initially rated triple-B
- Defaults are likely for **many** 2006-07 sub-prime mortgage ABS tranches initially rated single-A
- These defaults are not surprising in an environment of declining home prices
- SF CDO tranches rated triple-A are likely to default because of concentrated exposure the triple-B and single-A layers of sub-prime mortgage deals
- CDO professionals did not expect so many securities rated at the triple-B and single-A levels to default at the same time because they had not observed it in the recent past