

Mortgage Market Observations

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The Universe of 2006 Subprime and High Risk Alt-A Loans Make Up 7.1% of the Mortgage Market

Alt-A 2006 Outstanding = \$ 380 BB		
Low Risk	\$ 245 BB	64.5%
High Risk: 100 CLTV	\$ 72 BB	18.9%
High Risk: 90+ Lim Doc	\$ 63 BB	16.6%

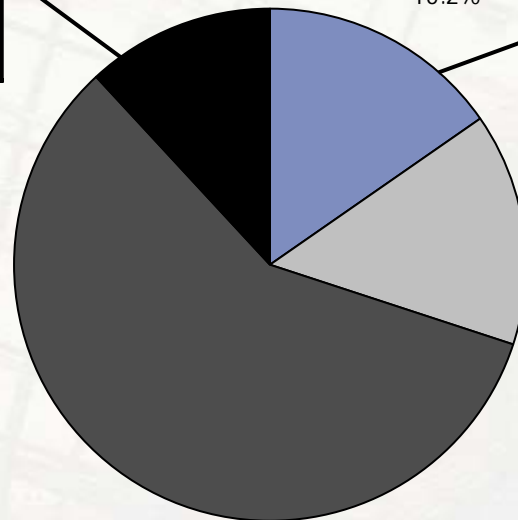
Alt-A
\$1,141 BB
12.0%

Subprime
\$1,448 BB
15.2%

Subprime 2006 Outstanding = \$ 540 BB		
Low Risk	\$ 332 BB	62%
High Risk: 100 CLTV	\$ 160 BB	30%
High Risk: 90+ Lim Doc	\$ 48 BB	9%

Agency Conforming
\$5,508 BB
58.0%

Jumbo
\$1,407 BB
14.8%



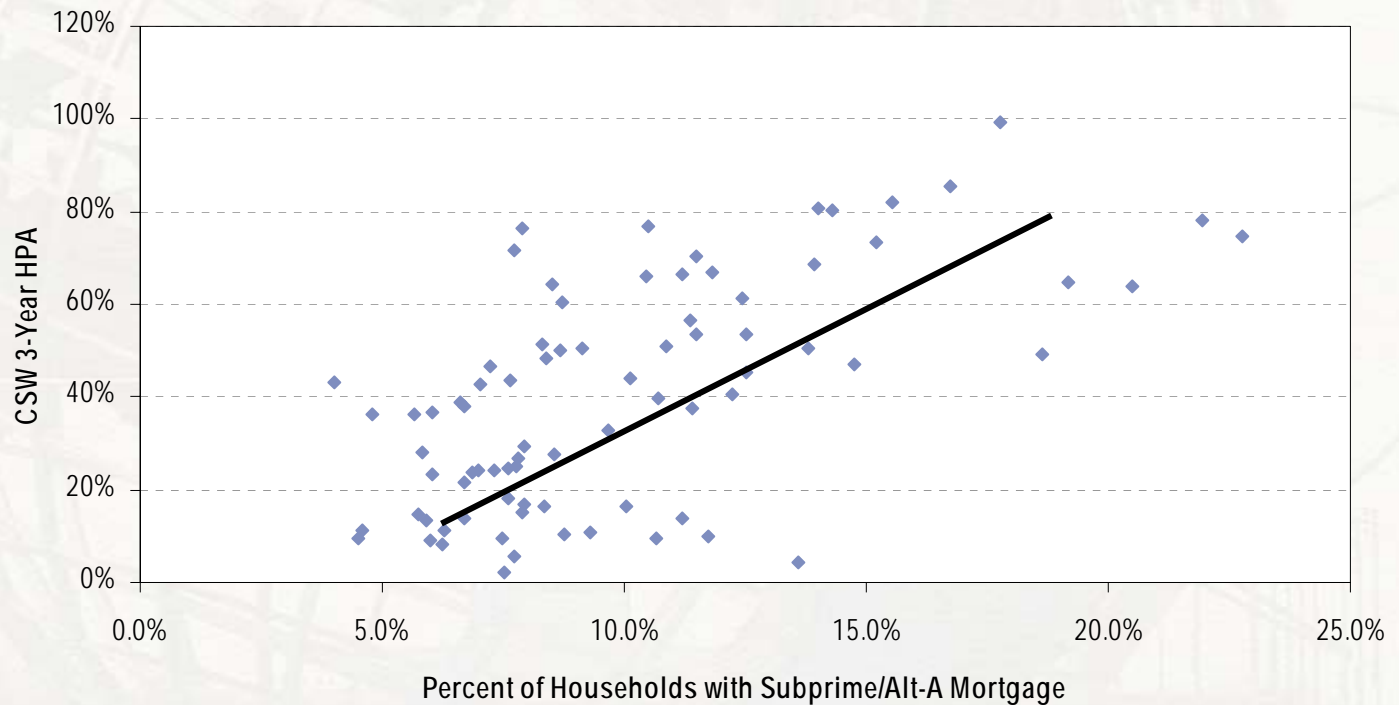
What Does the Contraction in Alt-A/Subprime Mean for the Broader Mortgage and Housing Market?

- **\$180 BB decline in Subprime production from 2006 levels**
- **\$100 BB reduction in Alt-A production from 2006 levels**
- **This implies purchase demand extraction of 1.1 million borrowers**
- **Caveats:**
 - not all of these borrowers will exit the purchase market
 - purchase activity may already reflect some of this extraction

MSA's with High Subprime/Alt-A Loan Concentrations are Most Vulnerable to Tighter Underwriting Guidelines

State	MSA Name	Number of Housing Units	% Households with Subprime Mortgages	% Households with Alt-A Mortgages	Total	Concentration Multiple
CA	Riverside-San Bernardino-Ontario	1,352,276	13.8%	8.1%	21.9%	2.85
	Bakersfield	254,226	12.4%	5.4%	17.8%	2.31
	Oakland-Fremont-Hayward	939,802	5.6%	7.0%	12.5%	1.63
FL	Miami-Miami Beach-Kendall	928,715	11.7%	5.0%	16.7%	2.17
	Tampa-St. Petersburg-Clearwater	1,262,305	7.2%	3.2%	10.5%	1.36
NY	New York-White Plains-Wayne	4,528,529	2.6%	1.4%	4.0%	0.52
IL	Chicago-Naperville-Joliet	3,068,121	6.5%	2.0%	8.5%	1.11
VA	Washington-Arlington-Alexandria	1,628,221	6.1%	5.4%	11.5%	1.49
AZ	Phoenix-Mesa-Scottsdale	1,590,208	9.0%	6.5%	15.5%	2.02
NV	Las Vegas-Paradise	718,358	11.4%	11.3%	22.8%	2.96
TX	Houston-Sugar Land-Baytown	2,040,117	8.3%	1.7%	10.0%	1.30
GA	Atlanta-Sandy Springs-Marietta	1,986,398	7.4%	3.8%	11.2%	1.45
MN	Minneapolis-St. Paul-Bloomington	1,291,052	5.5%	2.9%	8.4%	1.08
	U.S. Average	114,275,082	5.2%	2.5%	7.7%	

Is HPA Correlated to the Concentration of Subprime/Alt-A Lending?

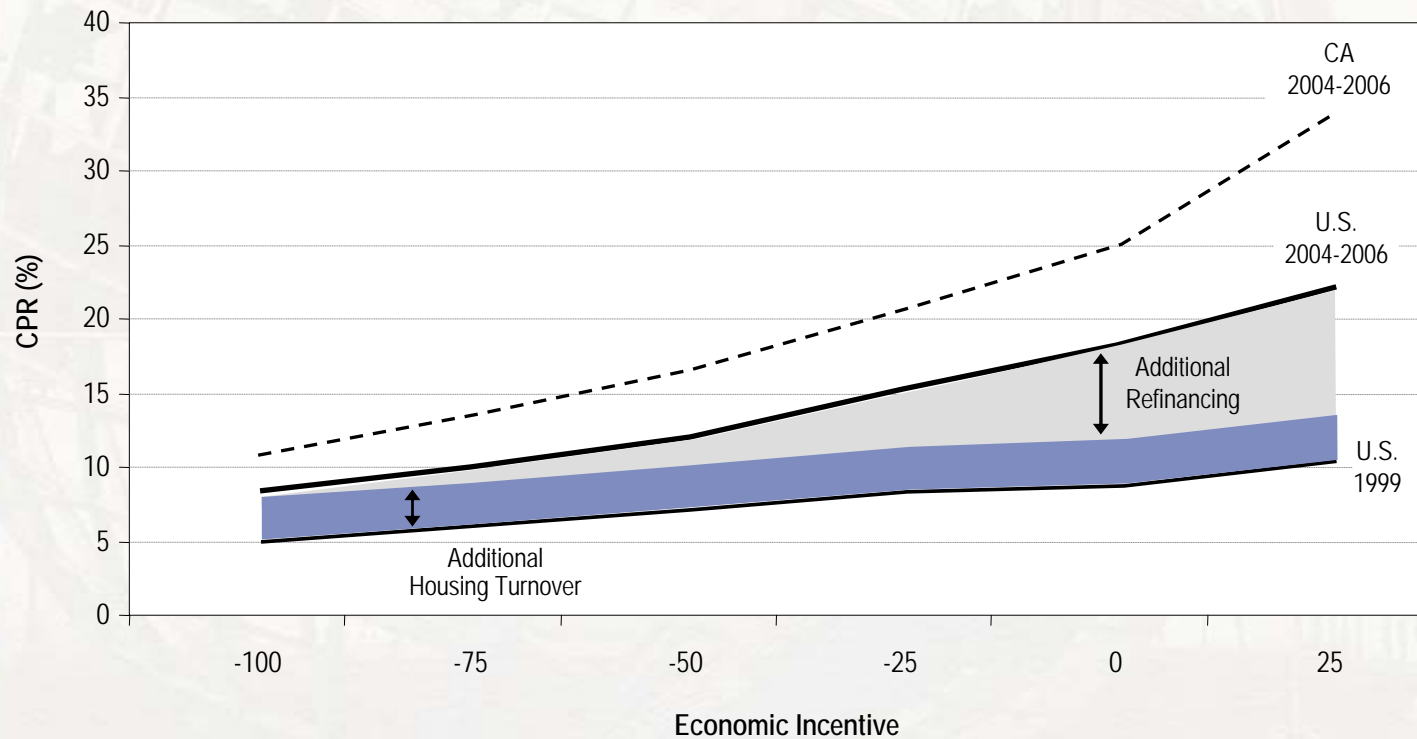


Ranking Risk Across MSAs

- Many MSA's with aggressive underwriting profiles also have relatively healthy local economies that may buffer the magnitude of the MSA housing contraction.
- Those areas with both weak local economies and aggressive underwriting remain at high risk (Minneapolis-St. Paul, Detroit, Miami, Oakland-Fremont within California).
- **The highest subprime lending multiples are found in Southern California, Southern Florida, Arizona and Las Vegas.** These areas will be most affected by the contraction in purchase lending under tighter underwriting guidelines that began in February 2007. In general, they have also seen the largest increase in home price.
- Parts of the south (particularly Texas) face the lowest risk given low concentration multiples, healthy local economies, and low historical HPA.

Declining Housing Turnover and Cash-Out Refinancing Are Compressing MBS Prepayments

Historical Analysis of Discount Fixed Rate Prepayments



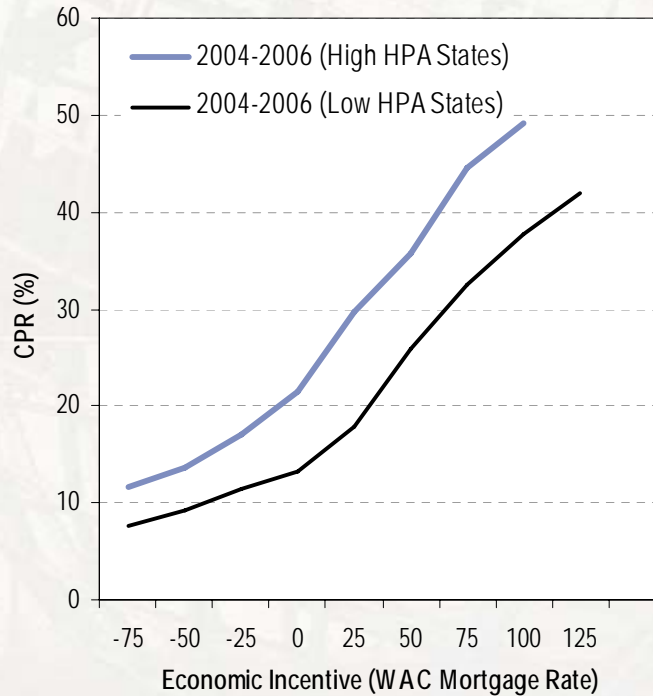
Aggregate Housing Turnover Has Already Declined from Elevated Levels



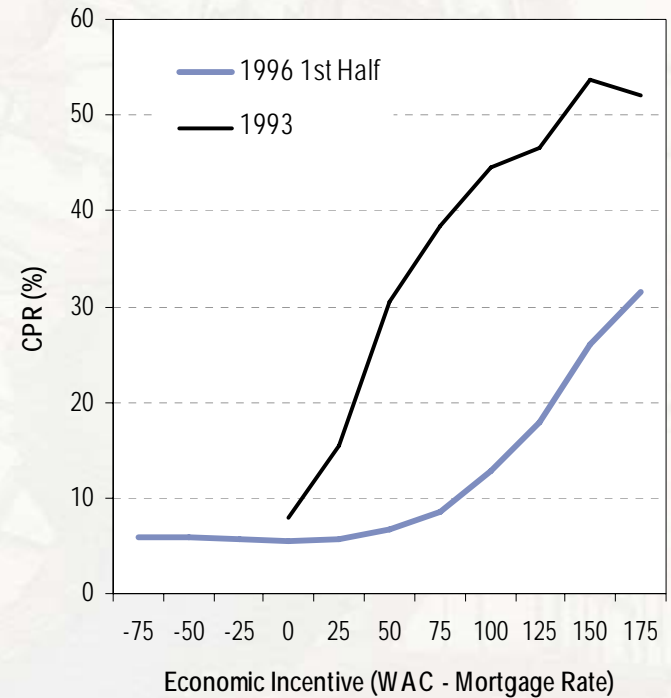
Source: NAR; Existing home sales divided by housing stock

A Slowing Housing Market Will Also Reduce Call Risk in Premium MBS

Refinancing Curve by HPA: 2004 to Current



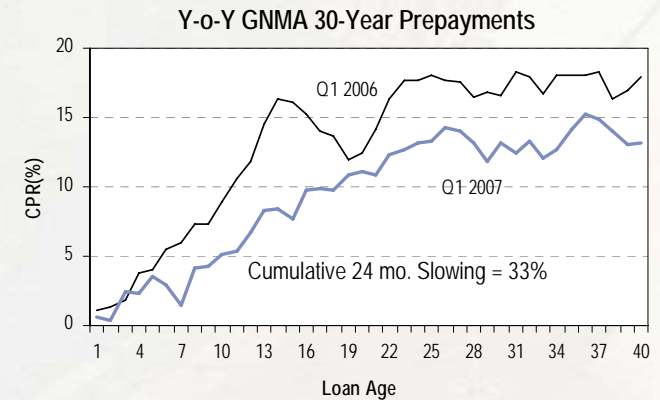
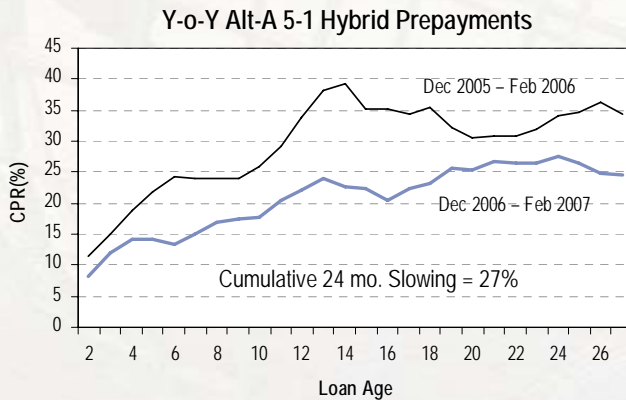
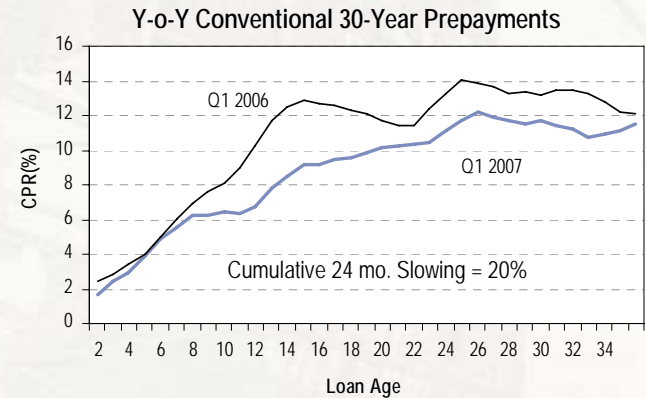
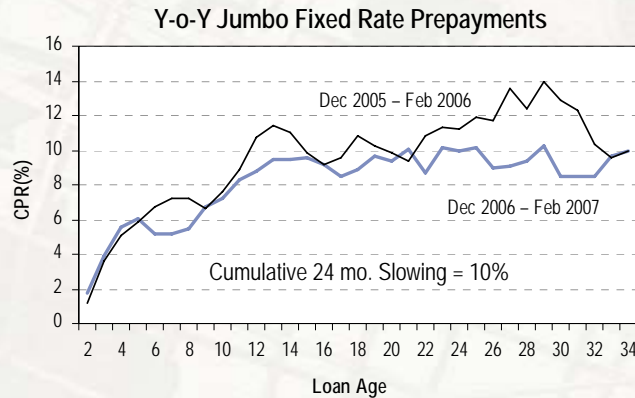
The Muted Refinancing Response of 1996



As Housing Slows, MBS Backed by Leveraged or Credit Impaired Borrowers are Likely to Extend the Most

- **Expressed across multiple dimensions...**
- **High LTV versus low LTV (including seconds)**
- **Purchase versus refinance**
- **2007 vintage versus seasoned**
- **GNMA versus Conventional**
- **Regional Plays**

This Process Has Already Begun to Play Out Across MBS Sectors



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