An Overview of the Housing/Credit Crisis And Why There Is More Pain to Come

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T2 Accredited Fund, LP
Tilson Offshore Fund, Ltd.
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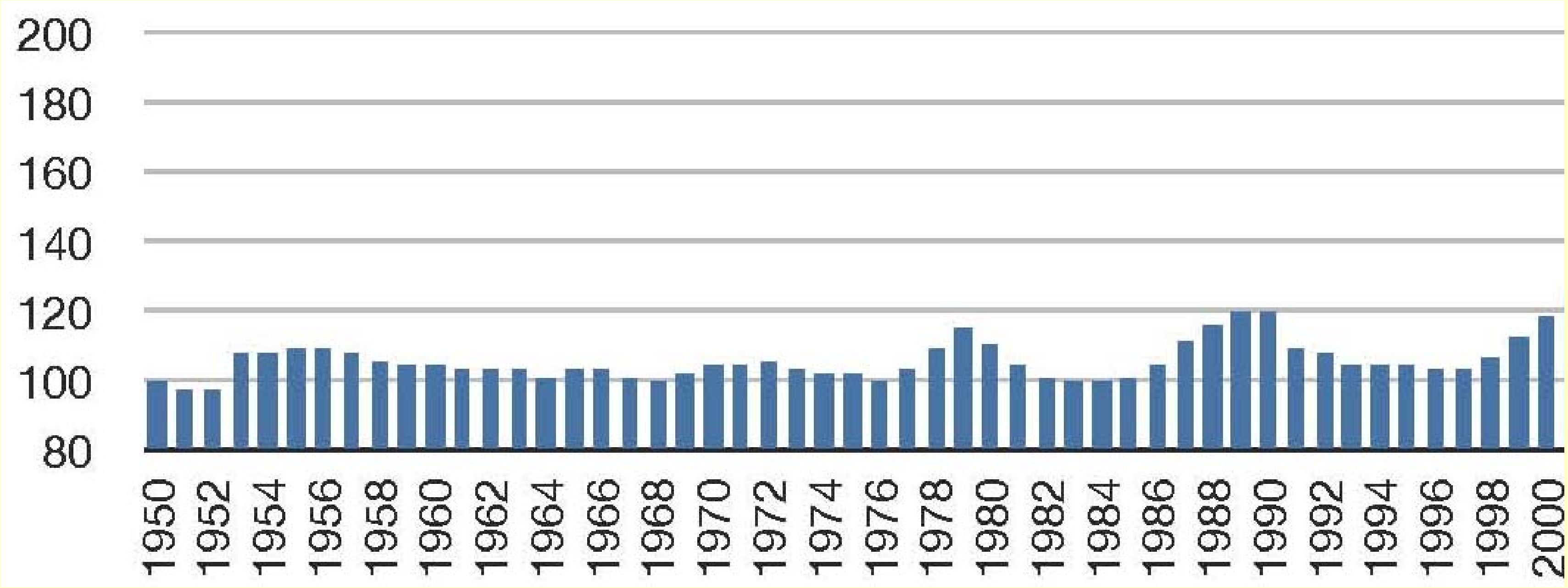
This presentation is available at www.valueinvestingcongress.com.

We would like to thank Amherst Securities Group L.P. (www.asglp.com) for generously providing data used in this presentation.

Overview

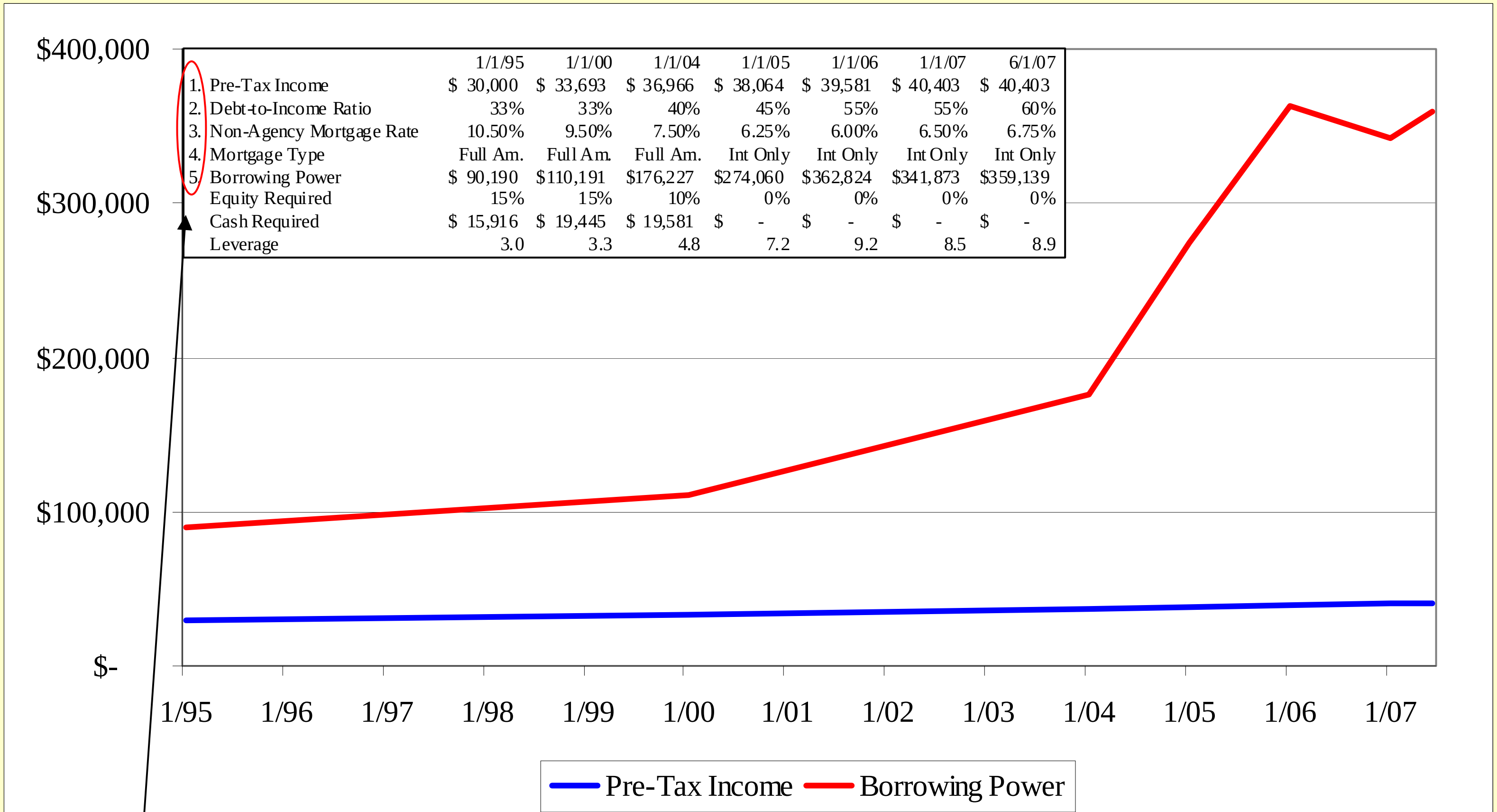
Overview of the Great Mortgage Bubble

Prior to This Decade, Housing Had Been a Stable Investment, Increasing at Less Than ½ of 1% Per Year After Inflation



Source: Robert Shiller; http://i.usatoday.net/news/graphics/housing_prices/home_prices.pdf

From 2000-2006, the Borrowing Power of a Typical Home Purchaser More Than Tripled



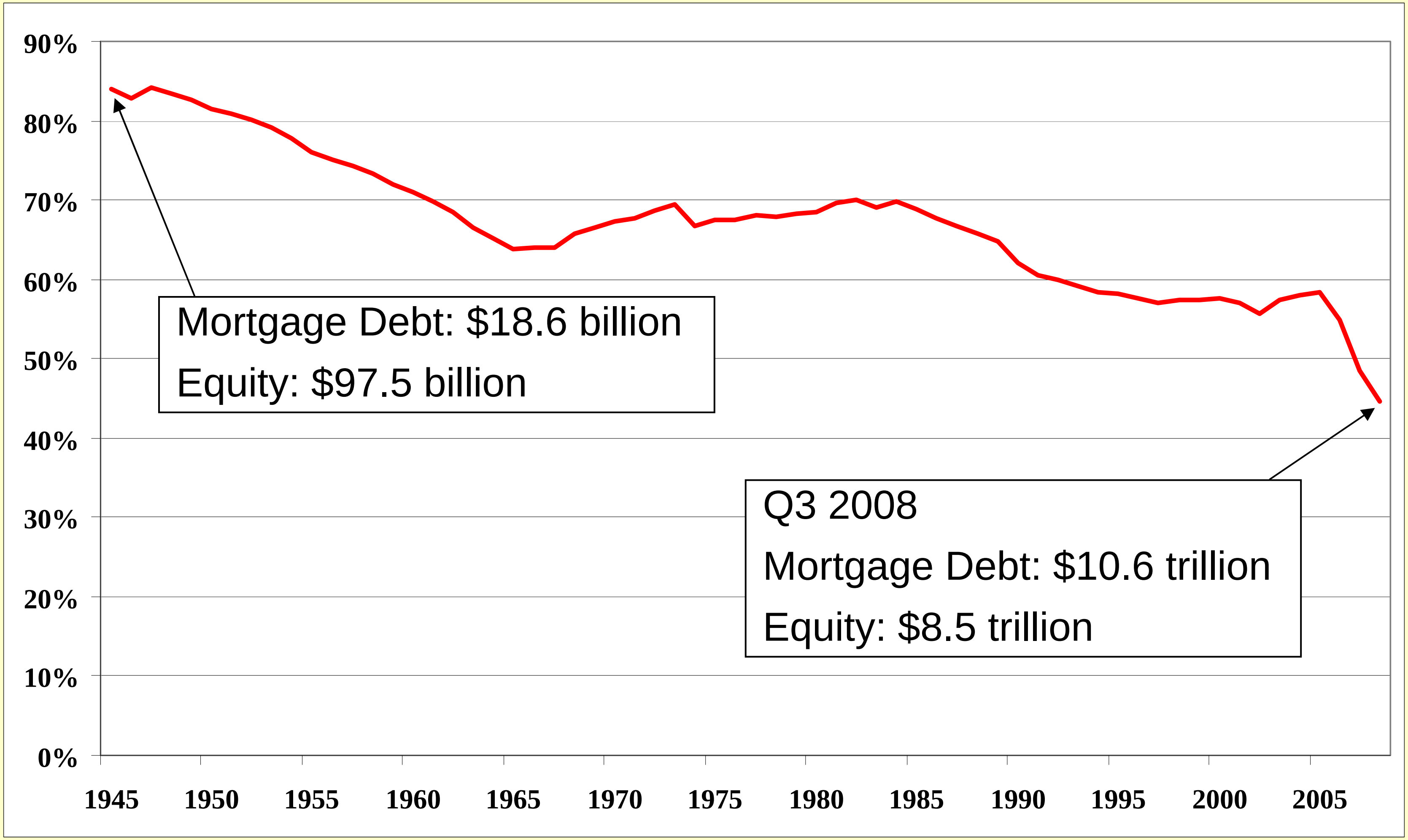
	1/1/95	1/1/00	1/1/04	1/1/05	1/1/06	1/1/07	6/1/07
1. Pre-Tax Income	$ 30,000	$ 33,693	$ 36,966	$ 38,064	$ 39,581	$ 40,403	$ 40,403
2. Debt-to-Income Ratio	33%	33%	40%	45%	55%	55%	60%
3. Non-Agency Mortgage Rate	10.50%	9.50%	7.50%	6.25%	6.00%	6.50%	6.75%
4. Mortgage Type	Full Am.	Full Am.	Full Am.	Int Only	Int Only	Int Only	Int Only
5. Borrowing Power	$ 90,190	$110,191	$176,227	$274,060	$362,824	$341,873	$359,139
Equity Required	15%	15%	10%	0%	0%	0%	0%
Cash Required	$ 15,916	$ 19,445	$ 19,581	$ -	$ -	$ -	$ -
Leverage	3.0	3.3	4.8	7.2	9.2	8.5	8.9

Factors contributing to the ability to borrow more and more were:

1. Slowly rising income
2. Lenders being willing to allow much higher Debt-to-Income Ratios
3. Falling interest rates
4. Interest-only mortgages (vs. full amortizing)
5. No money down

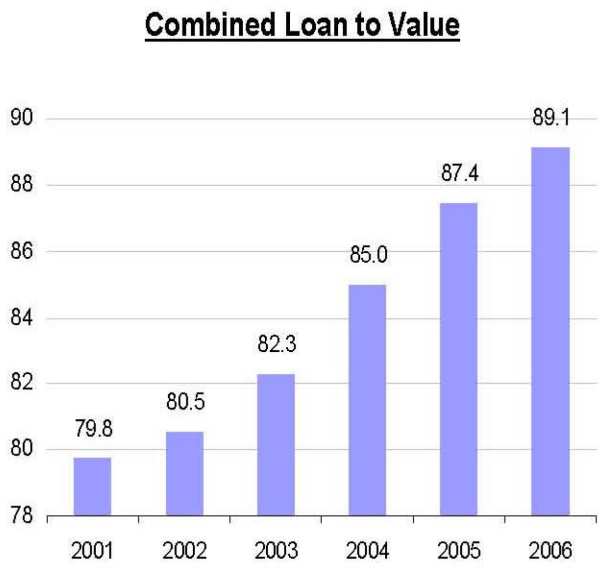
Source: Amherst Securities Group, L.P.

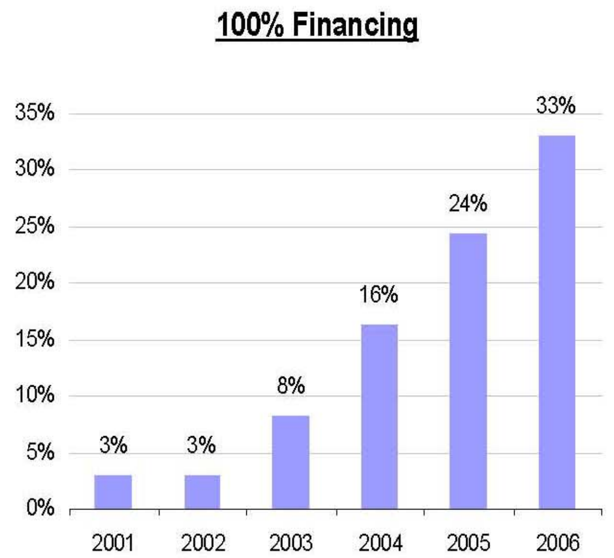
Americans Have Borrowed Heavily Against Their Homes Such That the Percentage of Equity in Their Homes Has Fallen Below 50% for the First Time on Record Since 1945

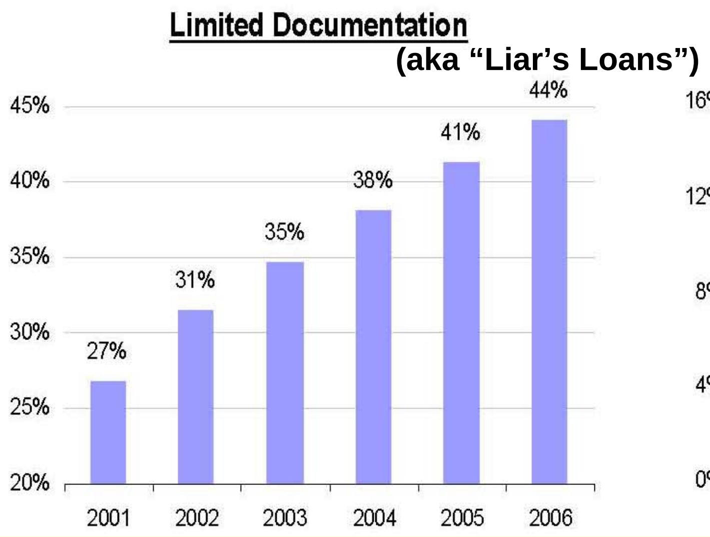


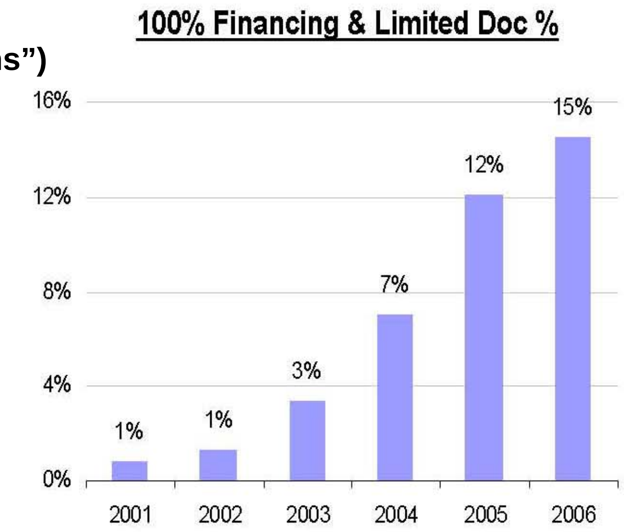
Source: Federal Reserve Flow of Funds Accounts of the United States; www.federalreserve.gov/releases/z1/Current/z1.pdf

There Was a Dramatic Decline in Mortgage Lending Standards from 2001 through 2006





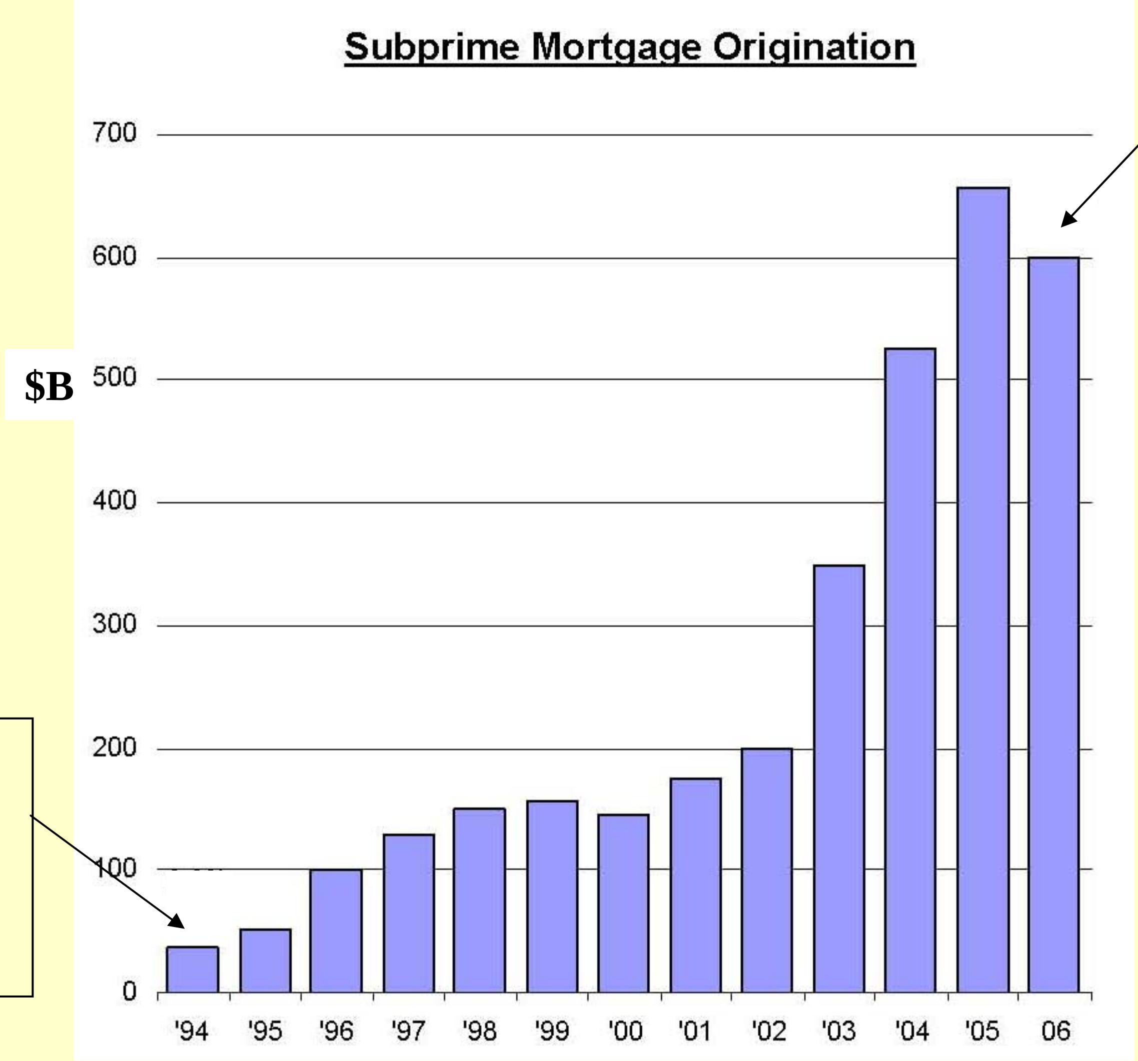




- In 2005, 29% of new mortgages were interest only — or less, in the case of Option ARMs — vs. 1% in 2001
- In 1989, the average down payment all home buyers was 20%; in 2007, it was 10%; for first-time home buyers, the figures were 10% and 2%, respectively
- The sale of new homes costing $750,000 or more quadrupled from 2002 to 2006. The construction of inexpensive homes costing $125,000 or less fell by two-thirds

 Source: LoanPerformance, Paulson presentation; USA Today (www.usatoday.com/money/economy/housing/2008-12-12-homeprices_N.htm)

The Decline in Lending Standards Led to a Surge in Subprime Mortgage Origination



13.6% of all mortgages originated during the year

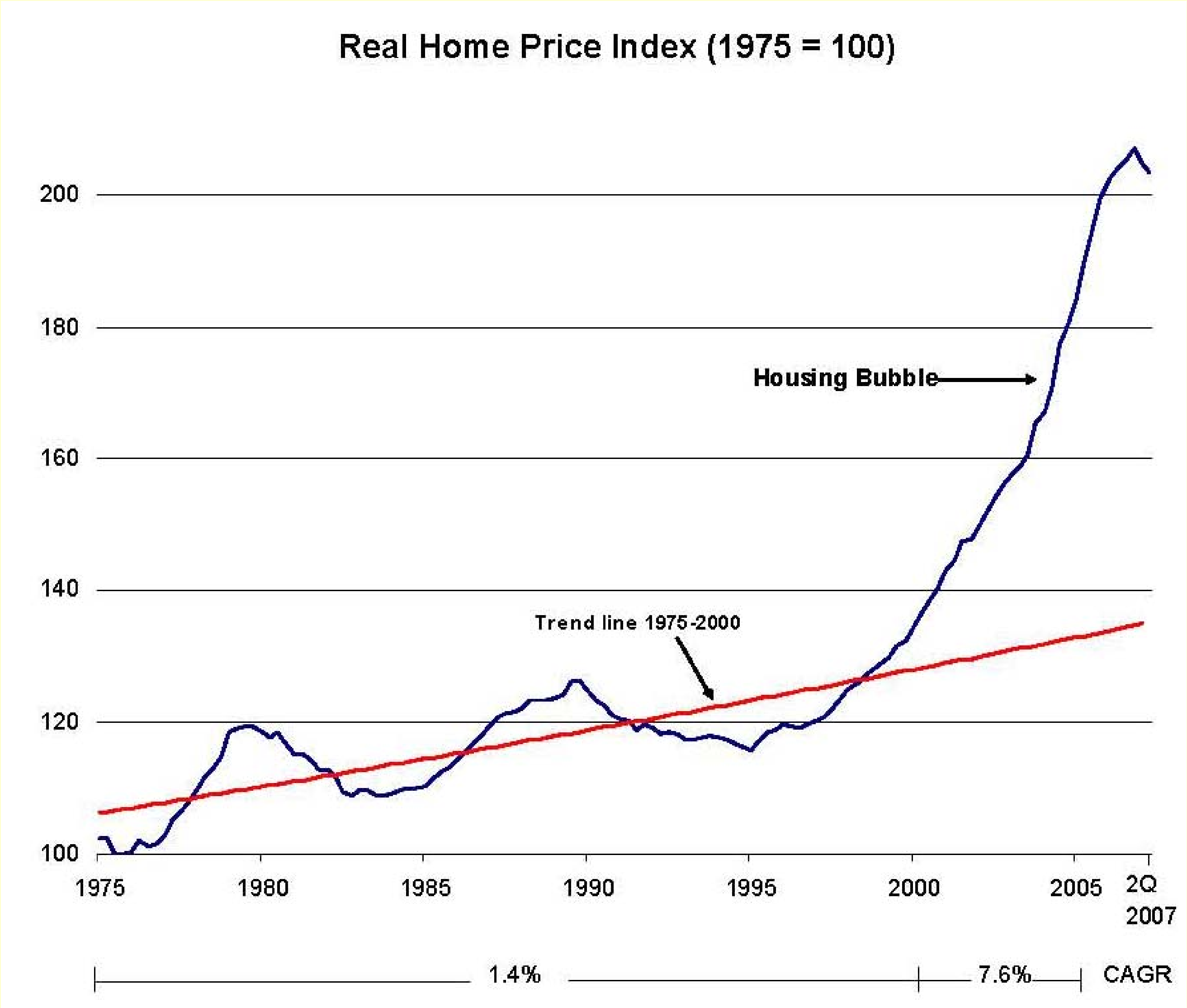
0.9% of all mortgages originated during the year

Source: Lehman Brothers, Paulson presentation

But Subprime Mortgages Are Only a Tiny Part of the Problem

Sources: Flow of funds data and Paulson estimates

The Surge in Borrowing Power and Decline in Lending Standards Led to Home Prices Soaring Far Above Trend Line



Sources: OFHEO, Bureau of Economic Analysis, Paulson presentation

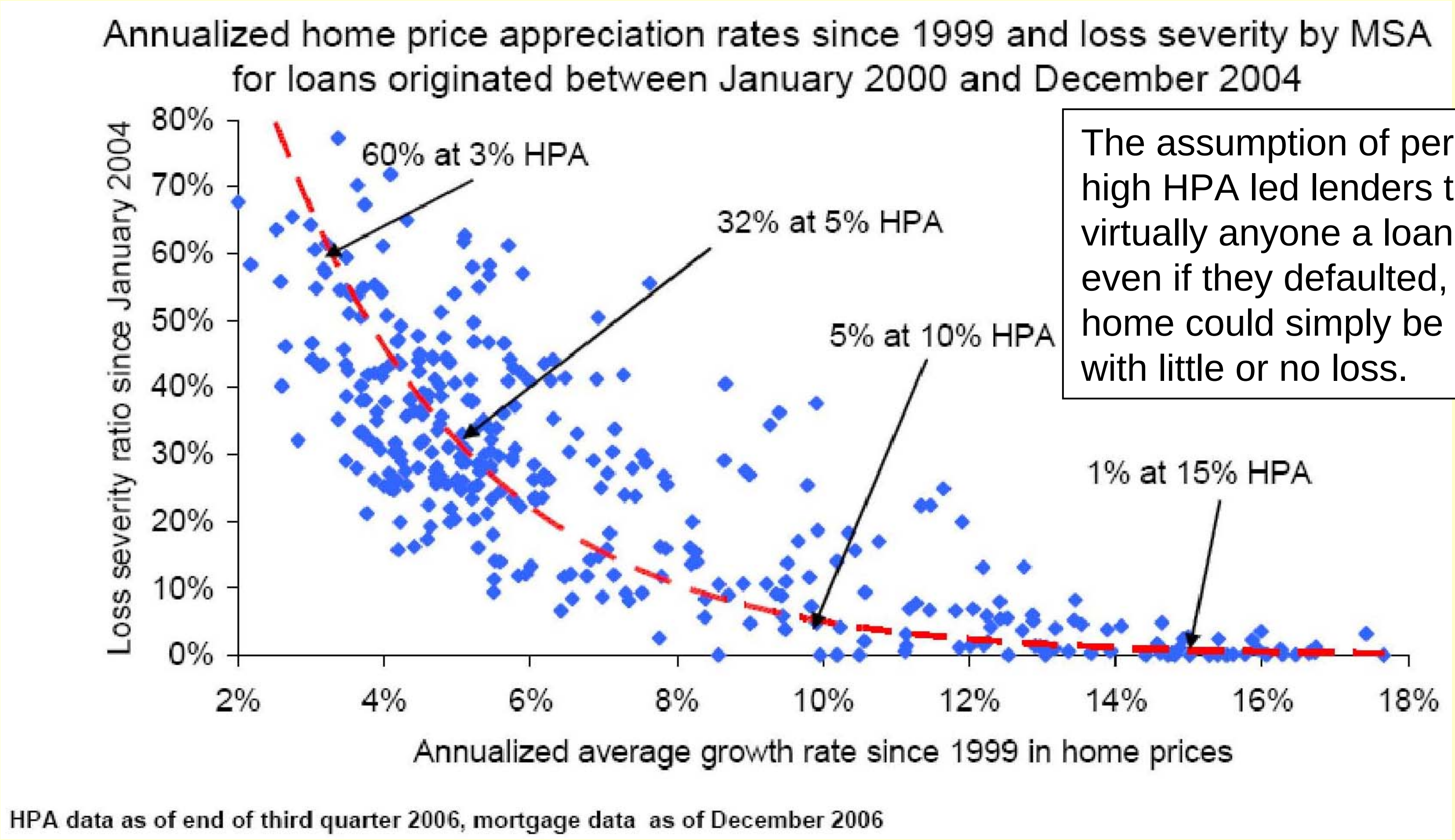
Causes of the Great Mortgage Bubble

Among the Many Causes of The Great Mortgage Bubble, Two Stand Out

- The companies making crazy loans didn't care very much if the homeowner ended up defaulting for two reasons:
  1. Either they didn't plan to hold the loan, but instead intended to pass it along to Wall Street, which would bundle, slice-and-dice it and sell it (along with any subsequent losses) to investors around the world;
  2. Or, if they did plan to hold the loan, they assumed home prices would keep rising, such that homeowners could either refinance before loans reset or, if the homeowner defaulted, the losses (i.e., severity) would be minimal.
- There were many other reasons, of course – a bubble of this magnitude requires what Charlie Munger calls "Lollapalooza Effects"
  – The entire system – real estate agents, appraisers, mortgage lenders, banks, Wall St. firms and ratings agencies – became corrupted by the vast amounts of quick money to be made
  – Regulators and politicians were blinded by free market ideology or the dream that all Americans should own their homes, causing them to fall asleep at the switch, not want to take the punch bowl away and/or get bought off by the industries they were supposed to be overseeing
  – Debt became increasingly available and acceptable in our culture
  – Millions of Americans became greedy speculators and/or took on too much debt
  – Greenspan kept interests too low for too long
  – Institutional investors stretched for yield, didn't ask many questions and took on too much leverage
  – In general, everyone was suffering from irrational exuberance

Lenders Cared Little Who They Lent To Because They Assumed Perpetually Rising Home Prices

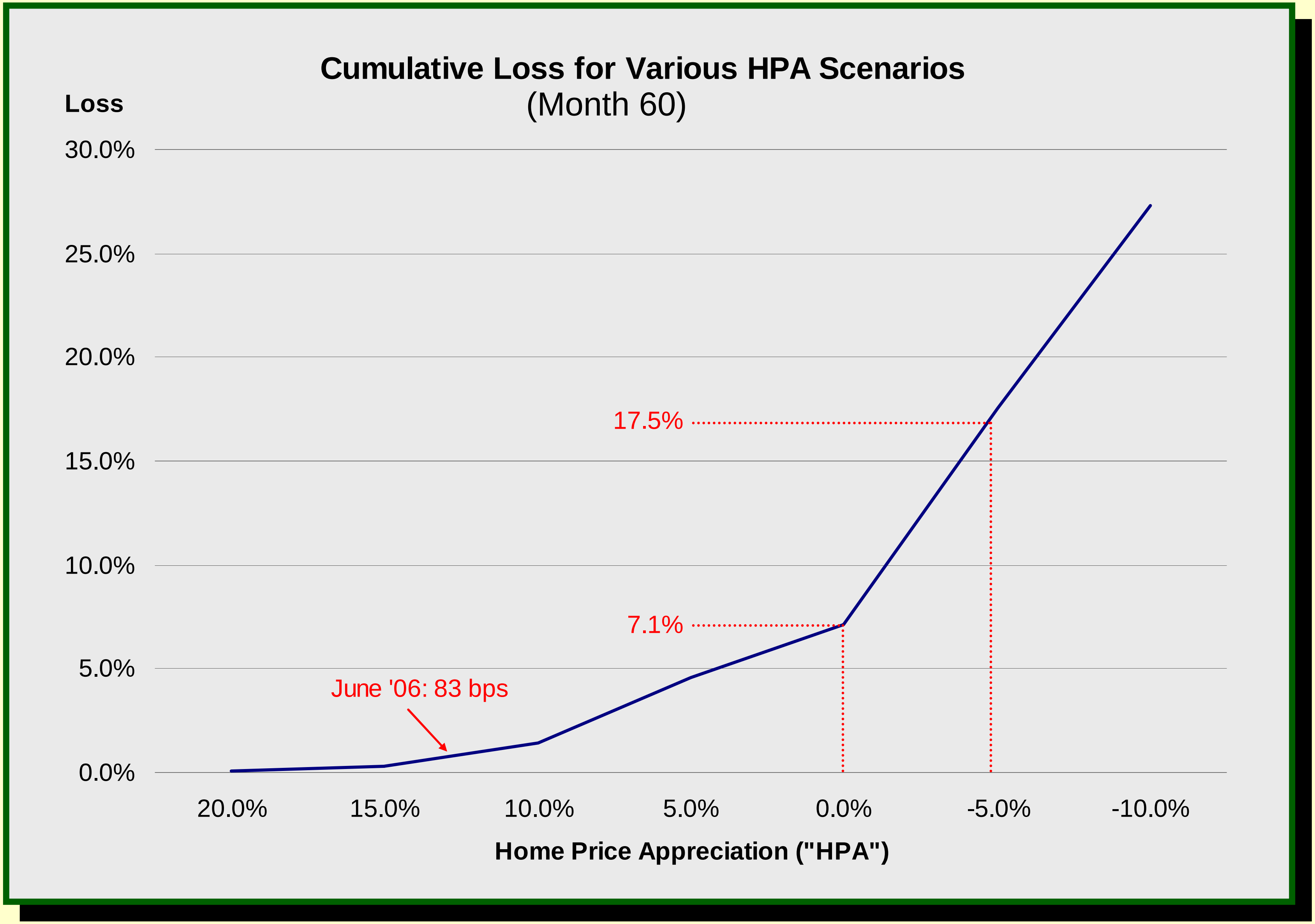
When home price appreciation slows, loss severity skyrockets when mortgages default. What will loss severities look like when home prices are *declining* more than 10% annually?! No-one knows because there is no precedent for this.



The assumption of perpetually high HPA led lenders to give virtually anyone a loan because even if they defaulted, the home could simply be resold with little or no loss.

Sources: LoanPerformance; OFHEO; Deutsche Bank; “Who's Holding the Bag?”, Pershing Square presentation, 5/23/07

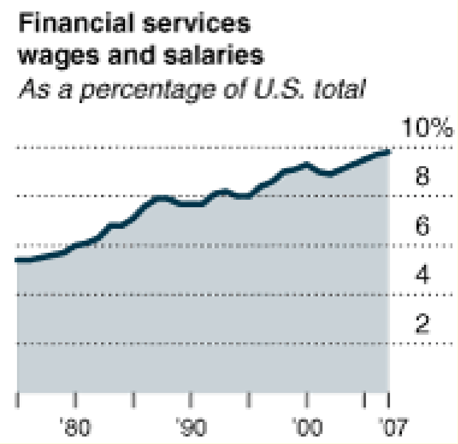
Losses in Bubble-Era Subprime Mortgage Pools Become Catastrophic if Home Prices Decline



Source: Merrill Lynch; Paulson estimates

Wall Street's Demand for Loan "Product" Was a Major Driver of the Decline in Lending Standards

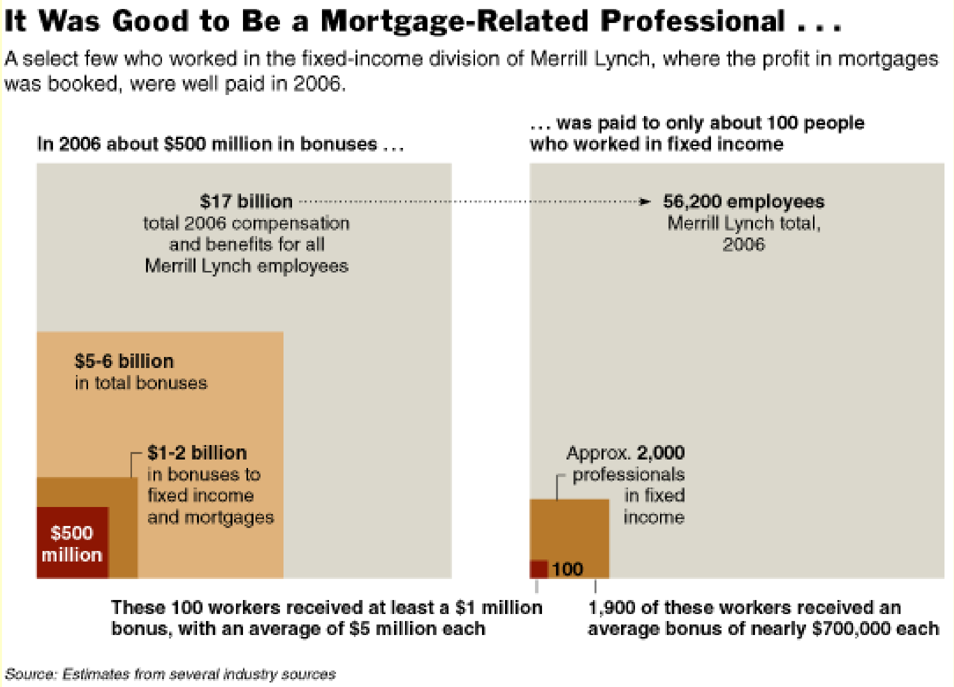
- As discussed later in this presentation, the Asset-Backed Securities (ABSs) and Collateralized Debt Obligation (CDO) businesses were enormously profitable for Wall Street firms
  - Structured finance was a big driver of the surge in profitability of financial firms and their employees:

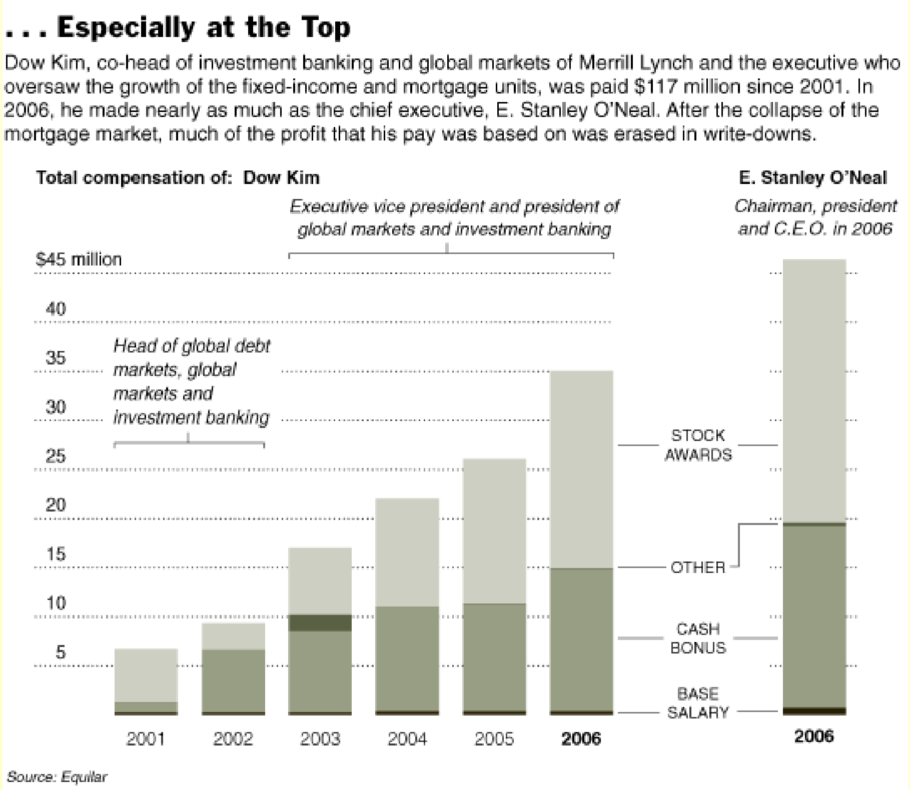


- To produce ABSs and CDOs, Wall Street needed a lot of loan "product"
- Mortgages were a quick, easy, big source
- It is easy to generate higher and higher volumes of mortgage loans: simply lend at higher loan-to-value ratios, with ultra-low teaser rates, to uncreditworthy borrowers, and don't bother to verify their income and assets (thereby inviting fraud)
- There's only one problem: **DON'T EXPECT TO BE REPAID!**

Source: Moody's Economy.com, NY Times, 12/18/08

A Case Study of Wall Street Compensation Run Amok:
Stan O'Neal, Dow Kim & the Mortgage Team at Merrill Lynch

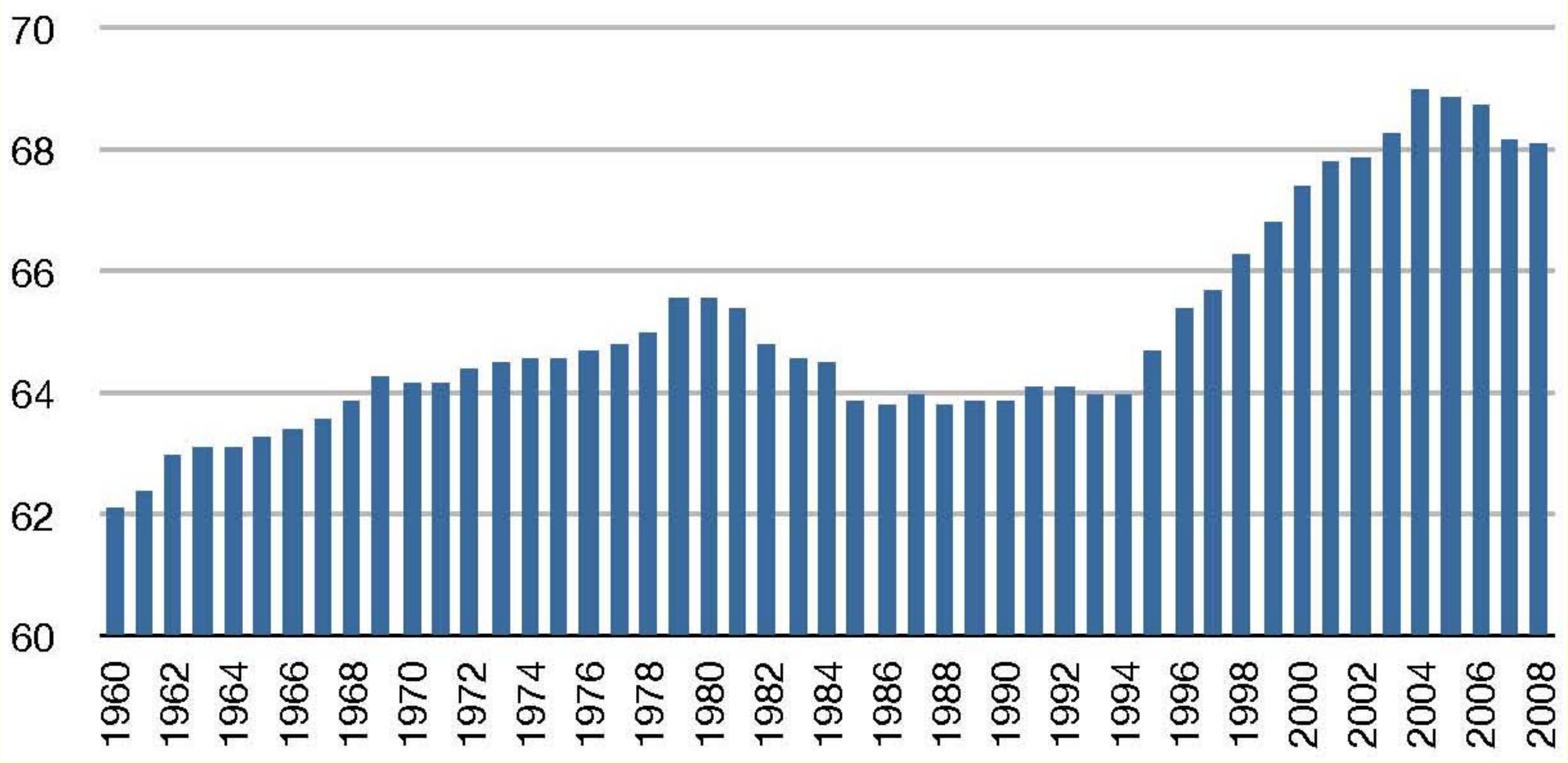




Source: *On Wall Street, Bonuses, Not Profits, Were Real*, NY Times, 12/18/08

The Housing Bubble Helped Many People Achieve the Dream of Home Ownership – Which is Now Turning Into a Nightmare

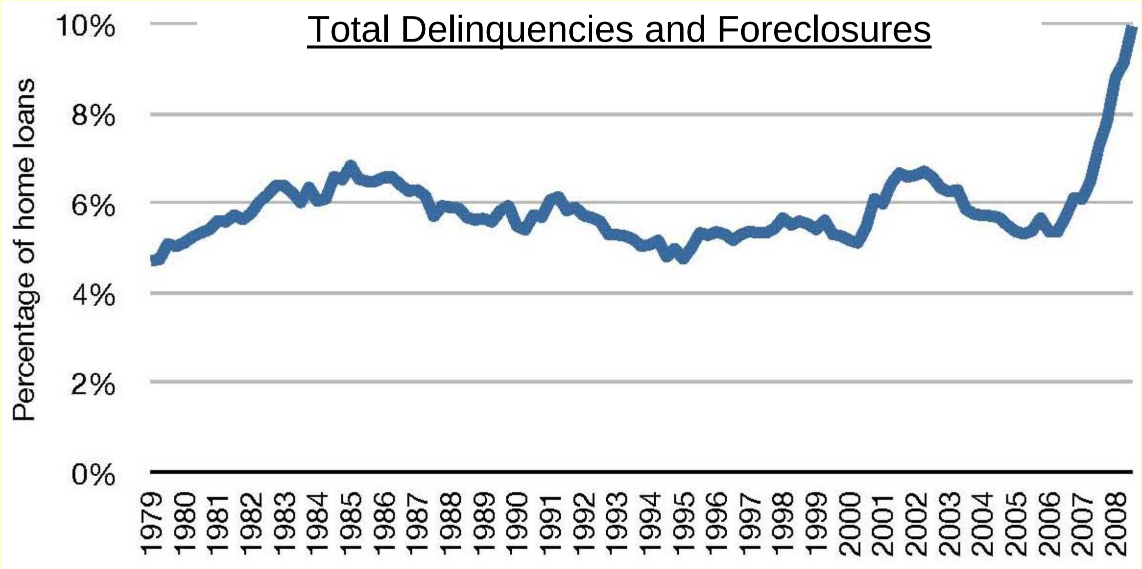
Percentage of Households Owning Homes



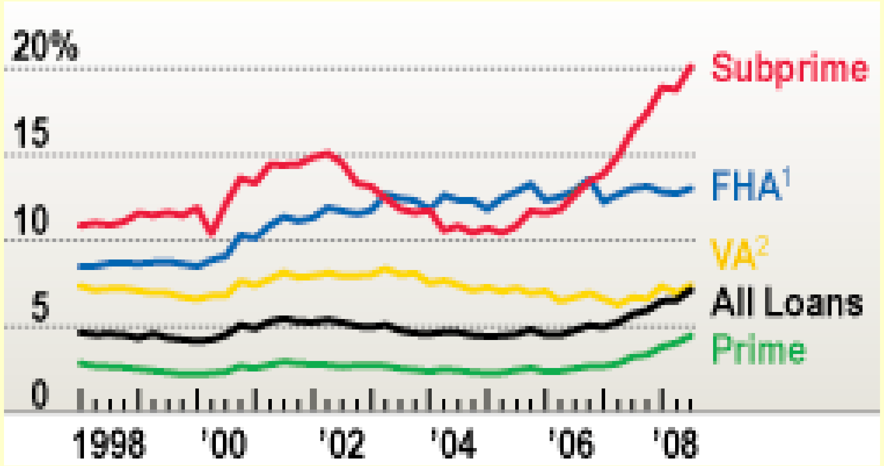
Source: Census Bureau; http://i.usatoday.net/news/graphics/housing_prices/home_prices.pdf

Consequences of the Bursting of the Great Mortgage Bubble

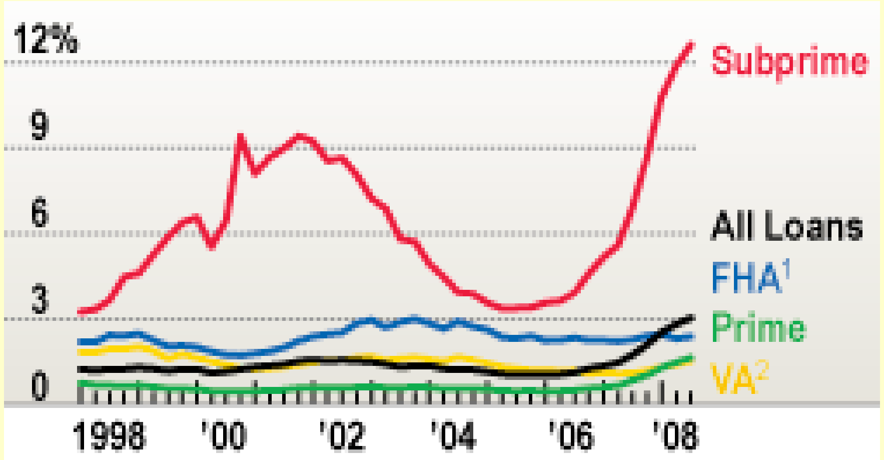
10% of Mortgages on 1- to 4-Family Homes Are Delinquent or in Foreclosure as of the End of Q3



Mortgage Delinquency Rate, By Product Type



Foreclosure Inventory, By Product Type

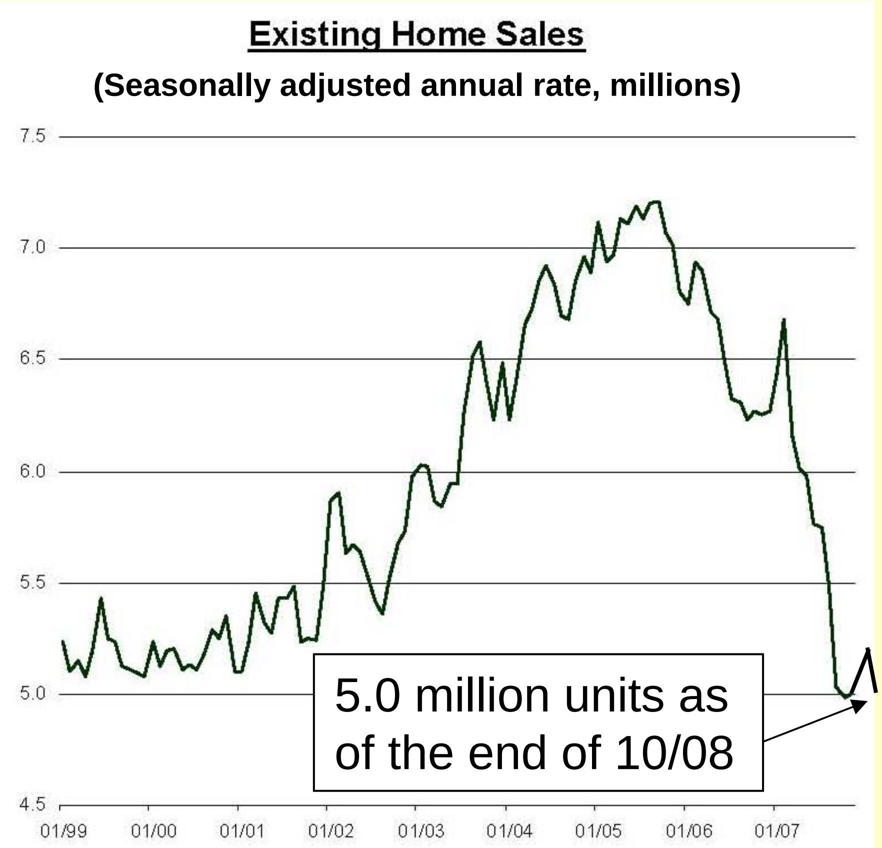


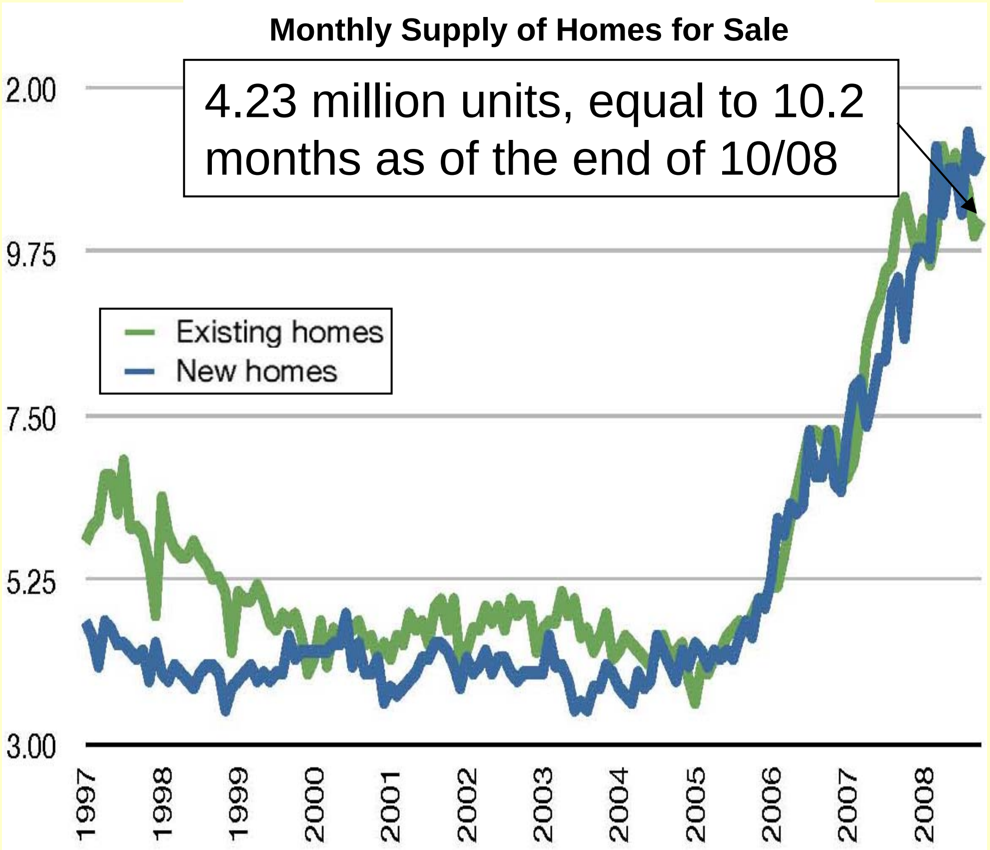
Note: Delinquencies (defined as at least 30 days past due) are seasonally adjusted; foreclosures are not.

- Issued by federally qualified lenders and insured by the Federal Housing Administration; 2. A mortgage guaranteed by the U.S. Department of Veterans Affairs.

Source: Mortgage Bankers Association, WSJ, 12/6/08; http://i.usatoday.net/news/graphics/housing_prices/home_prices.pdf

Sales of Existing Homes Are Falling and Foreclosures Are Rising, Leading to a Surge in Inventories





The recent stabilization in home sales is driven by a surge of foreclosed homes, which now account for 35-40% of all sales. This puts tremendous pressure on home prices.

Source: National Association of Realtors, Paulson presentation; http://i.usatoday.net/news/graphics/housing_prices/home_prices.pdf

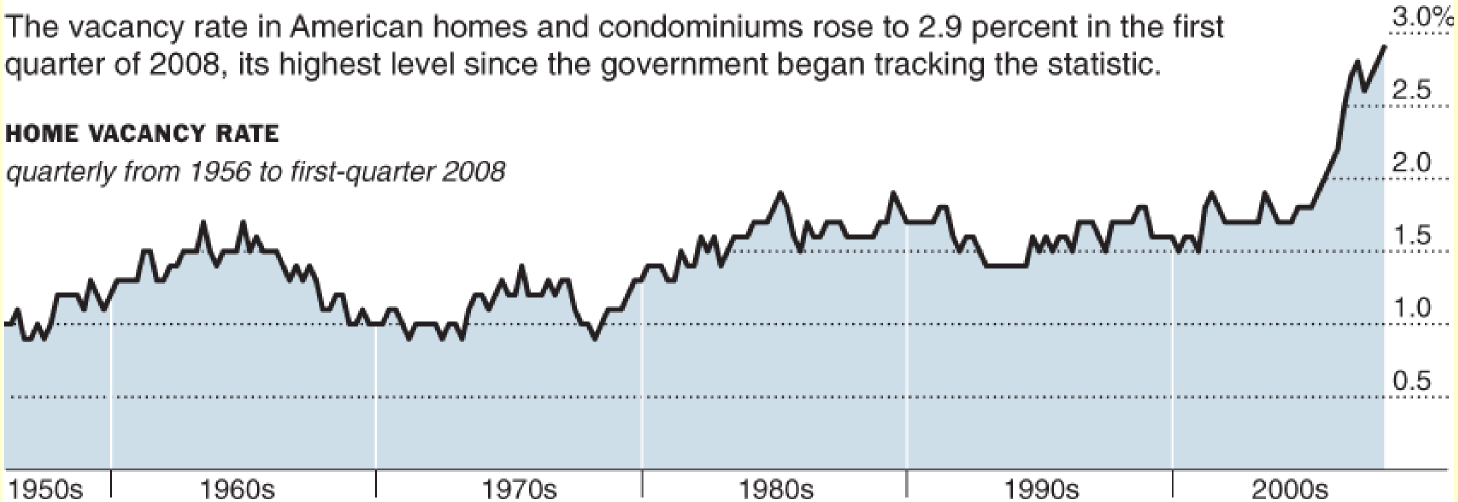
Home Vacancies Are at an All-Time High

More Empty Homes

The vacancy rate in American homes and condominiums rose to 2.9 percent in the first quarter of 2008, its highest level since the government began tracking the statistic.

HOME VACANCY RATE

quarterly from 1956 to first-quarter 2008



More than 10% of all homes built this decade are vacant today

HOME VACANCY RATES *first-quarter 2008*

Overall	**2.9%**
By type of building	
Single-family homes	2.6%
2-4 units	9.4
5-9 units	15.2
10 or more units	6.3
By region	
Northeast	2.0%
Midwest	2.9
South	3.2
West	3.2

By date of construction	
April 2000 to present	**10.2%**
1995 to March 2000	2.2
1990-94	2.2
1980-89	1.9
1970-79	1.8
1960-69	2.2
1950-59	2.2
1940-49	3.1
1939 or earlier	2.6

Source: Census Bureau, via Haver Analytics

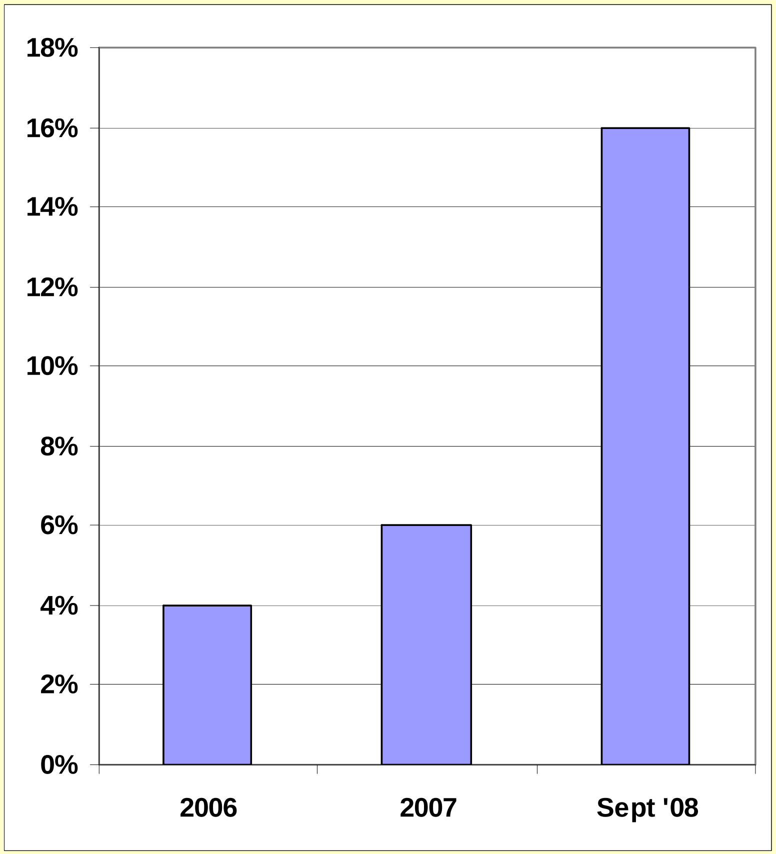
THE NEW YORK TIMES

Note: In Q2, the overall rate dropped slightly to 2.8% and stayed at that level in Q3

16% of Homeowners Owe More on Their Mortgage Than the Home Is Worth, Making Them Far More Likely to Default

Among people who bought homes in the past five years, 29% are under water.

There Has Been a Dramatic Rise in Homeowners Who Are Under Water



In Bubble Markets, Far More Homeowners Are Under Water

Home Economics

Home prices in many metro areas are back to levels of several years ago, leaving many people owing more money than their houses are worth. A look at selected areas:

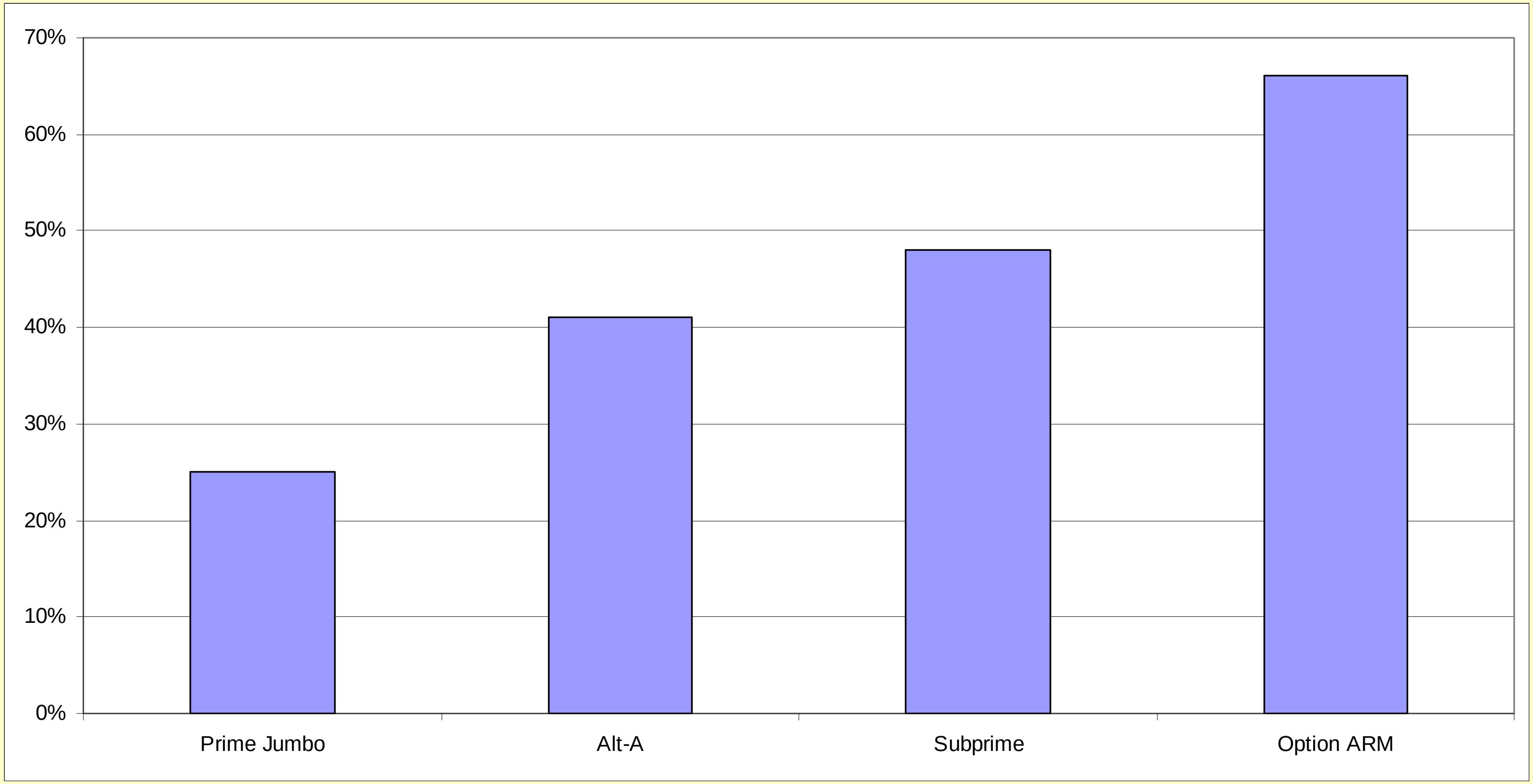
Metro area	Price index is at lowest level since	Price drop since peak	Percentage of last 5 years' purchasers who are under water*	Price change needed to re-store historical affordability†
New York	August 2005	−8.2%	14.2%	▼ 18.2%
Atlanta	April 2005	−6.9	19.5	▼ 0.5
Miami	February 2005	−26.9	44.6‡	▼ 37.7
Phoenix	June 2005	−28.9	40.1	▼ 16.9
Washington	December 2004	−18.6	33.8	▼ 26.6
San Francisco	August 2004	−14.5	36.8	▼ 3.9
Los Angeles	April 2004	−31.3	39.9	▼ 15.0
Las Vegas	March 2004	−31.5	56.0	▼ 15.4
Boston	Sept. 2003	−14.8	13.3	▼ 9.0
San Diego	June 2003	−32.4	51.3	▼ 13.3

*Owing more on a home than it is worth ‡For Miami/Ft. Lauderdale metro area
†Price change needed to return to average ratio of home prices to household income for 1985-2000
Sources: First American CoreLogic; Zillow.com; Moody's Economy.com

Source: WSJ, 10/8/08, http://online.wsj.com/article/SB122341352084512611.html.

Certain Types of Loans are Severely Under Water

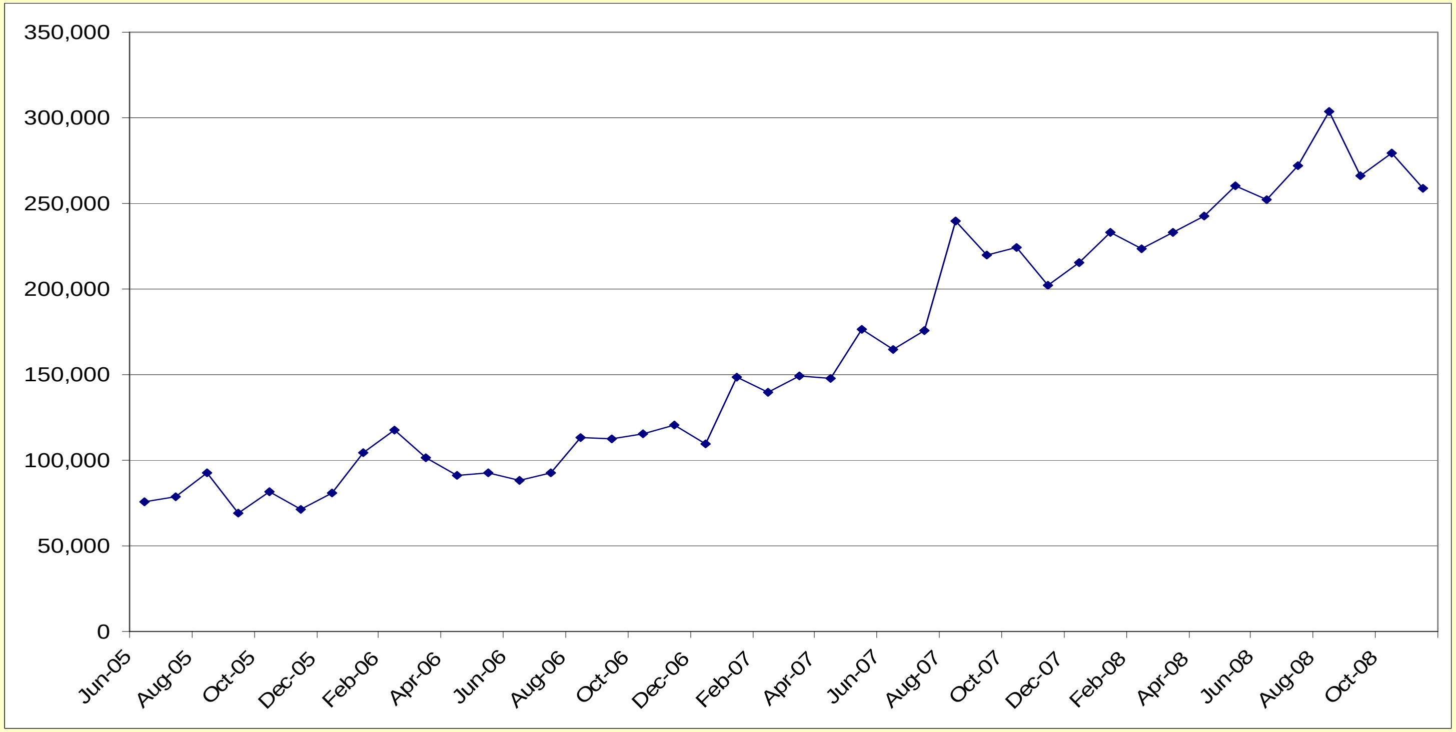
Percentage of Borrowers Who Had Negative Equity
(as of Sept. 2008)



Source: Credit Suisse, WSJ 12/8/08

Foreclosure Filings Have Increased Dramatically

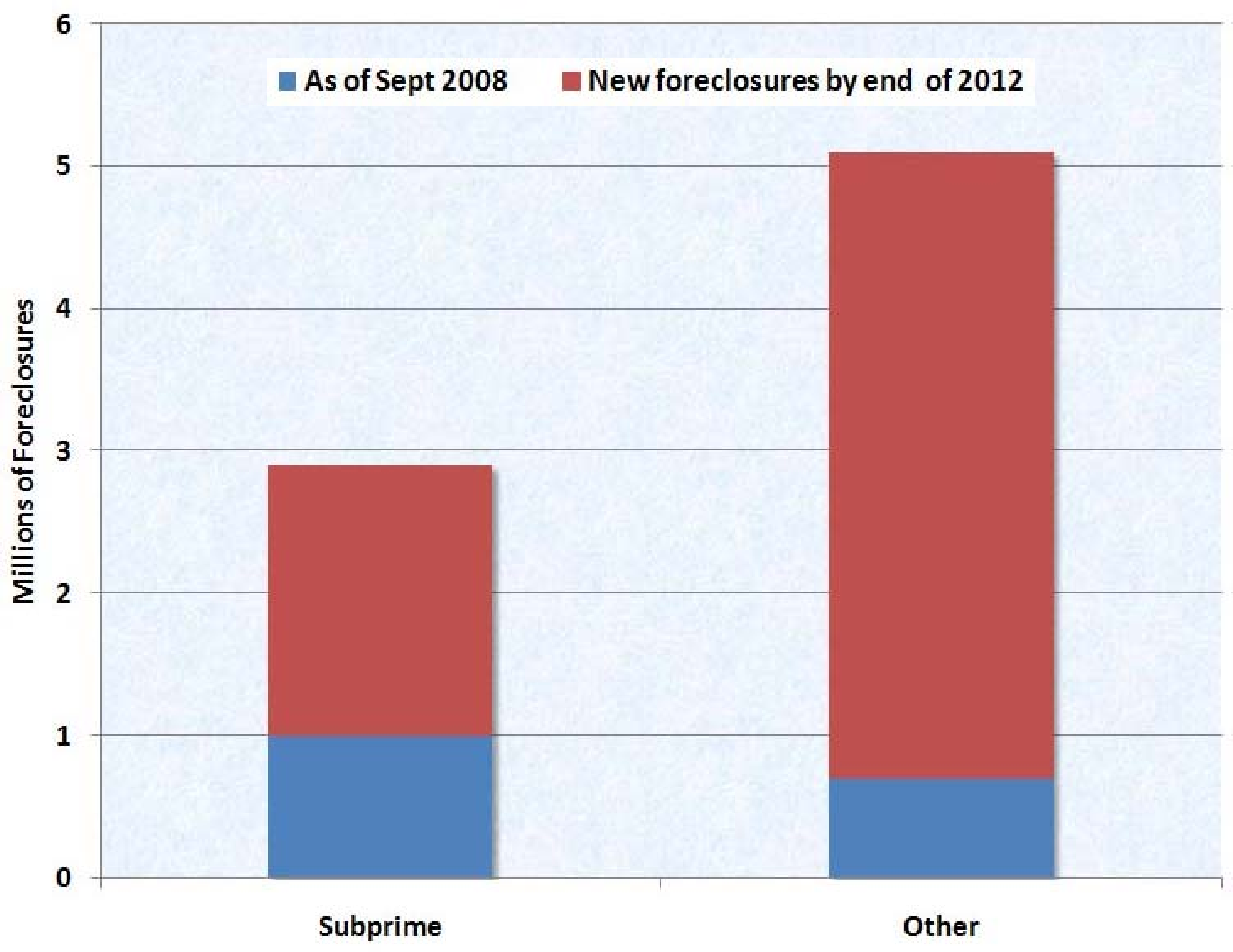
- Foreclosures in November rose 28% year-over-year, but declined 7% sequentially
  - "Foreclosure activity in November hit the lowest level we've seen since June thanks in part to recently enacted laws that have extended the foreclosure process in some states, along with more aggressive loan modification programs and self-imposed holiday foreclosure moratoriums introduced by some lenders," said James J. Saccacio, chief executive officer of RealtyTrac. "There are several indications, however, that this lower activity is simply a temporary lull before another foreclosure storm hits in the coming months."
- By the end of the year, RealtyTrac expects more than a million bank-owned properties on the market, representing around a third of all properties for sale in the U.S.



Note: Foreclosure filings are defined as default notices, auction sale notices and bank repossessions

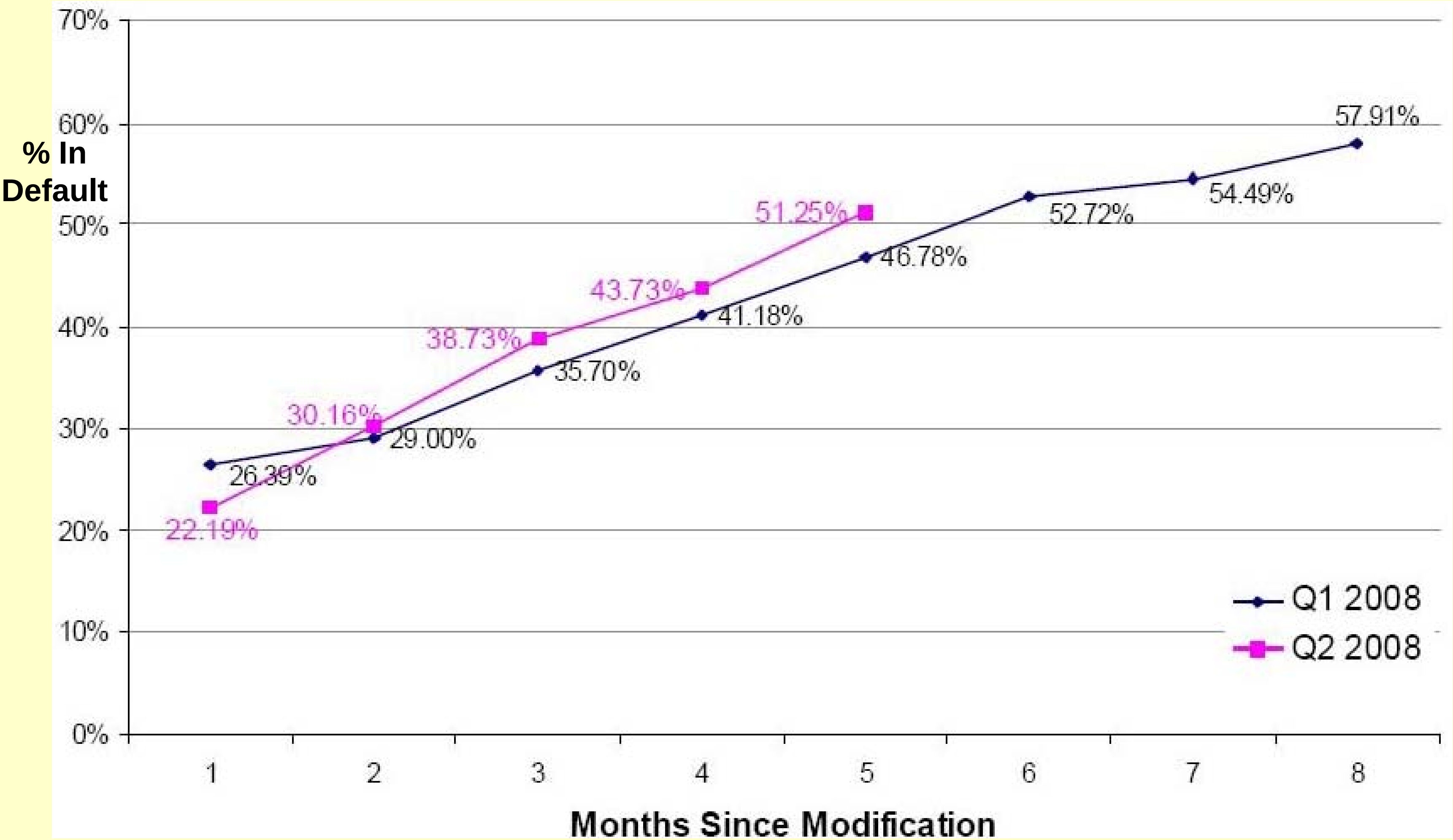
Sources: RealtyTrac

Credit Suisse Predicts More Than Six Million Foreclosures by the End of 2012



Sources: Credit Suisse; http://calculatedrisk.blogspot.com

So Far, Few Loan Modifications Are Working

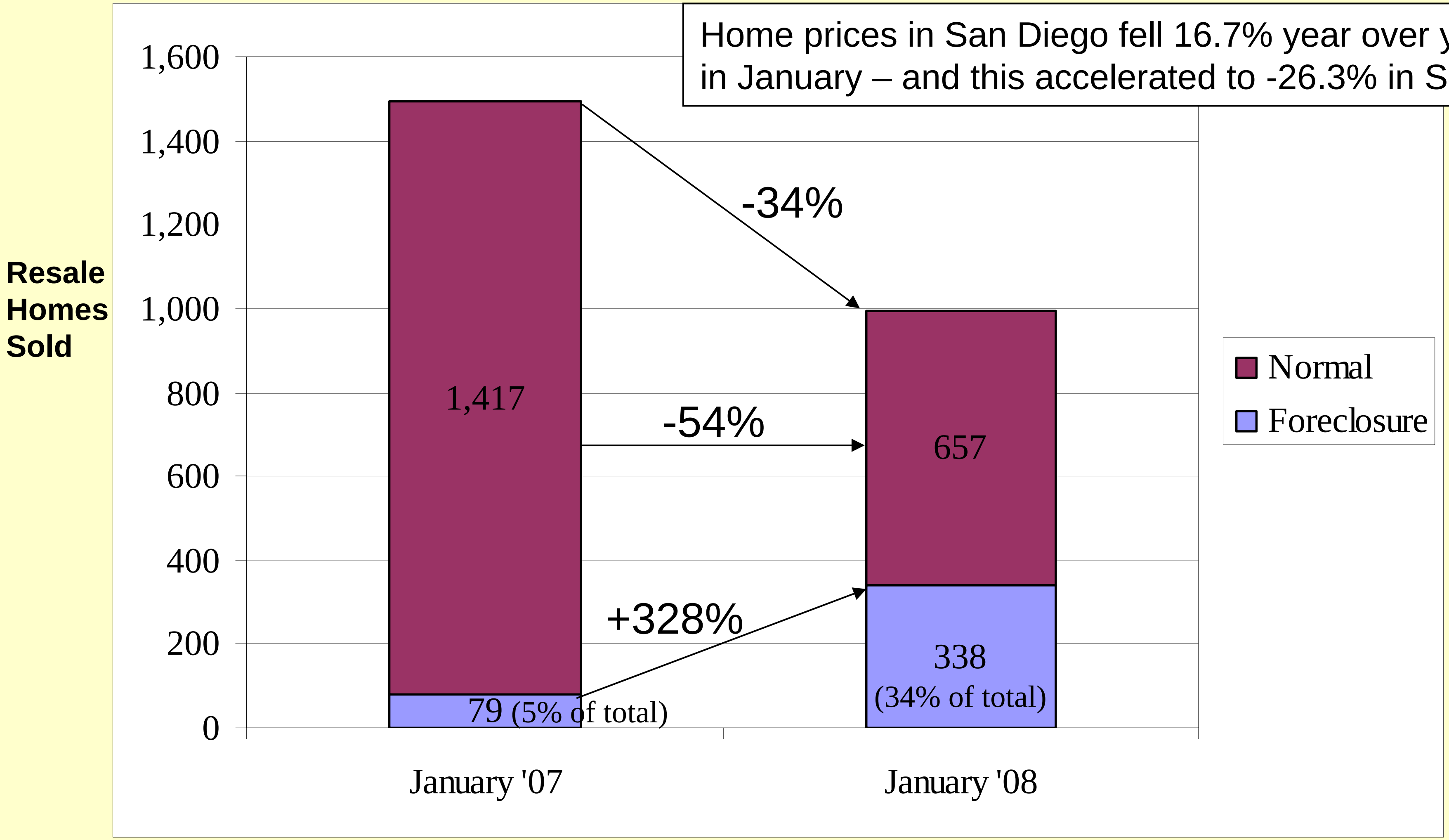


Sources: Office of the Comptroller of the Currency and the Office of Thrift Supervision Mortgage Metrics; http://calculatedrisk.blogspot.com

In Bubble Markets, Sales and Prices Are Way Down, While the Number of Homes Sold in Foreclosure Has Skyrocketed

Case Study: Resale House Sales in San Diego

Home prices in San Diego fell 16.7% year over year in January – and this accelerated to -26.3% in Sept.



More than *half* of homes sold in September in CA had been in foreclosure. This contributed to home sales jumping 65% year over year, but the statewide median home price fell 34% (MDA DataQuick).

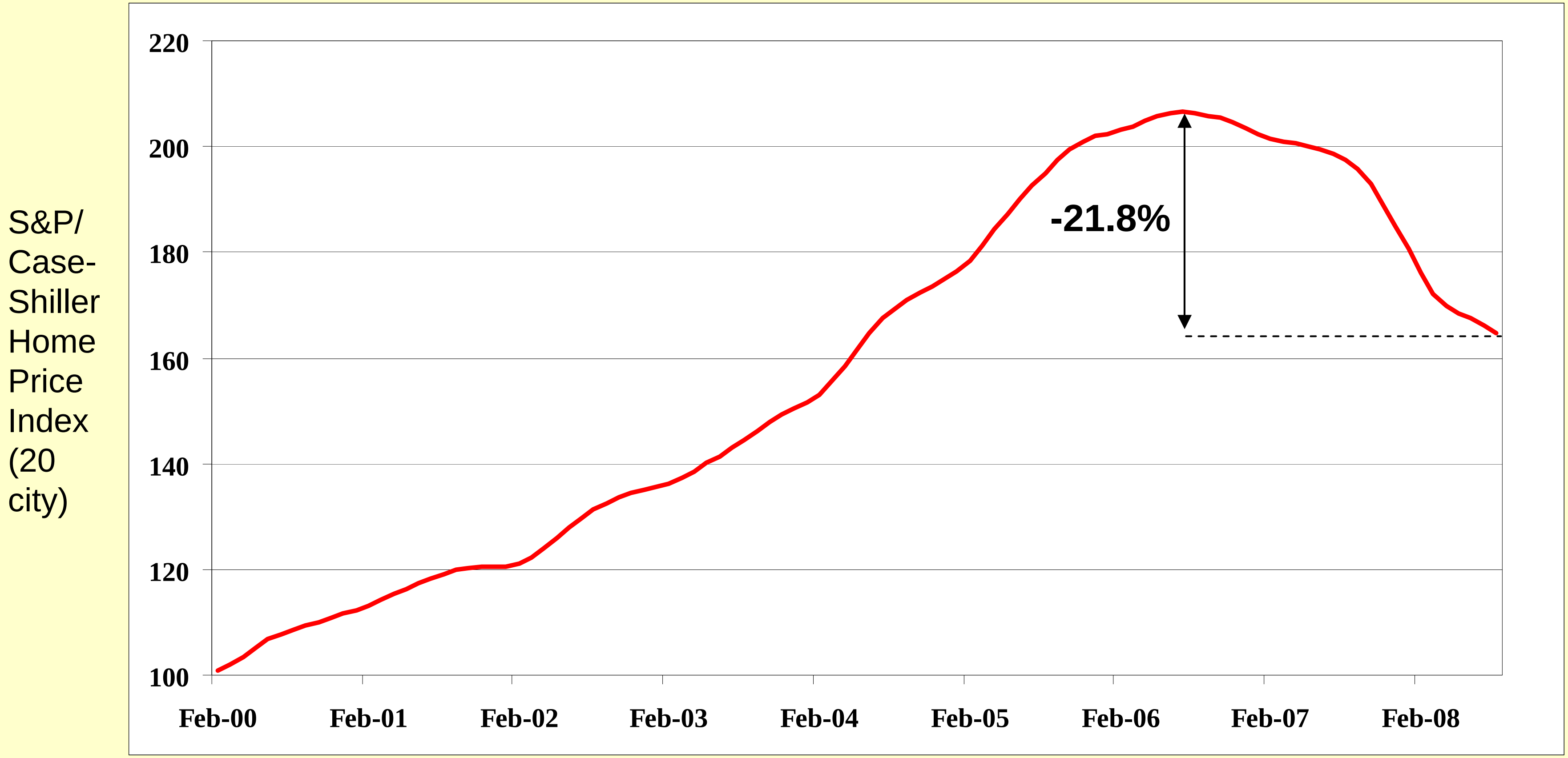
Note: Excludes condos and new construction. Source: San Diego Union-Tribune article, 2/13/08.

The Outlook for Home Prices is Grim

We Estimate That Home Prices Are Only a Little More Than Half Way Finished Declining

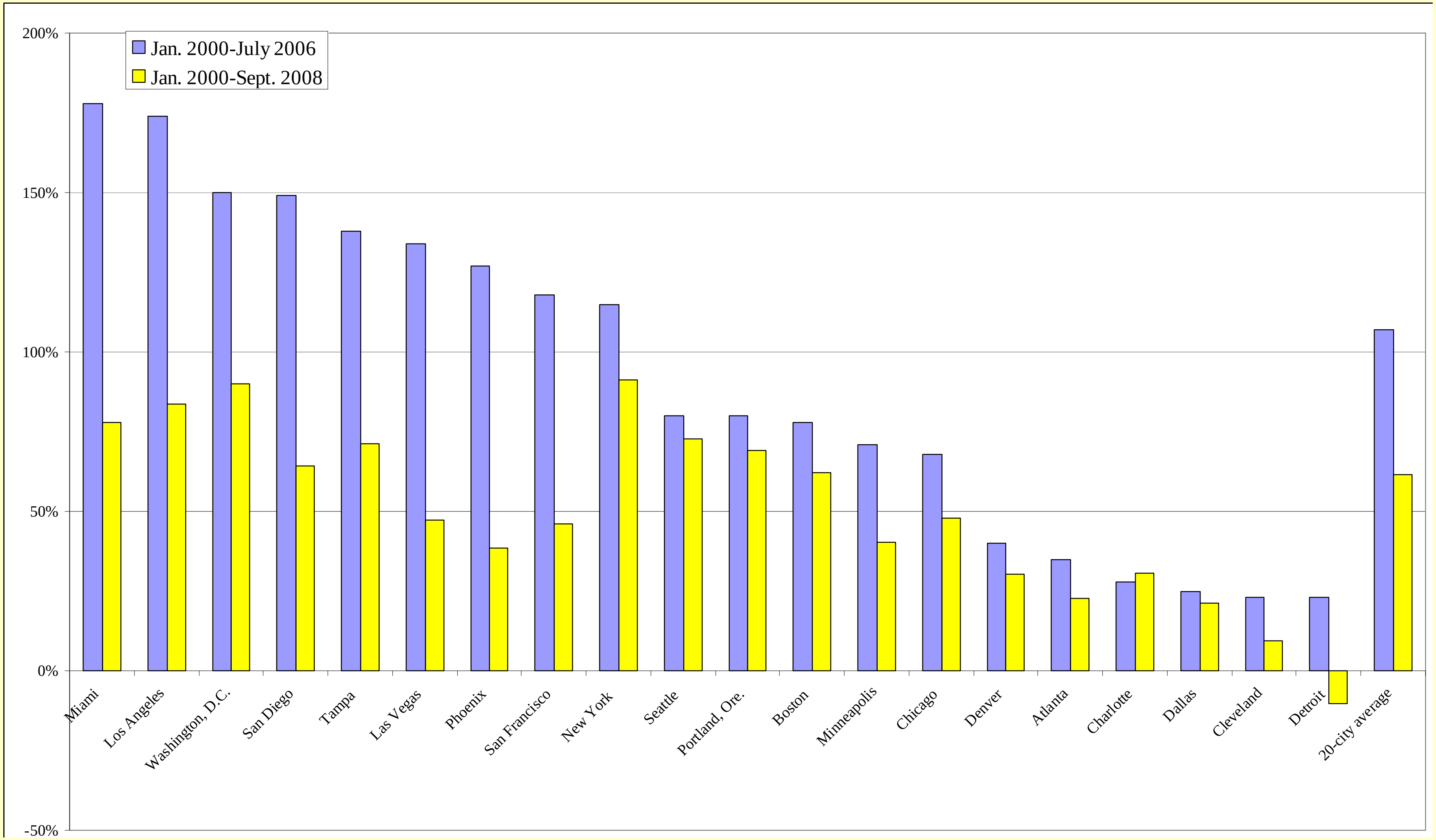
Home Prices Are in an Unprecedented Freefall

Through September, home prices had fallen an average of 21.8% from their peak in 20 major metropolitan areas



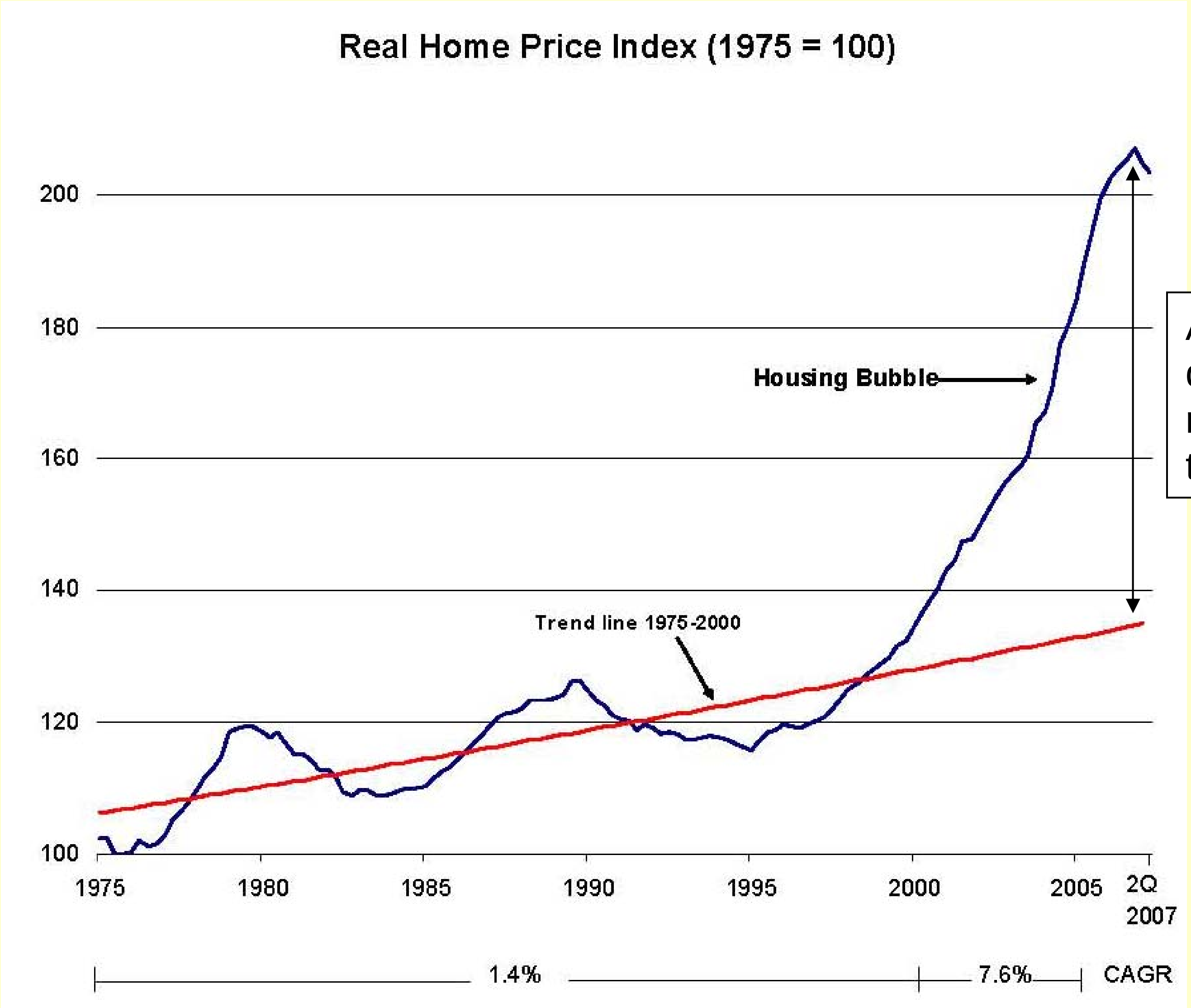
Source: S&P/Case-Shiller index

Home Prices Have Fallen, But Are Still Well Above Levels at the Start of the Decade in Almost All Cities



Source: S&P/Case-Shiller index

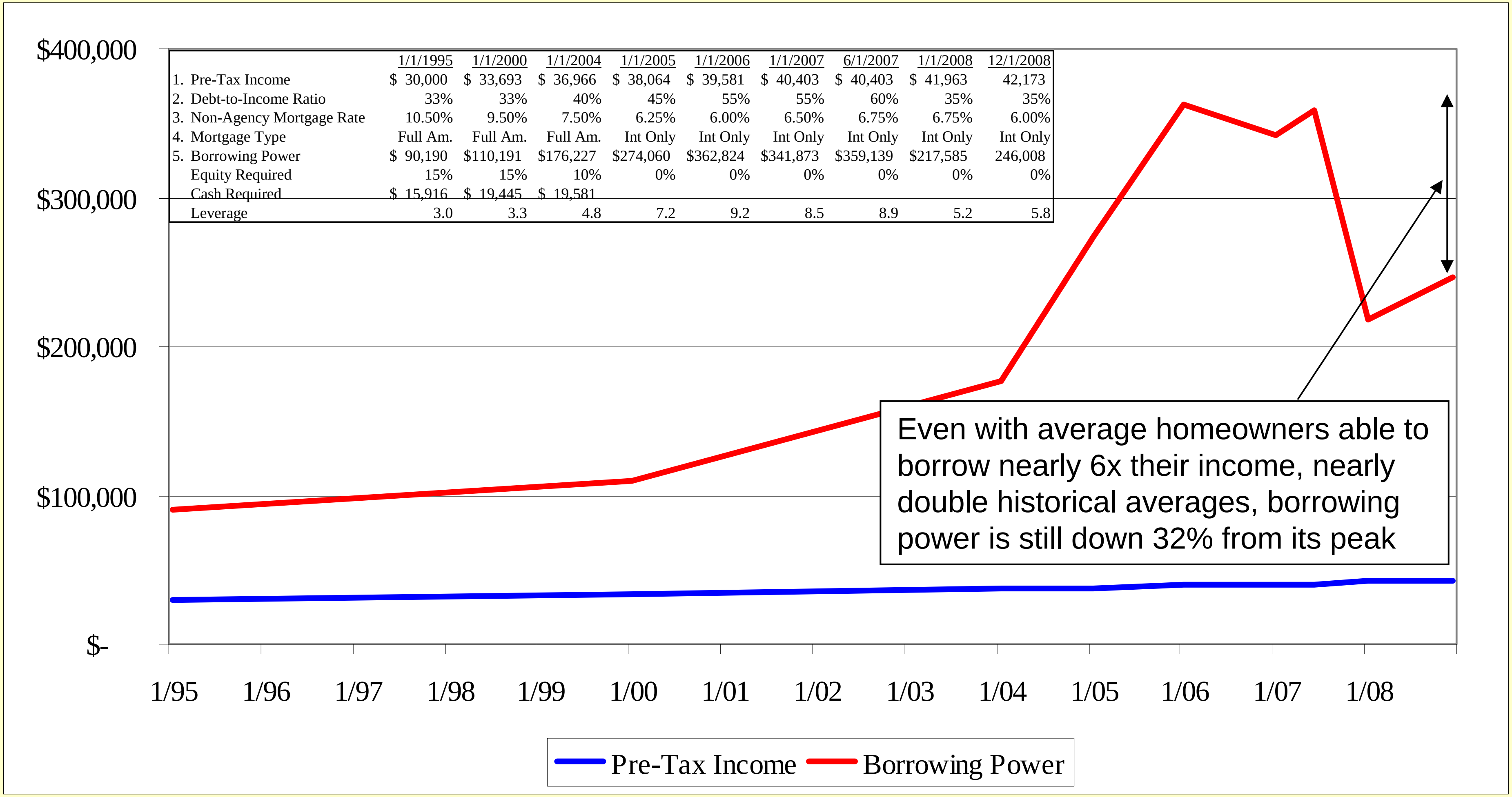
The Surge in Borrowing Power and Decline in Lending Standards Led to Home Prices Soaring Far Above Trend Line



A 34% decline to return to trend line

Sources: OFHEO, Bureau of Economic Analysis.

Borrowing Power of a Typical Home Purchaser Has Tumbled By Approximately 32%



	1/1/1995	1/1/2000	1/1/2004	1/1/2005	1/1/2006	1/1/2007	6/1/2007	1/1/2008	12/1/2008
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2. Debt-to-Income Ratio	33%	33%	40%	45%	55%	55%	60%	35%	35%
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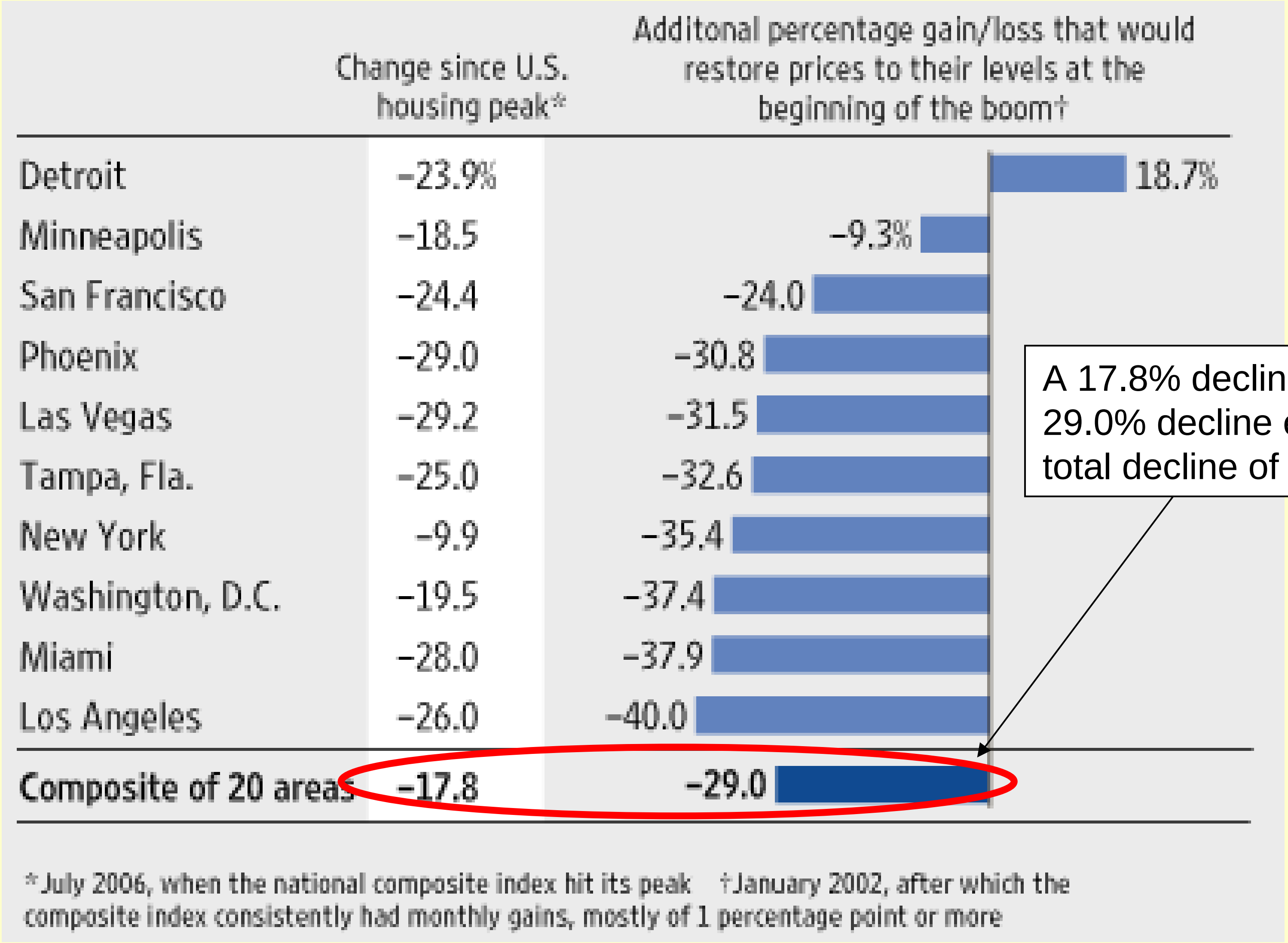
4. Mortgage Type	Full Am.	Full Am.	Full Am.	Int Only	Int Only	Int Only	Int Only	Int Only	Int Only
5. Borrowing Power	$ 90,190	$110,191	$176,227	$274,060	$362,824	$341,873	$359,139	$217,585	246,008
Equity Required	15%	15%	10%	0%	0%	0%	0%	0%	0%
Cash Required	$ 15,916	$ 19,445	$ 19,581						
Leverage	3.0	3.3	4.8	7.2	9.2	8.5	8.9	5.2	5.8

Source: Amherst Securities Group, L.P.

Home Prices Would Have to Fall 41.6% to Return to 2002 Levels



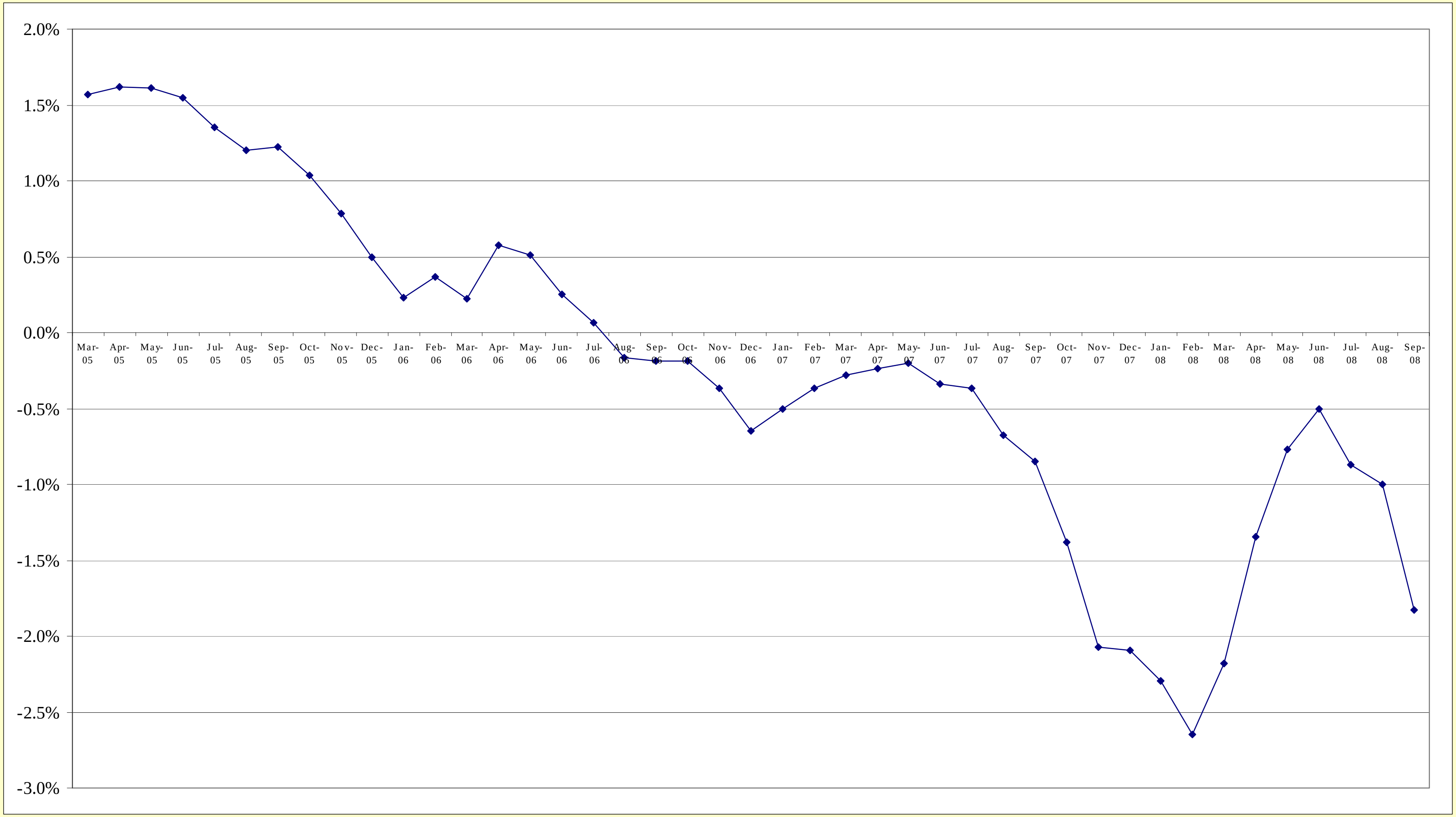
A 17.8% decline plus a 29.0% decline equals a total decline of a 41.6%

Note: Based on the S&P/Case-Shiller Index thru April 2008

Source: Wall St. Journal, 7/14/08; Mark Zandi, chief economist at Moody's Economy.com and author of "Financial Shock"

Sequential (month-to-month) Home Price Declines Improved Dramatically in April, May and June of This Year

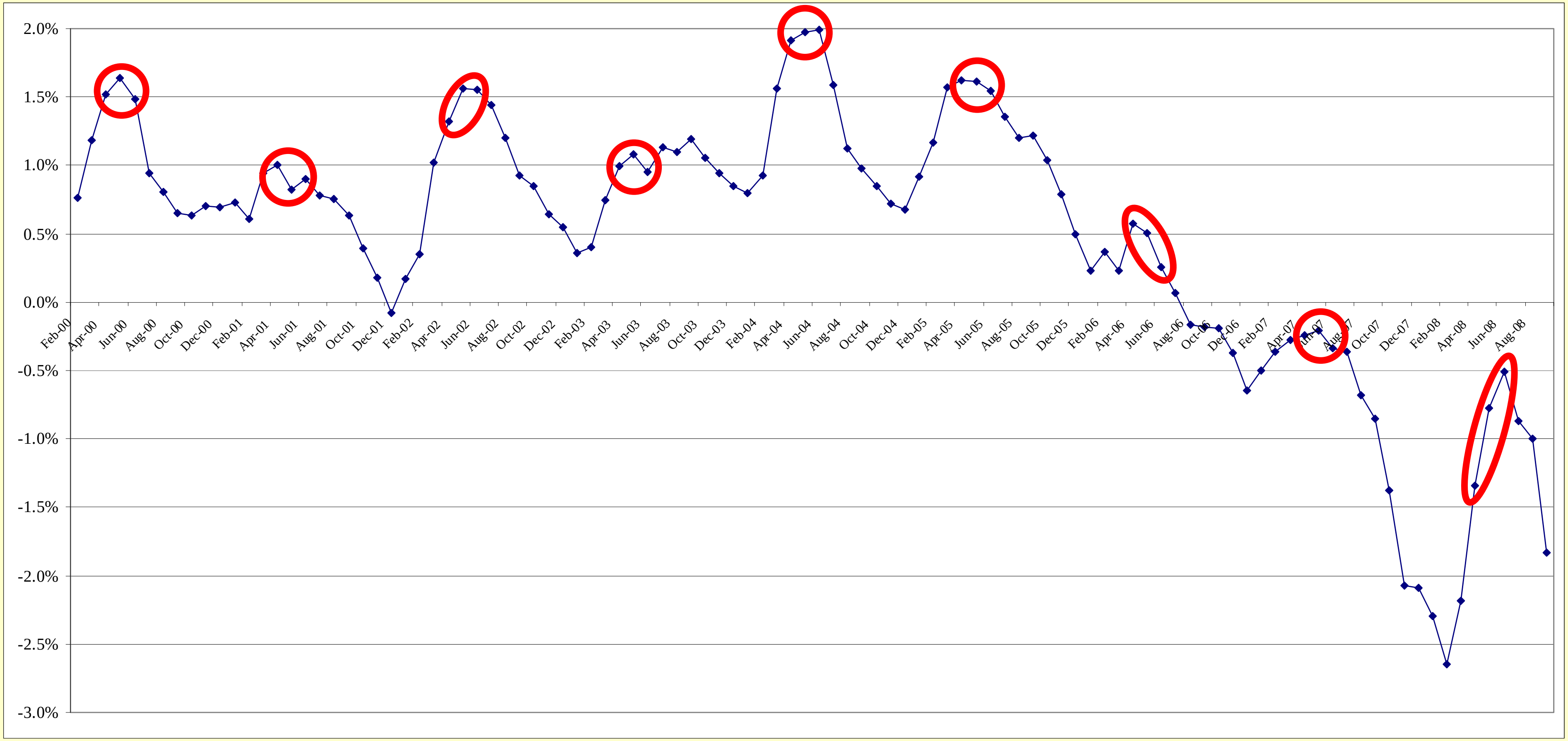
March 2005 – September 2008



Source: S&P/Case-Shiller Home Price Index, 20-city data

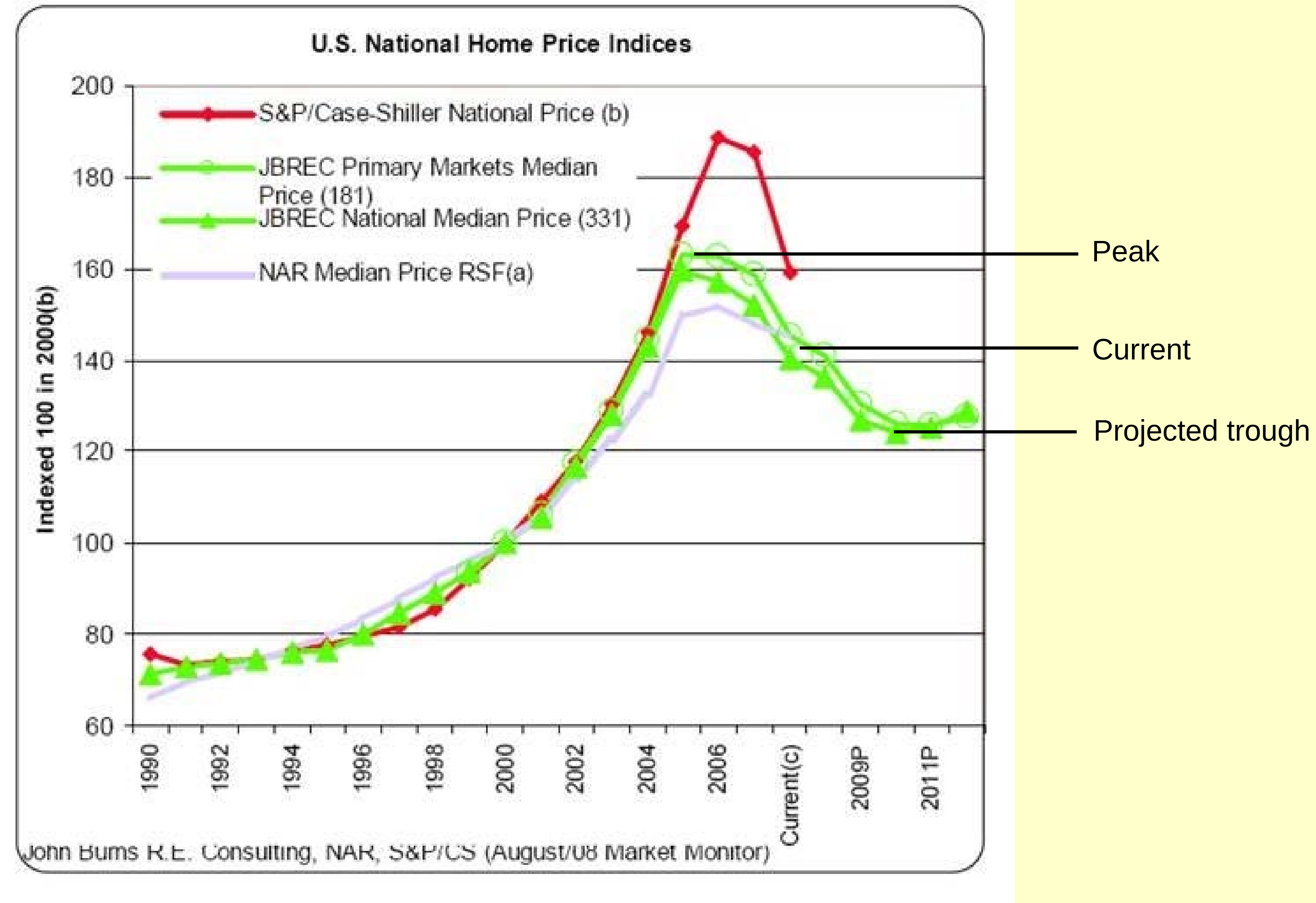
But Home Prices Are *Always* Strong in April, May and June

February 2000 – September 2008

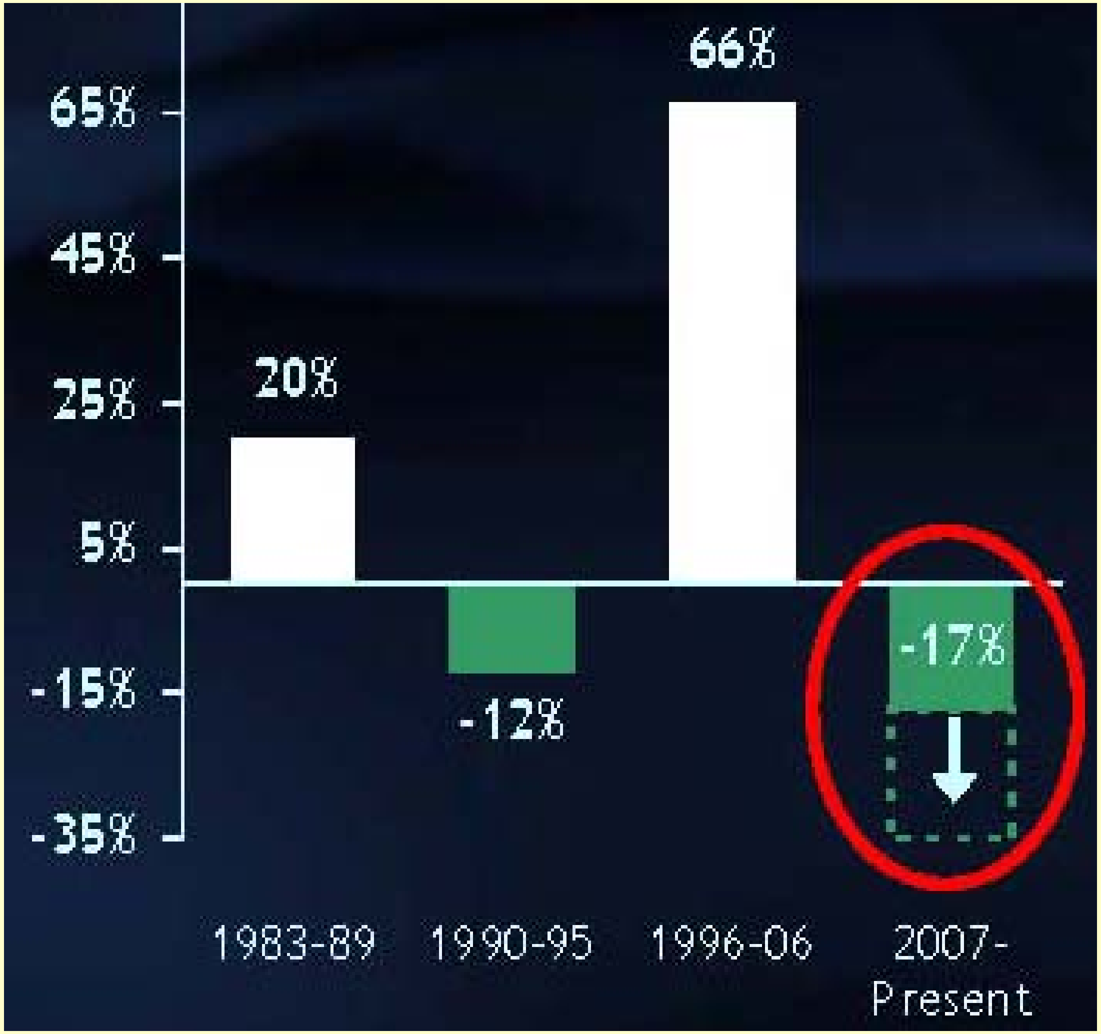


Source: S&P/Case-Shiller Home Price Index, 20-city data

Estimates from John Burns Real Estate Consulting Also Indicate That We Are About Half Way to a Bottom



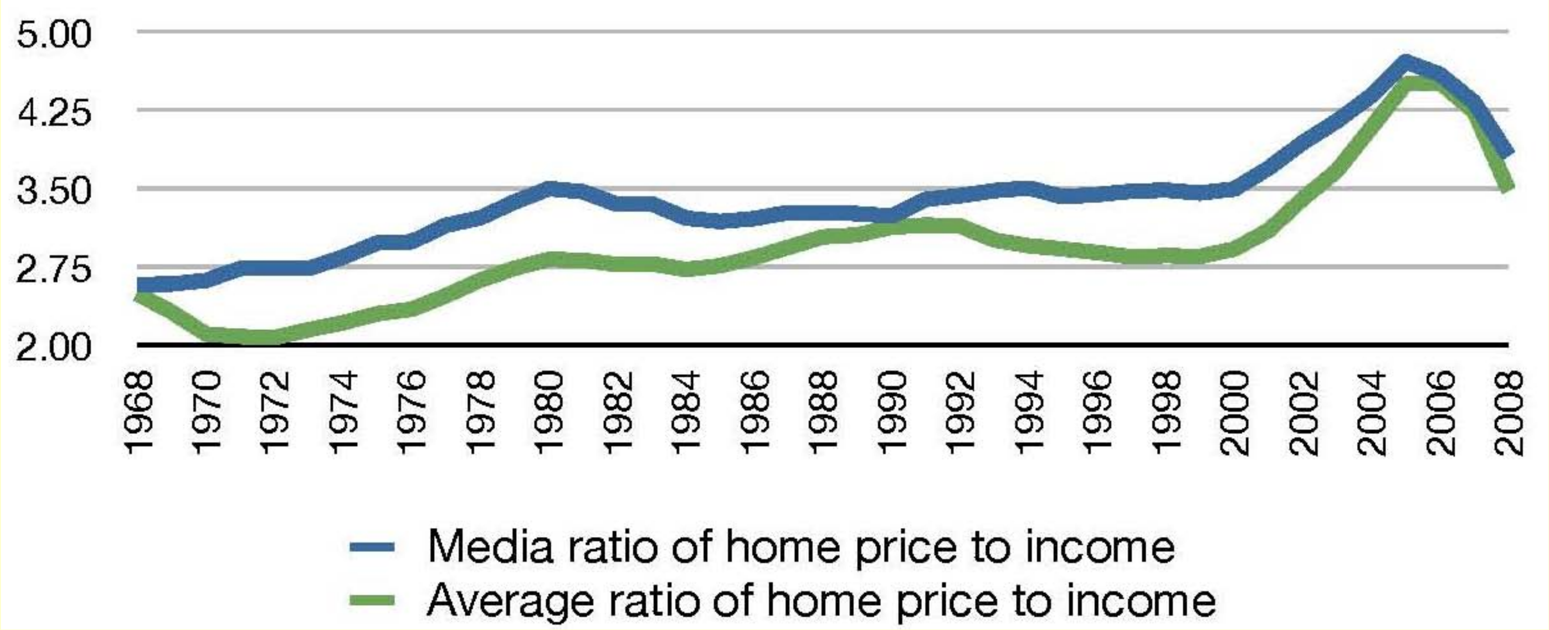
A Comparison to the Last Cycle Indicates a 30-40% Decline in Home Prices from the Peak



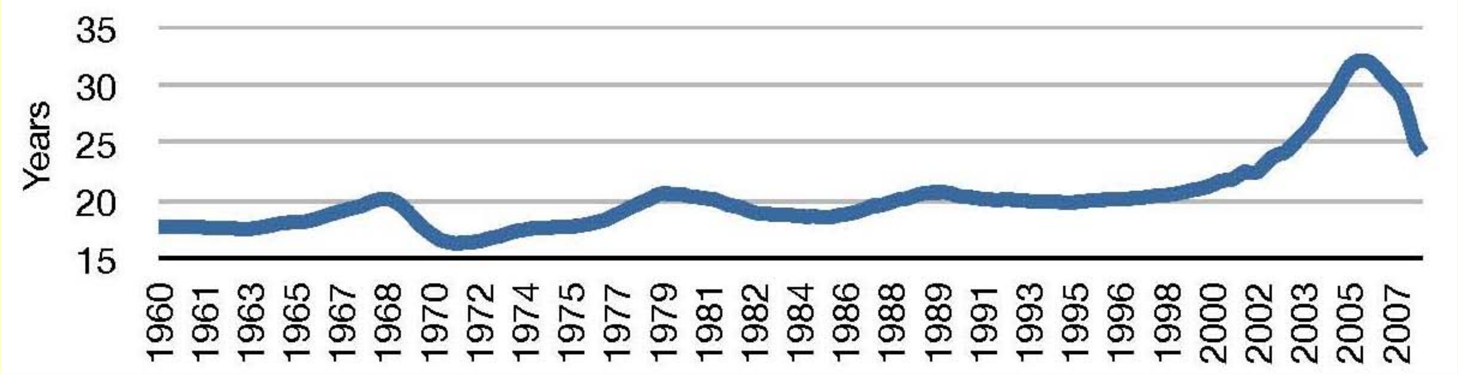
Sources: Zellman and Associates, 9/08; Carlyle presentation, 10/15/08

The Home Price-to-Income and Price-to-Rent Ratios Show That Home Prices Have Further to Fall

Price-to-Income Ratio

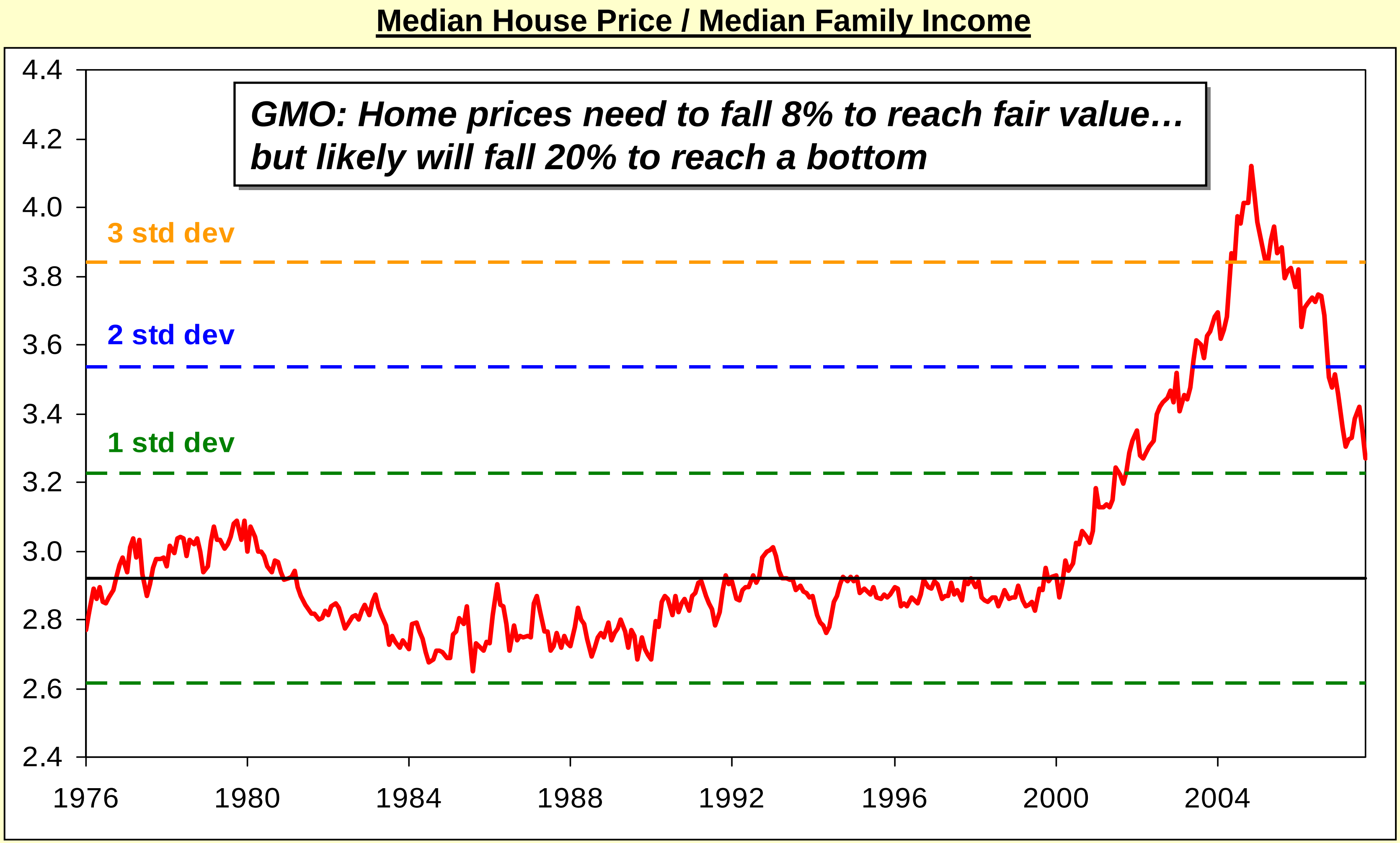


Price-to-Rent Ratio



Sources: Census Bureau; S&P/Case-Shiller index; economist Morris Davis, Univ. of Wisconsin; http://i.usatoday.net/news/graphics/housing_prices/home_prices.pdf

Another Look at the Home Price to Income Ratio



Source: National Association of Realtors, U.S. Census Bureau, GMO As of 8/31/08

In Summary, Home Prices Need to Decline Another 17-24% to Reach Fair Value

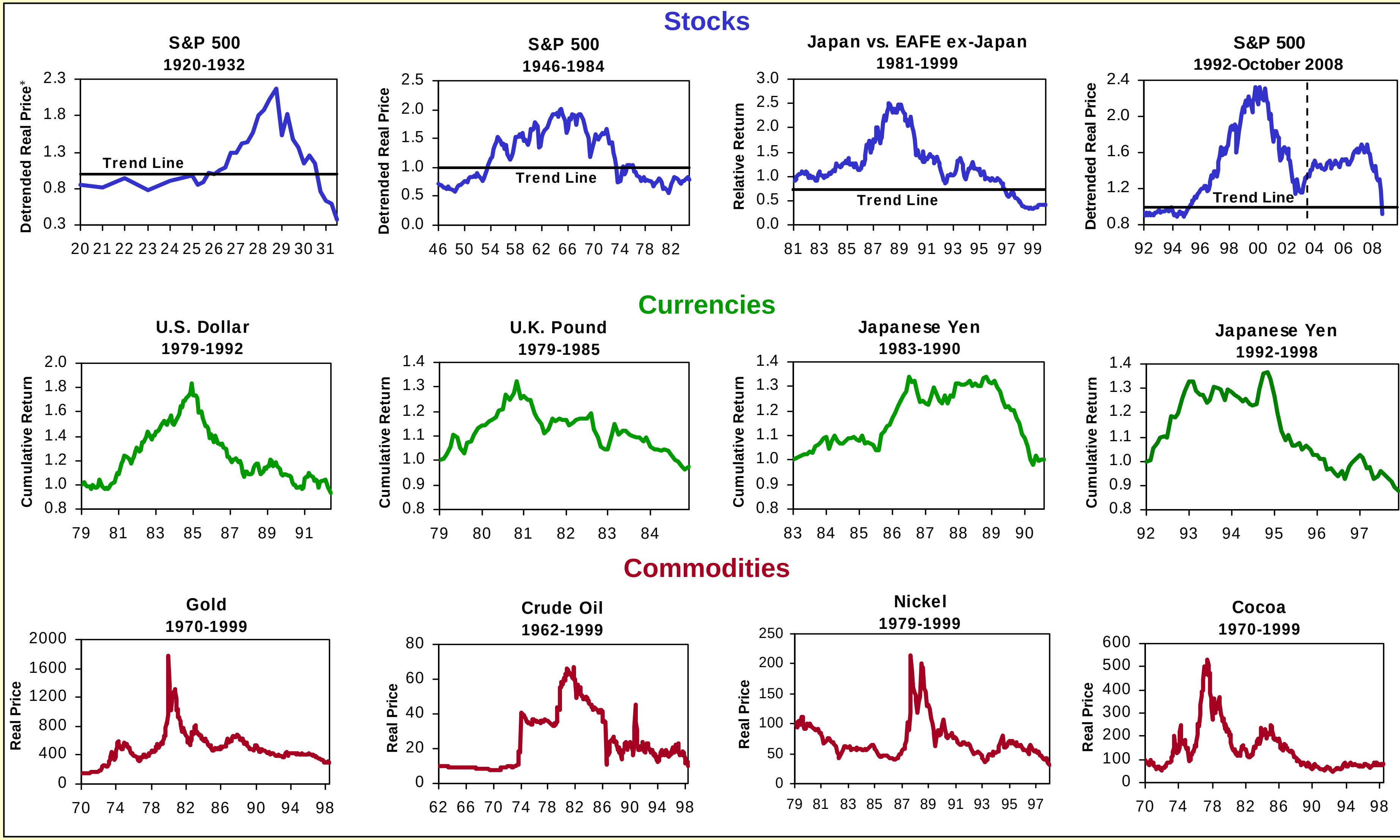
Getting back to stability		
How much do prices need to fall to reach traditional levels?	Decline needed from peak to reach historical level	Decline needed from today to reach historical level
Home price based on traditional appreciation	-43%	-24%
Home price based on household income	-33%	-17%
Home price based on rental value	-32%	-18%

How much U.S. house prices must fall to reach levels that existed, with little change, from 1950-2000.

What the decline means in dollars		
Valuation method	Median home	Average home
Home price at peak in 2006	$221,900	$301,333
Home price today	$199,161	$244,792
Home value based on traditional appreciation	$151,362	$186,042
Home value based on household income	$165,303	$203,177
Home value based on rental value	$163,312	$200,729

Sources: USA Today analysis; http://i.usatoday.net/news/graphics/housing_prices/home_prices.pdf

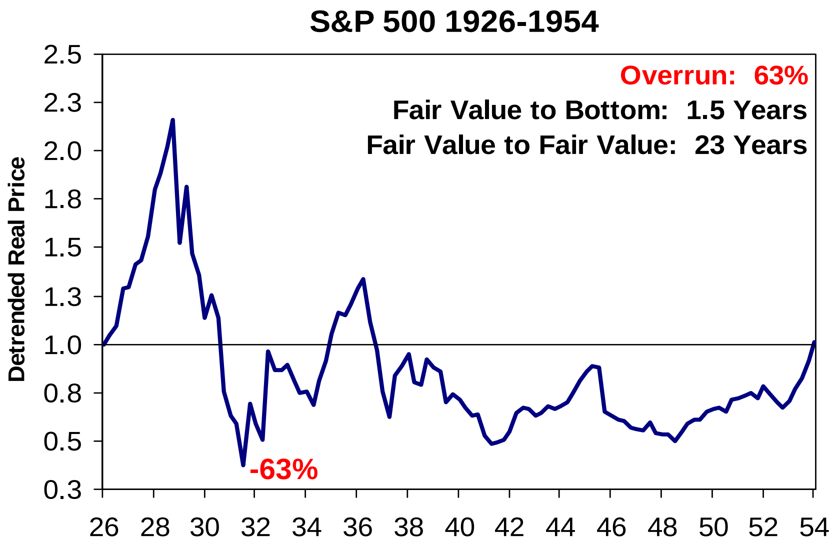
A Study of Bubbles Shows That All of Them Eventually Return to Trend Line

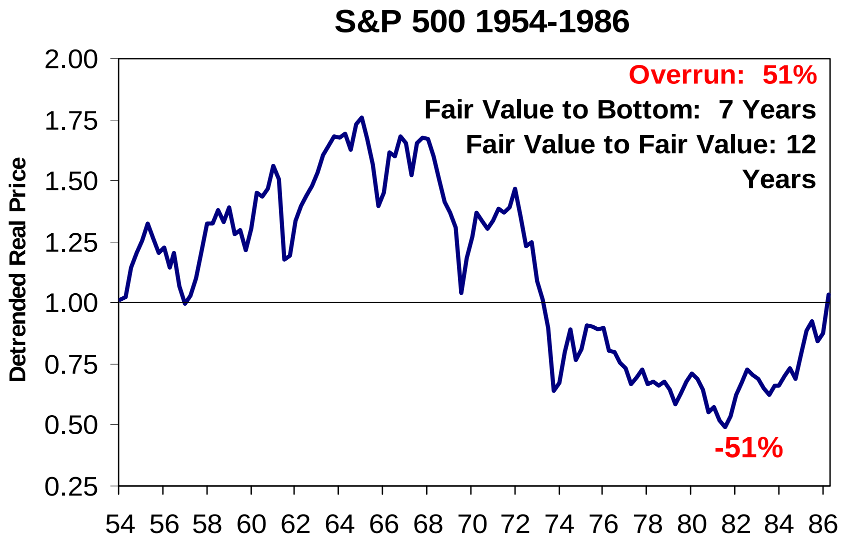


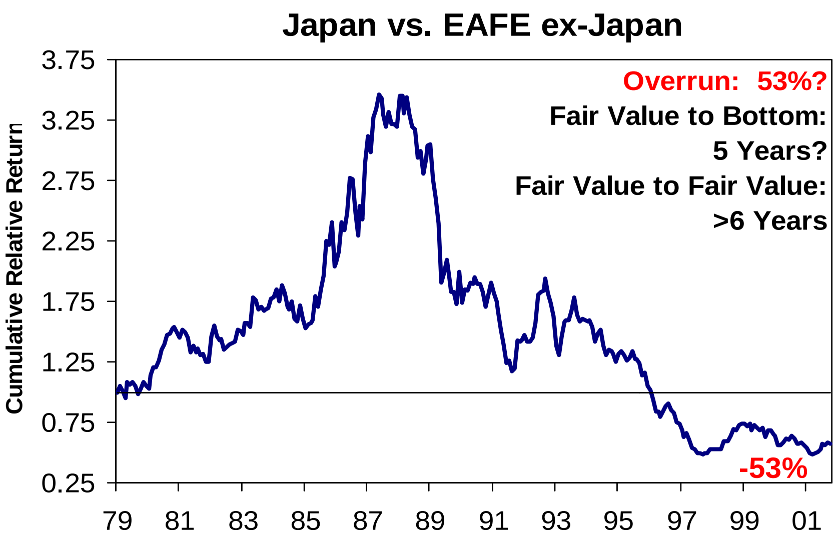
Note: For S&P charts, trend is 2% real price appreciation per year. Source: GMO. Data through 10//10/08.

* Detrended Real Price is the price index divided by CPI+2%, since the long-term trend increase in the price of the S&P 500 has been on the order of 2% real.

The Biggest Danger is That Home Prices Overshoot on the Downside, Which Often Happens When Bubbles Burst



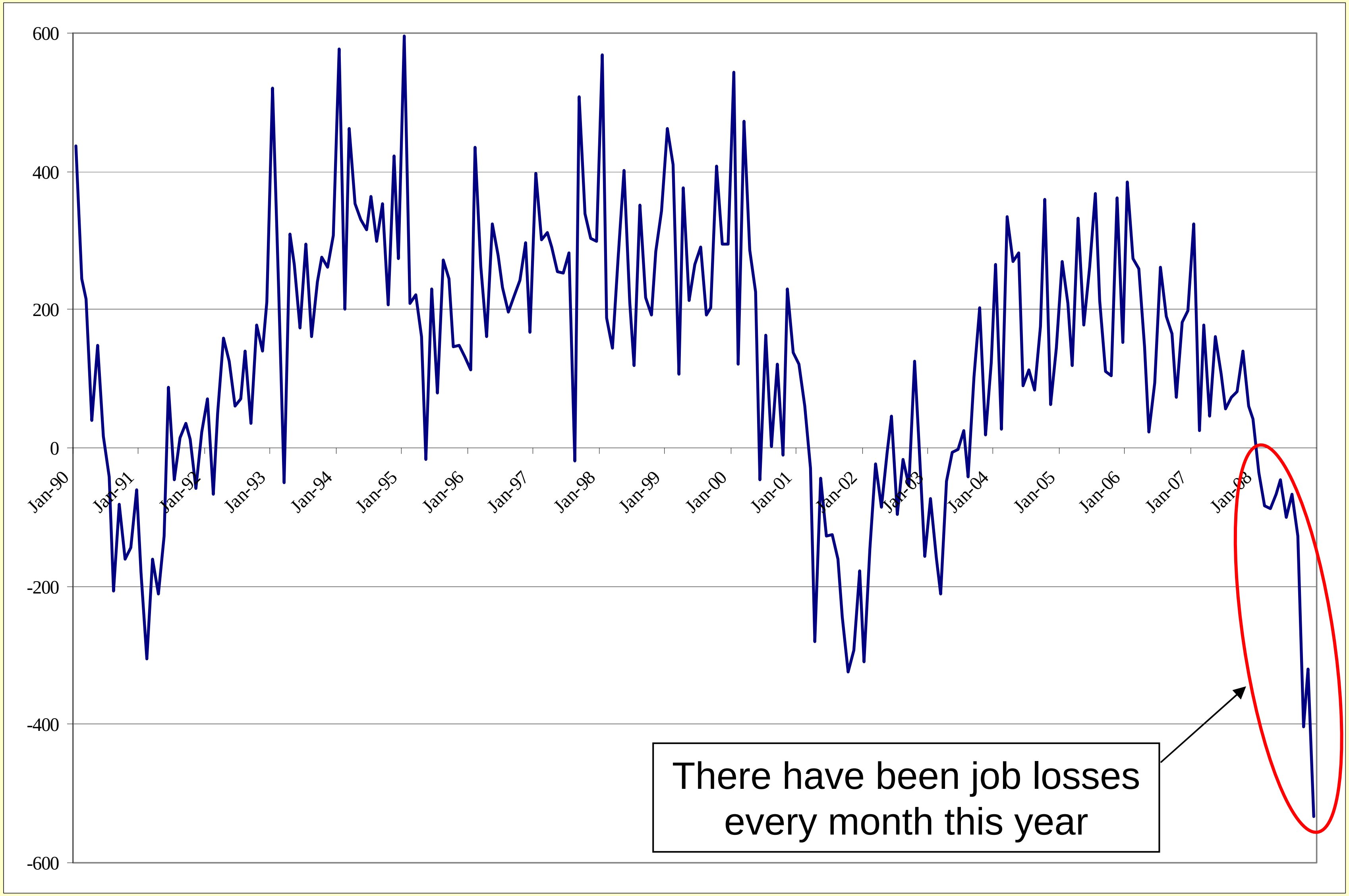




Source: GMO, as of 9/30/02

Economic Weakness Creates an Additional Headwind for Home Prices

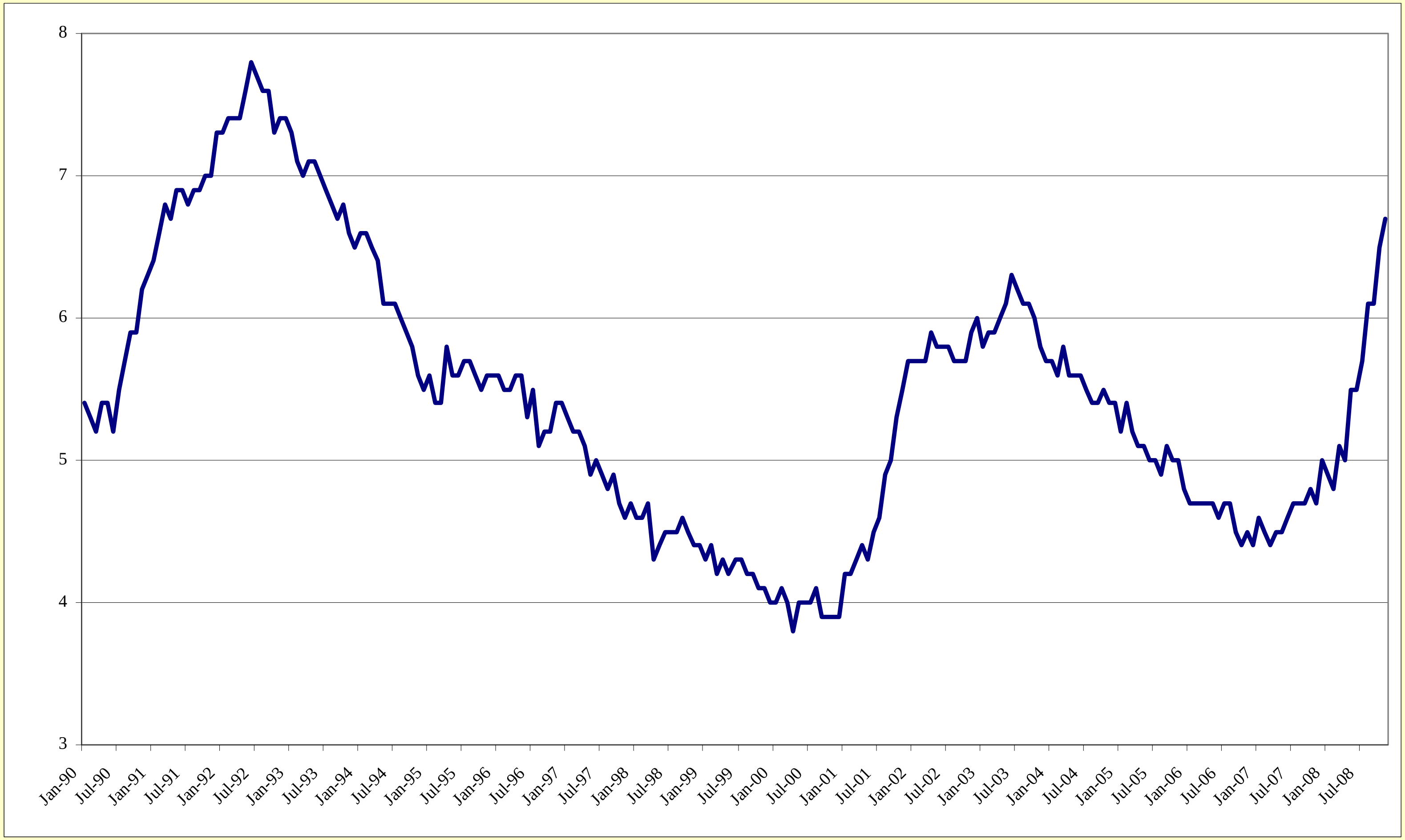
The Economy Shed 533,000 Nonfarm Jobs in November, the Most in 34 Years



Source: Bureau of Labor Statistics

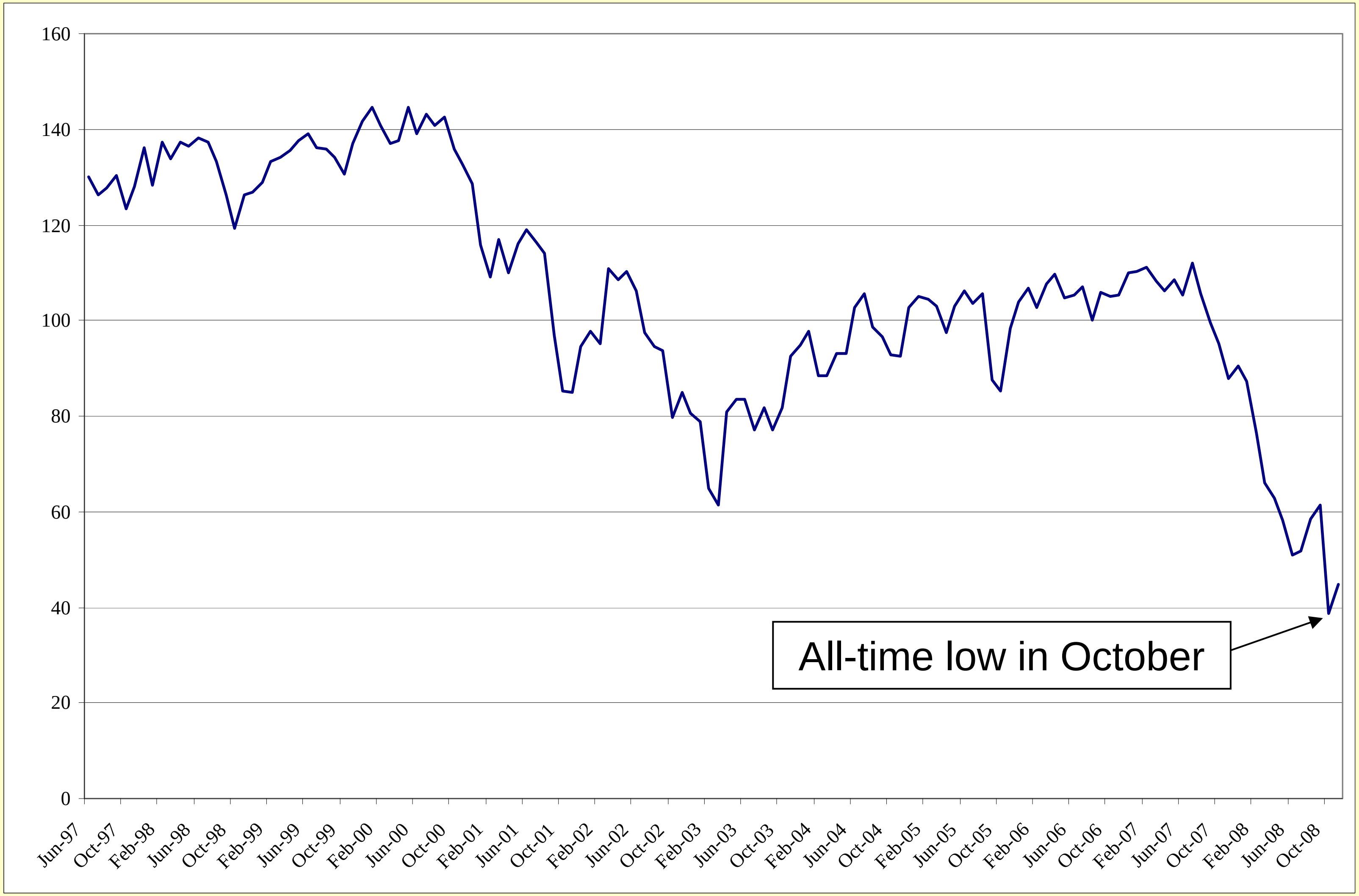
The Unemployment Rate Hit 6.7% in November, a 15-Year High

Since the start of the recession, the economy has lost 1.9 million jobs, the number of unemployed people increased by 2.7 million and the jobless rate rose by 1.7 percentage points. The unemployment rate would have been higher had 422,000 people not left the workforce in November, likely out of frustration.



Source: Bureau of Labor Statistics

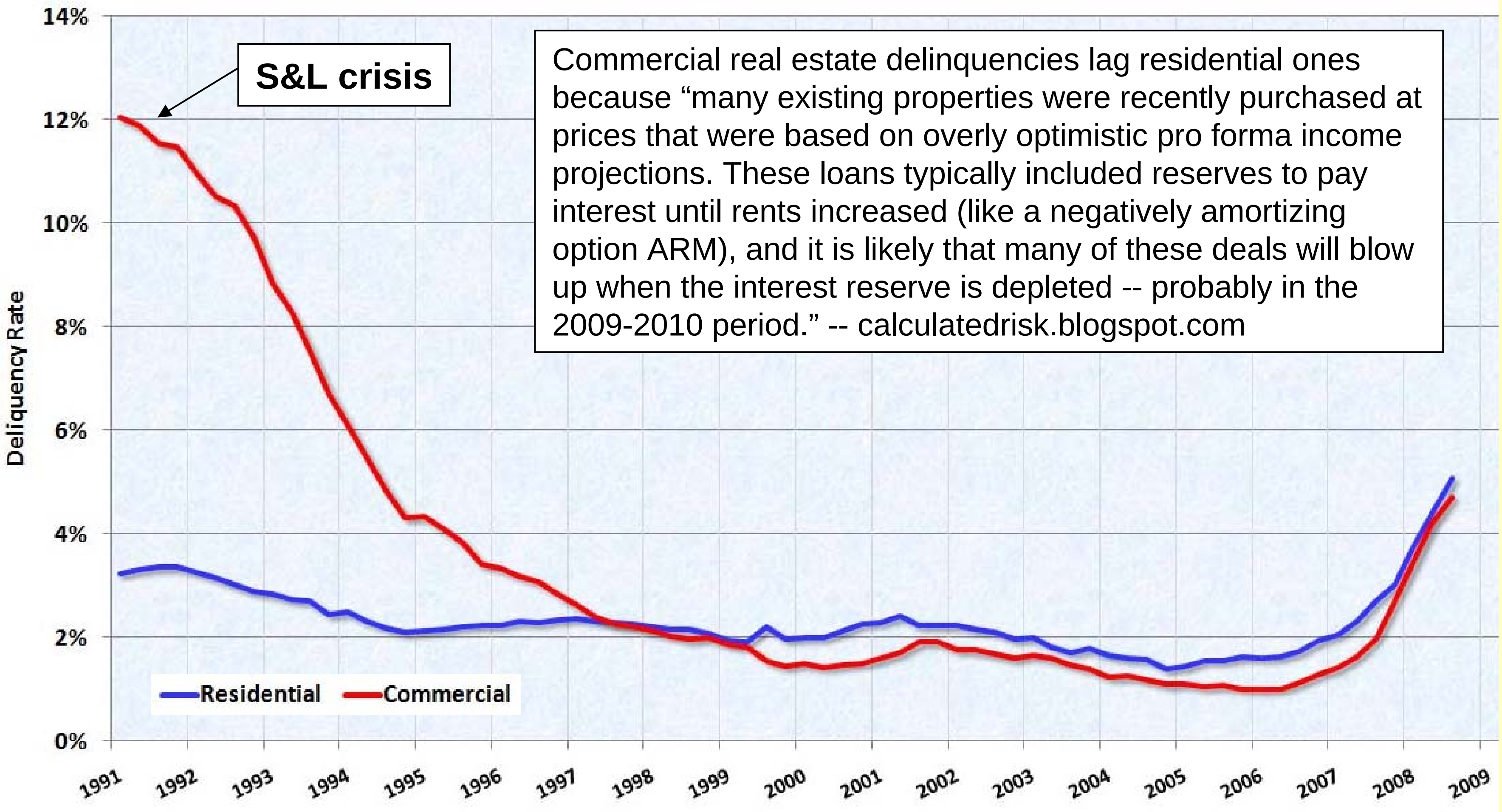
Consumer Confidence is Near an All-Time Low



Note: 1985=100

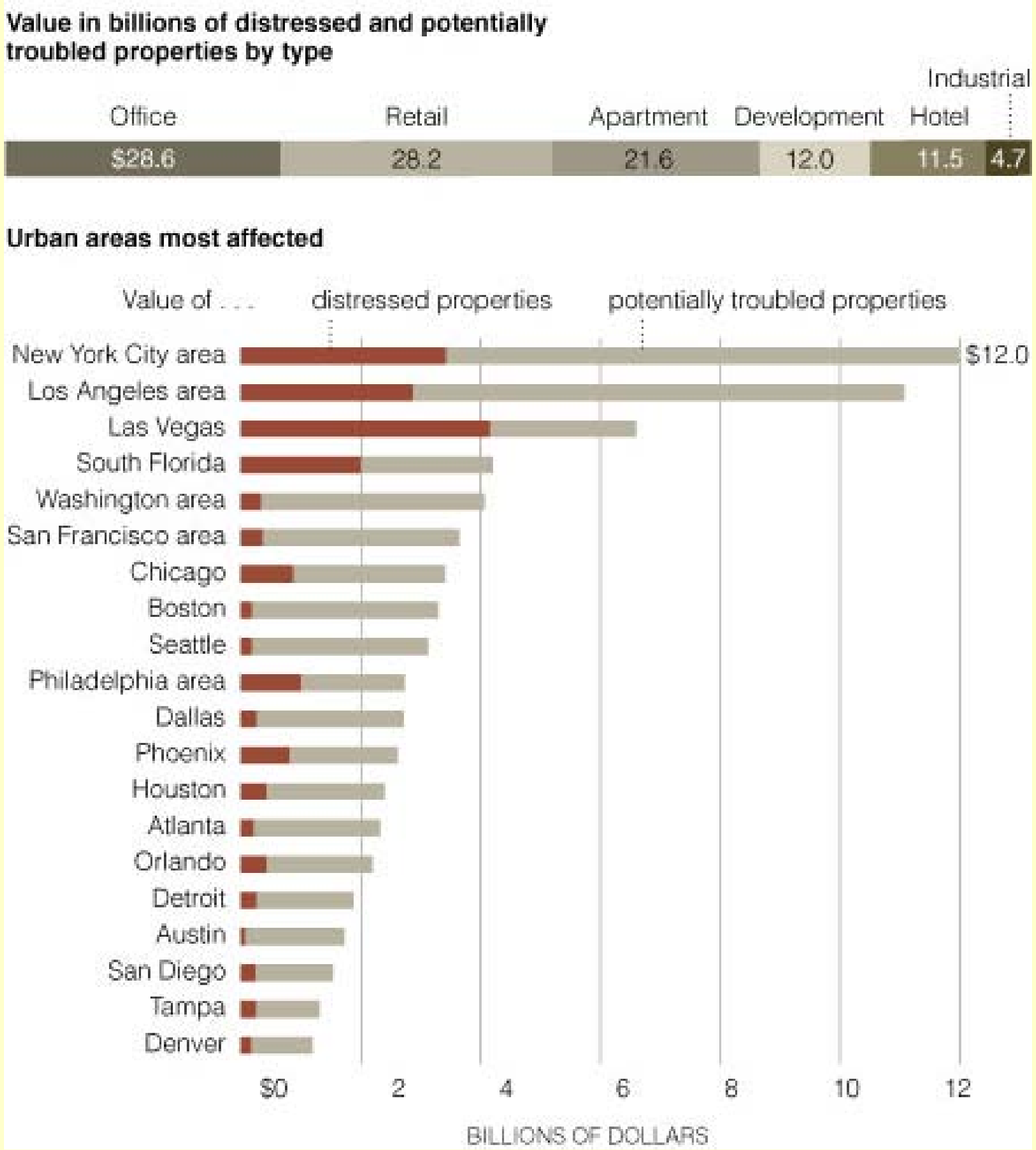
Source: The Conference Board (www.pollingreport.com/consumer.htm)

Commercial Real Estate is Beginning to Collapse



Source: Federal Reserve, http://calculatedrisk.blogspot.com

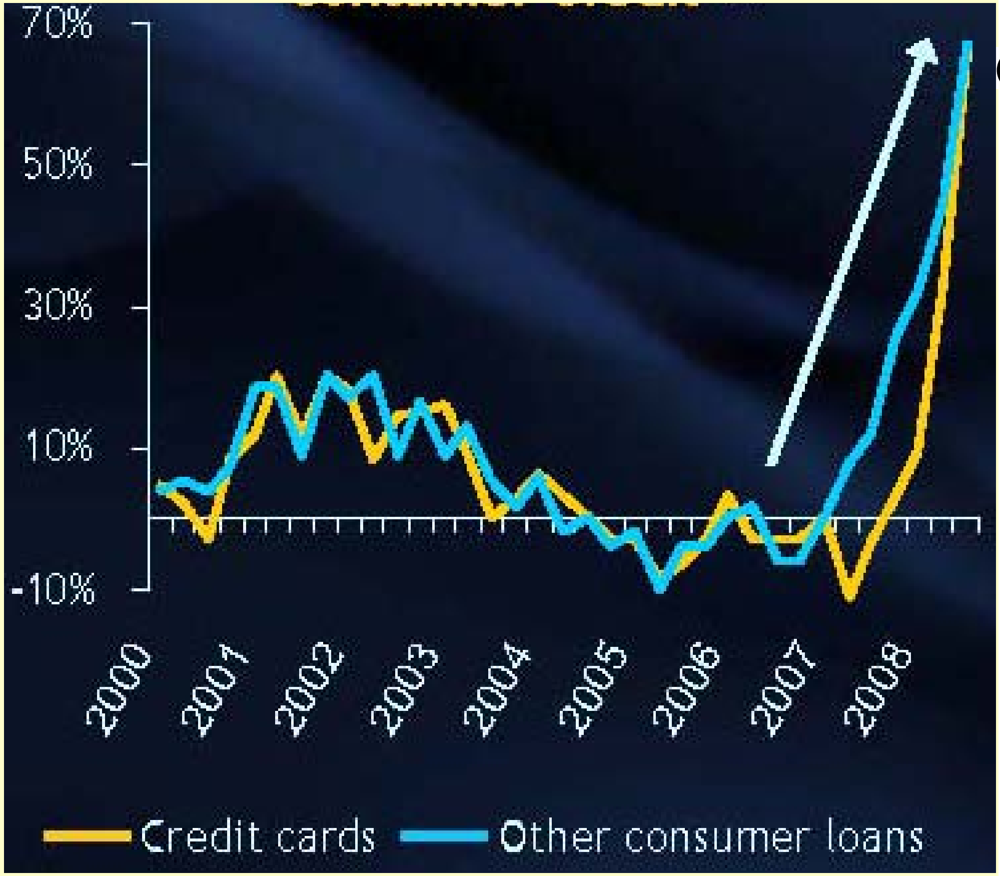
4,779 Commercial Buildings Worth $107 Billion Are Already Distressed or Troubled



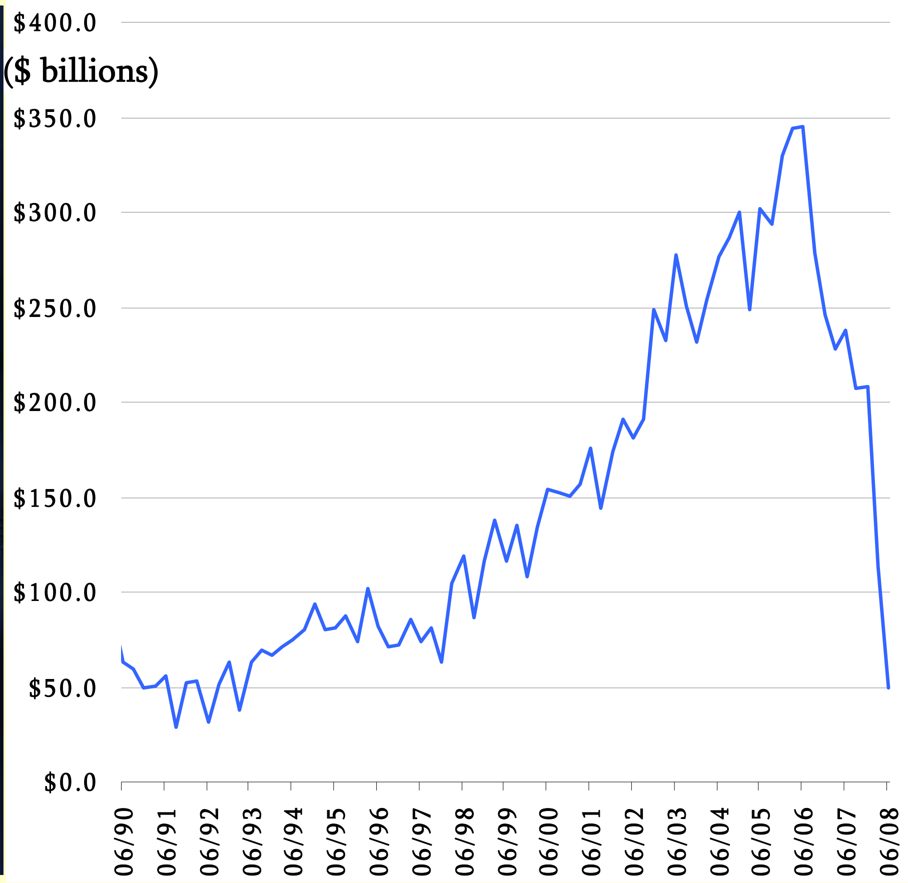
Source: Real Capital Analytics, NY Times, 12/18/08

Banks are Tightening Consumer Credit and New Household Borrowing Has Plunged

% of U.S. Banks Tightening Consumer Credit

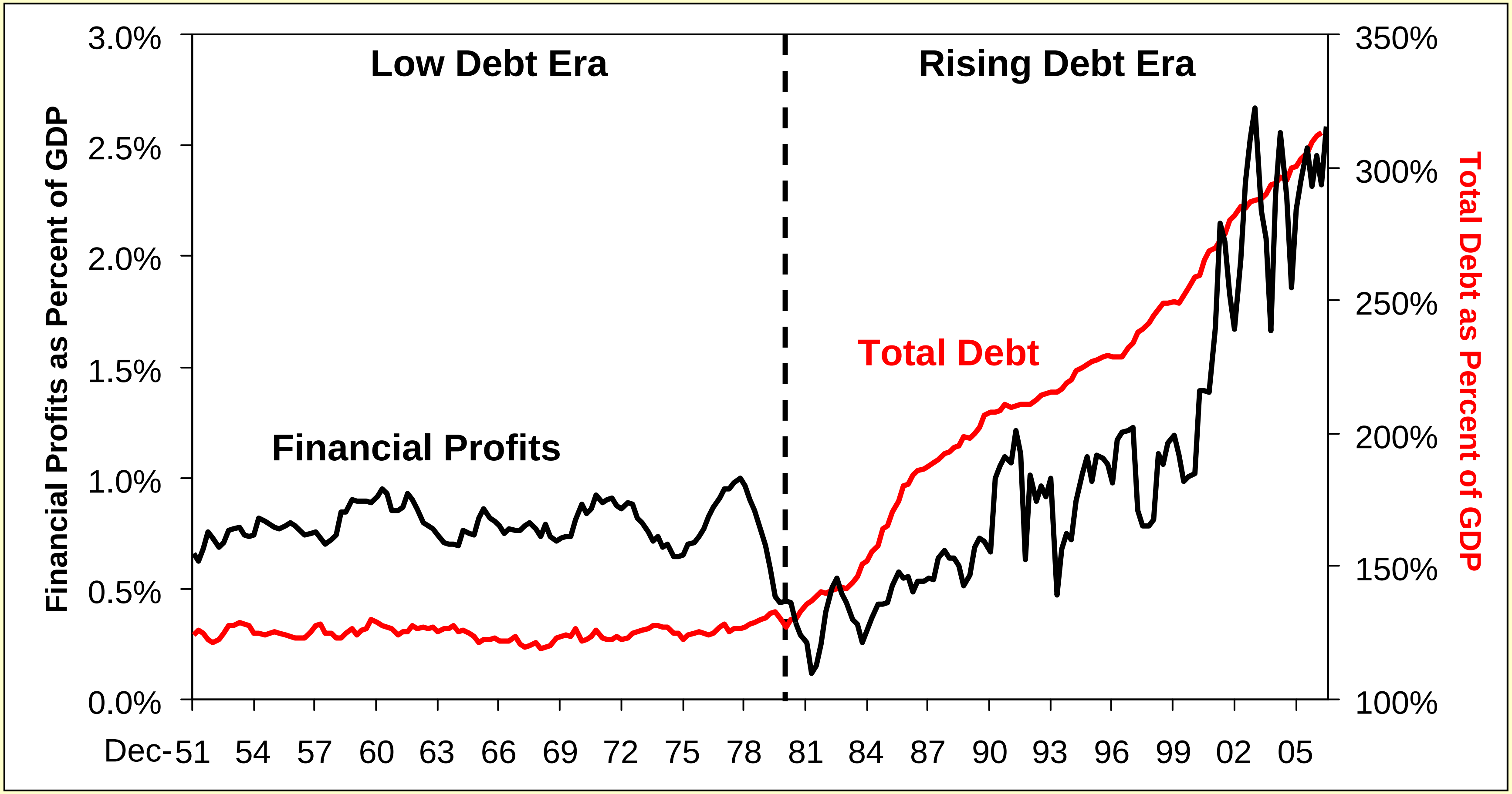


New Household Borrowing



Source: Federal Reserve, Carlyle and Paulson presentations

The Credit Bubble Led to a Bubble in Financial Profits (& Share of GDP)

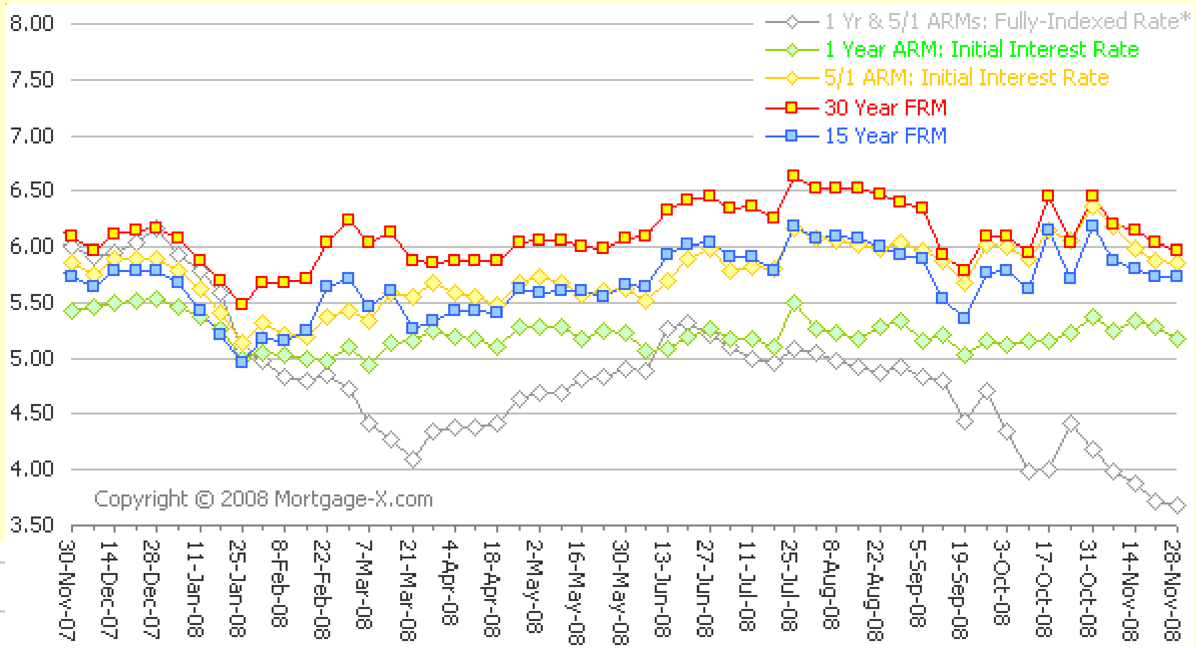


Sources: Federal Reserve, BEA, as of Q2 2007, GMO presentation

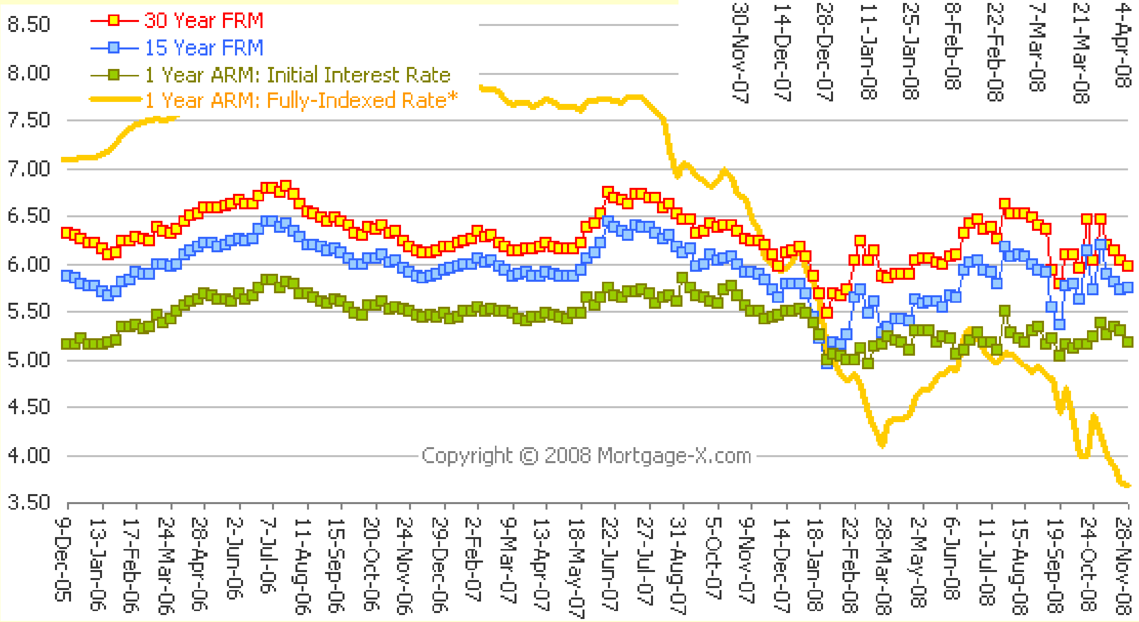
There Are Only a Few Bits of Good News

Mortgage Rates Have Fallen Recently

One-Year Trends



Three-Year Trends



Source: Mortgage-X, http://mortgage-x.com/trends.htm.

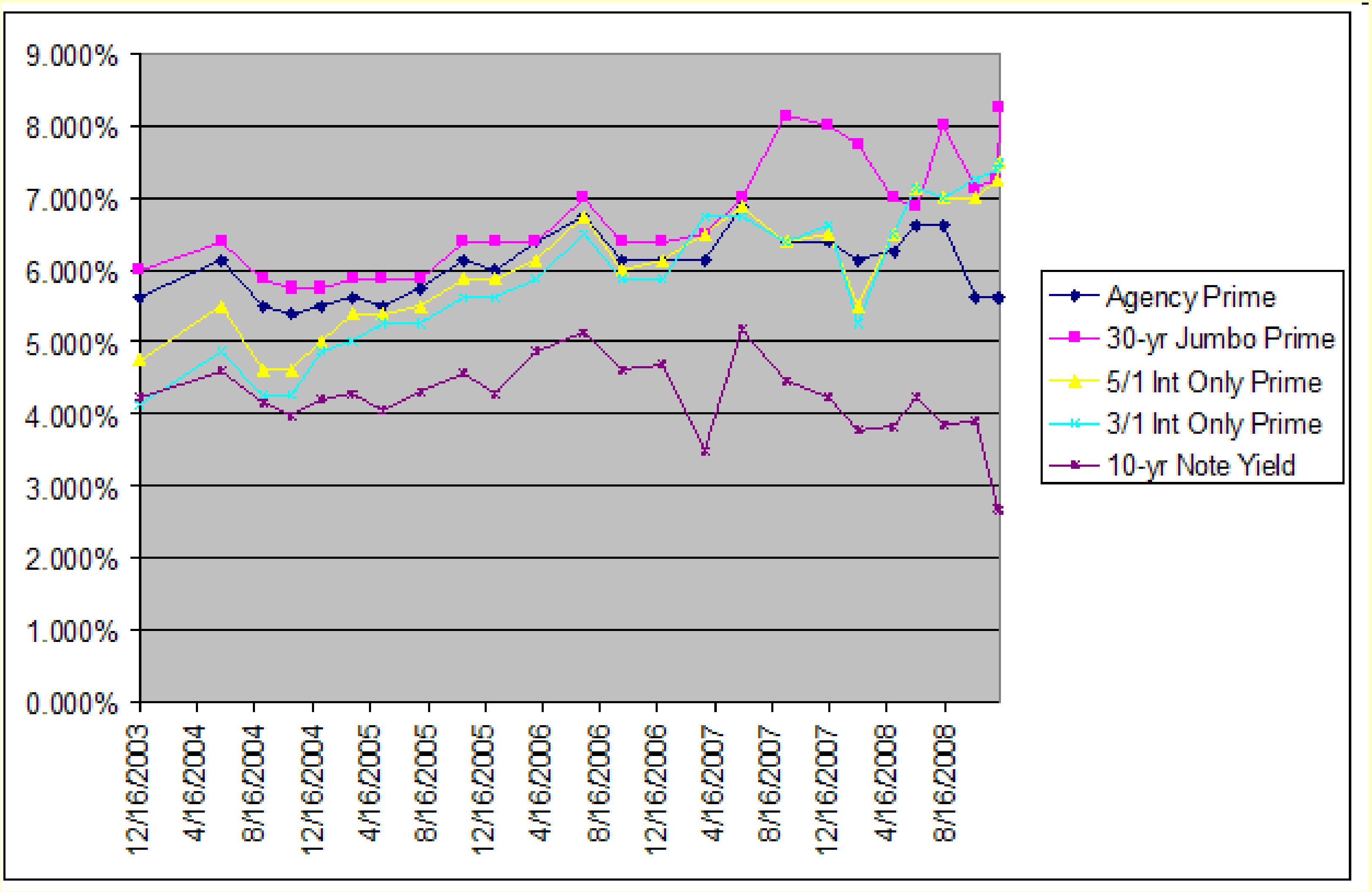
Mortgage Refinancings Soared in Late November As Lending Rates Fell

In late November, “the Federal Reserve announced that it would buy $500 billion in mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Mortgage rates immediately dropped, and that led to a surge in mortgage refinancing activity.”

* National average rate for conforming loans – loans that are $729,750 or less, depending on the region, and can be sold to Fannie Mae or Freddie Mac.

Sources: Mortgage Bankers Association, via Bloomberg; HSH Associates; appeared in NY Times, 12/3/08

But Interest Rates Are Only Falling for Loans That Can Be Guaranteed or Bought by Government (Prime Borrowers)

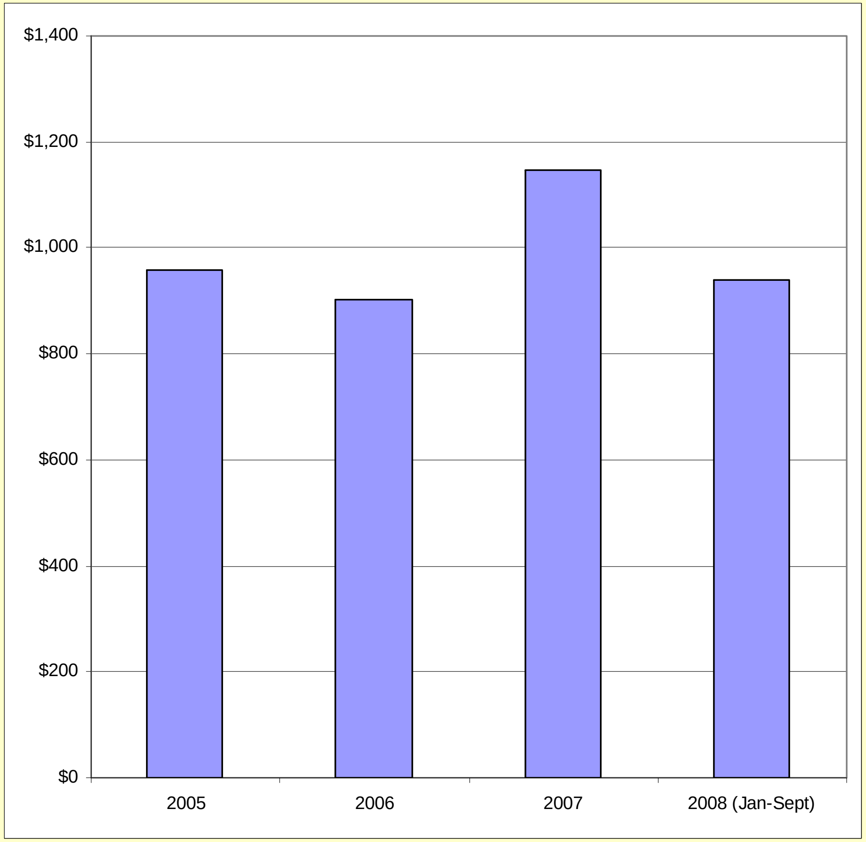


Source: www.ritholtz.com/blog/2008/12/jumbo-prime-‘walk-away’-loans-more-downgrades-coming/

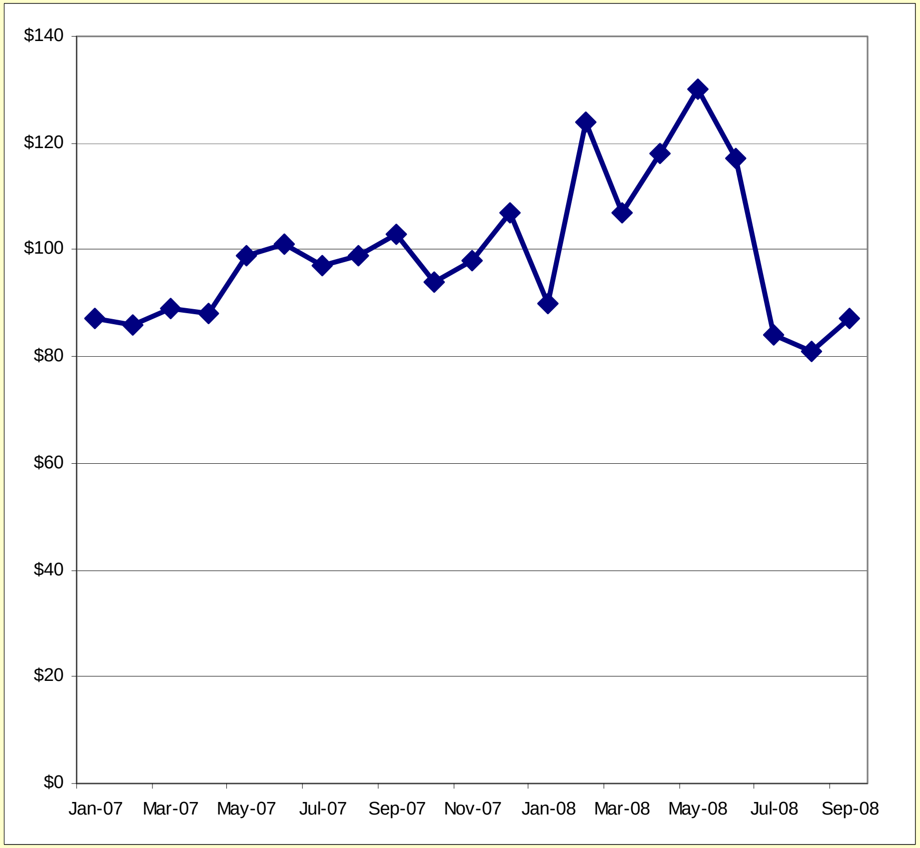
Conforming Single-Family Mortgages Remain Available, Thanks to the U.S. Government

Agency Mortgage Origination Volume ($B)

By Year



By Month

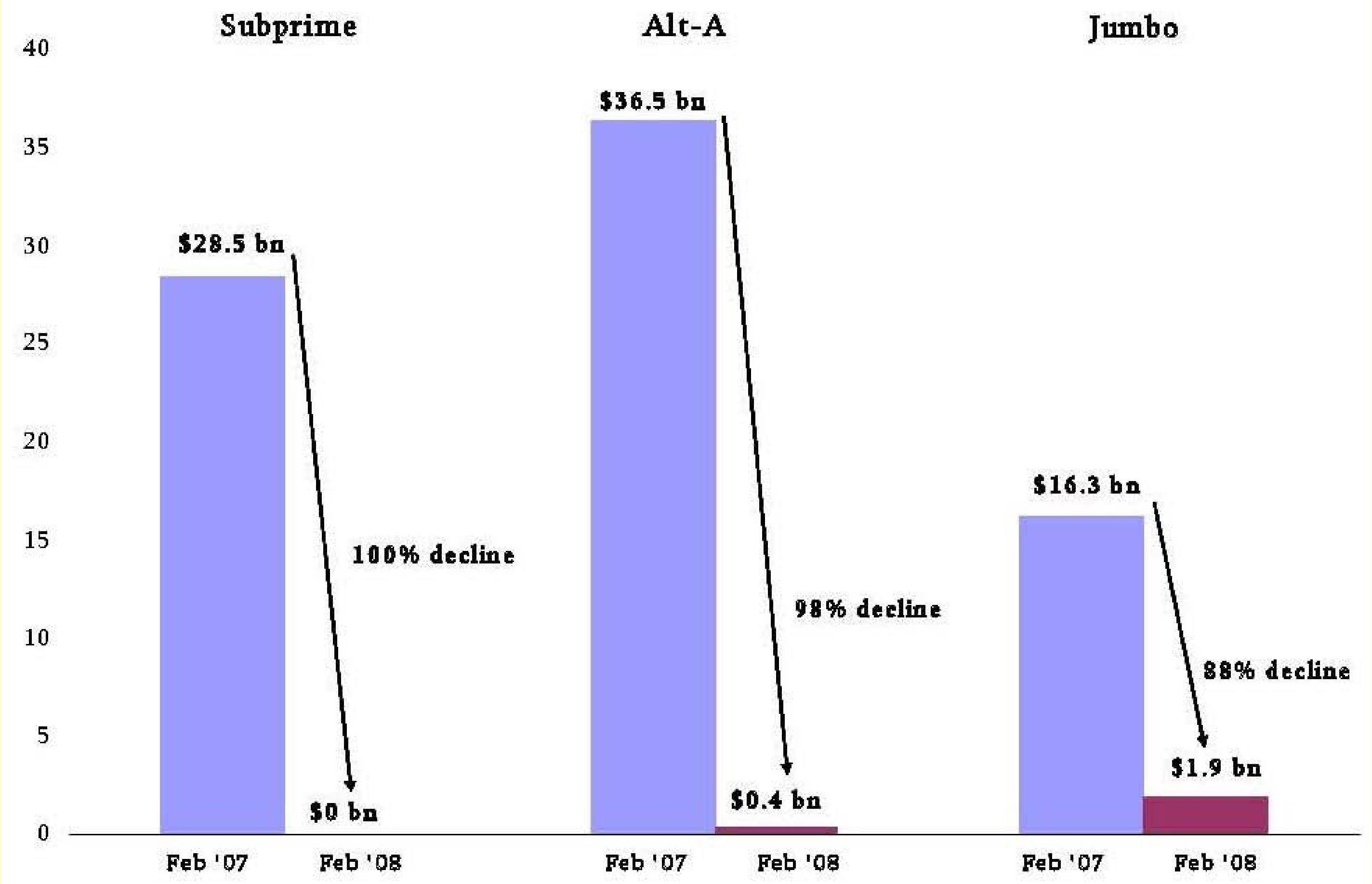


Note: Agencies are Fannie Mae, Freddie Mac and Ginnie Mae

Source: Bloomberg

But Almost No Subprime, Alt-A and Jumbo Mortgages Are Being Issued

Non-Agency Mortgage Issuance

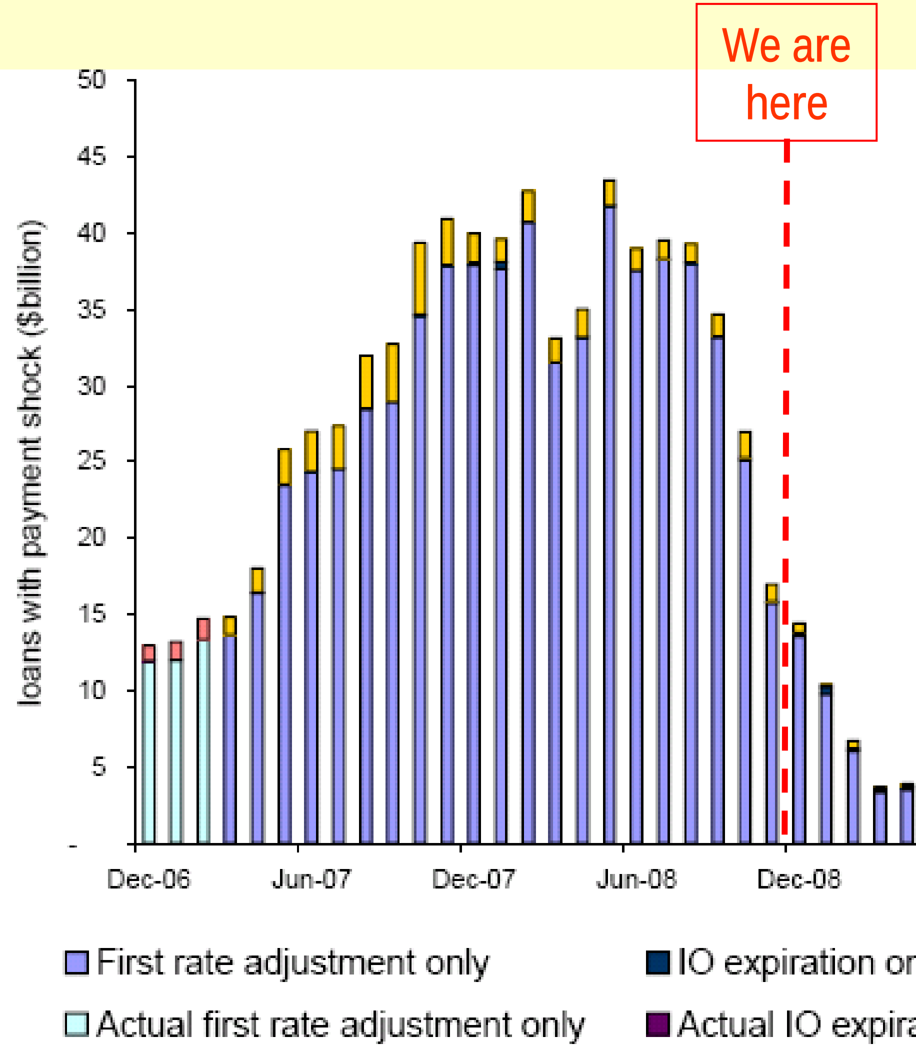


Source: Deutsche Bank, Merrill Lynch, Paulson presentation

The Outlook Is Grim

- Defaulting subprime and Alt-A loans drove the first stage of the mortgage crisis
- The next leg down of the mortgage crisis will be driven by defaulting prime loans, primarily Option ARMs, home equity lines of credit (HELOCs) and second liens (closed-end seconds)
- Losses outside of the mortgage sector will also continue to rise due to commercial real estate, leveraged loans, junk bonds, etc.

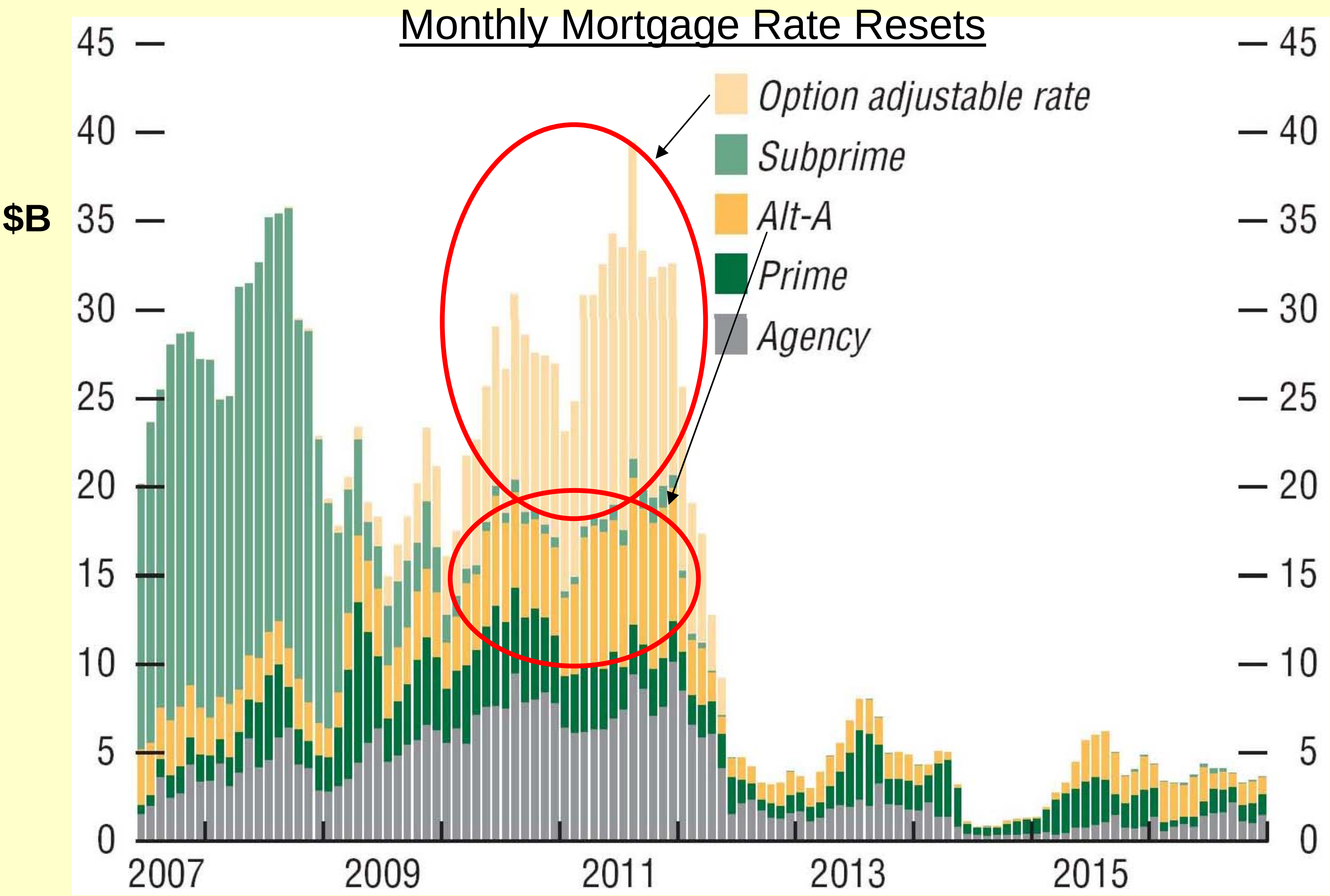
About $440 Billion of Adjustable Mortgages Reset in 2008



Loans with teaser rates were never supposed to reset. Reinforced by many years of experience, both lenders and borrowers assumed that home prices would keep rising and easy credit would keep flowing, allowing borrowers to refinance before the reset. Now that home prices are falling and the mortgage market has frozen up, very few borrowers can refinance, which, as shown later in this presentation, is leading to a surge in defaults – in many cases, *even before the interest rate resets*!

Sources: LoanPerformance, Deutsche Bank; slide from Pershing Square presentation, How to Save the Bond Insurers, 11/28/07.

The Chart on the Previous Page Misses the Fact That Alt-A and Option ARM Resets Will Surge in 2010-11



Source: Credit Suisse.

The Alt-A Train Wreak is Unfolding Rapidly

- About 3 million U.S. borrowers have Alt-A mortgages totaling $1 trillion, compared with $855 billion of subprime loans outstanding, according to Inside Mortgage Finance, a trade publication in Bethesda, Maryland.
- Of the Alt-A borrowers, 70 percent may have exaggerated their income, said David Olson, president of mortgage research firm Wholesale Access in Columbia, Maryland.
- Almost 16 percent of securitized Alt-A loans issued since January 2006 are at least 60 days late, data compiled by Bloomberg show. Defaults will accelerate next year and continue through 2011 as these loans hit their three- and five-year reset periods, according to RealtyTrac Inc., an Irvine, California-based foreclosure data provider.
- “Alt-A will be another headache,” said T.J. Lim, the London-based global co-head of markets at Unicredit Group. “I would be very worried about anything issued in the last half of 2006 and the first half of 2007.”

Source: Bloomberg, “Alt-A Mortgages Next Risk for Housing Market as Defaults Surge”, 9/12/09.

A Primer on Option ARMs: What Is an Option ARM?

- An Option ARM is an adjustable rate mortgage typically made to a prime borrower
  - Sold under various names such as “Pick-A-Pay”
- Banks typically relied on the appraised value of the home and the borrower’s high FICO score, so 83% of Option ARMs written in 2004-2007 were low- or no-doc (liar’s loans)
- Each month, the borrower can choose to pay: 1) the fully amortizing interest and principal; 2) full interest; or 3) an ultra-low teaser interest-only rate (typically 2-3%), in which case the unpaid interest is added to the balance of the mortgage (meaning it is negatively amortizing)
  - Approximately 80% of Option ARMs are negatively amortizing
  - Lenders, however, booked earnings as if the borrowers were making full interest payments
- A typical Option ARM is a 30- or 40-year mortgage that resets (“recasts”) after five years, when it becomes fully amortizing
  - If an Option ARM negatively amortizes to 110-125% of the original balance (depending on the terms of the loan), this triggers a reset even if five years have not elapsed
- Upon reset, the average monthly payment jump 63% from $1,672 to $2,725 ($32,700 annually)

Further Details on Option ARMs

From Washington Mutual's 2007 10K (emphasis added):

"The Option ARM home loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully-amortizing, interest-only, or minimum payment. As described in greater detail below, *the minimum payment is typically insufficient to cover interest accrued in the prior month and any unpaid interest is deferred and added to the principal balance of the loan*.

The minimum payment on an Option ARM loan is based on the interest rate charged during the introductory period. This introductory rate has usually been significantly below the fully-indexed rate. The fully-indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully-indexed rate and adjusts monthly to reflect movements in the index.

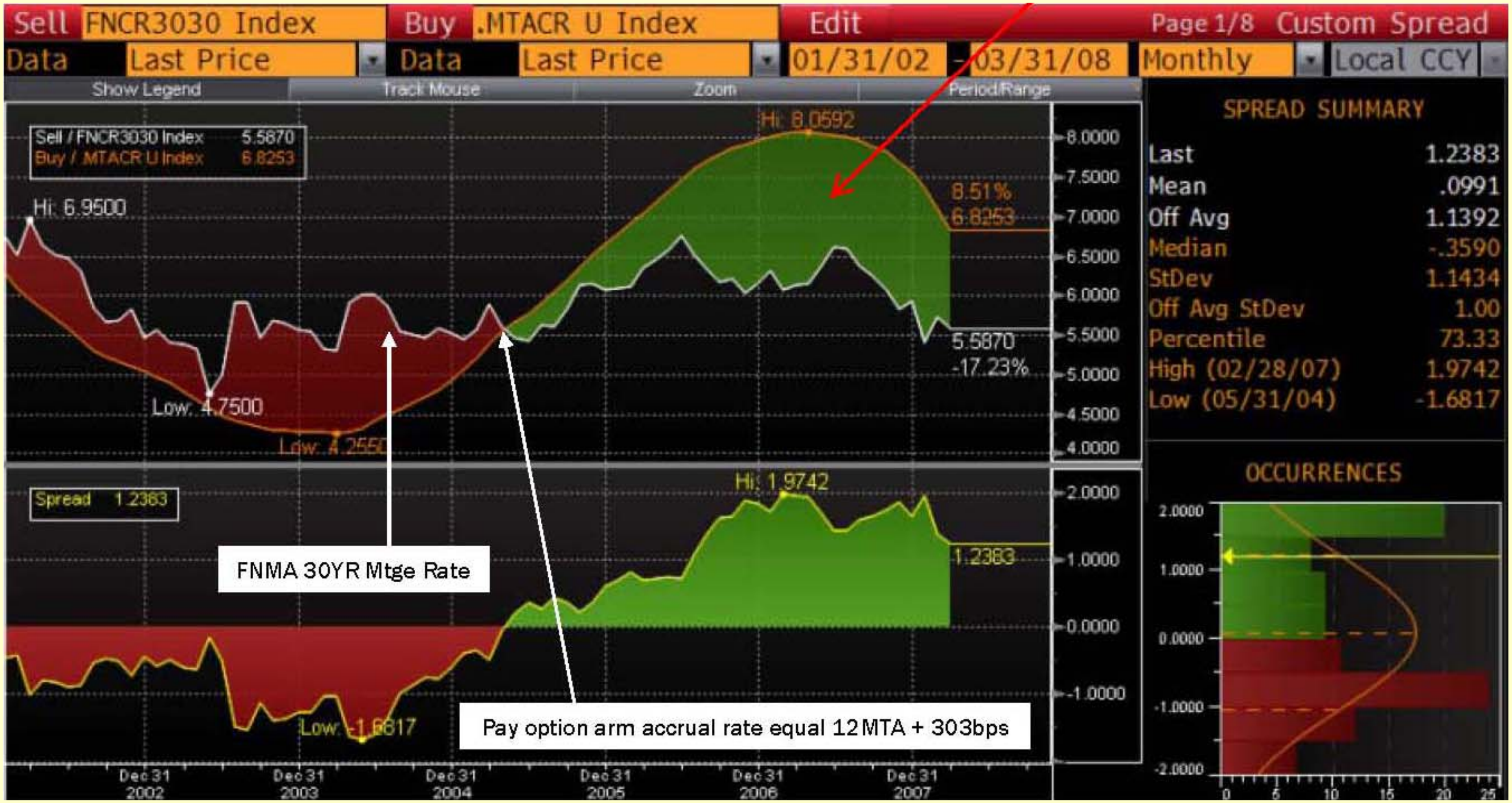
If the borrower continues to make the minimum monthly payment after the introductory period ends, the payment may not be sufficient to cover interest accrued in the previous month. In this case, the loan will "negatively amortize" as unpaid interest is deferred and added to the principal balance of the loan. The minimum payment on an Option ARM loan is adjusted on each anniversary date of the loan but each increase or decrease is limited to a maximum of 7.5% of the minimum payment amount on such date until a "recasting event" occurs.

A recasting event occurs every 60 months or sooner upon reaching a negative amortization cap. When a recasting event occurs, a new minimum monthly payment is calculated without regard to any limits on the increase or decrease in amount that would otherwise apply under the annual 7.5% payment cap. This new minimum monthly payment is calculated to be sufficient to fully repay the principal balance of the loan, including any theretofore deferred interest, over the remainder of the loan term using the fully-indexed rate then in effect.

A recasting event occurs immediately whenever the unpaid principal balance reaches the negative amortization cap, which is expressed as a percent of the original loan balance. Prior to 2006, the negative amortization cap was 125% of the original loan balance... For all Option ARM loans originated in 2006, the negative amortization cap was 110% of the original loan balance. For Option ARM loans originated in 2007, the negative amortization cap was raised to 115%...

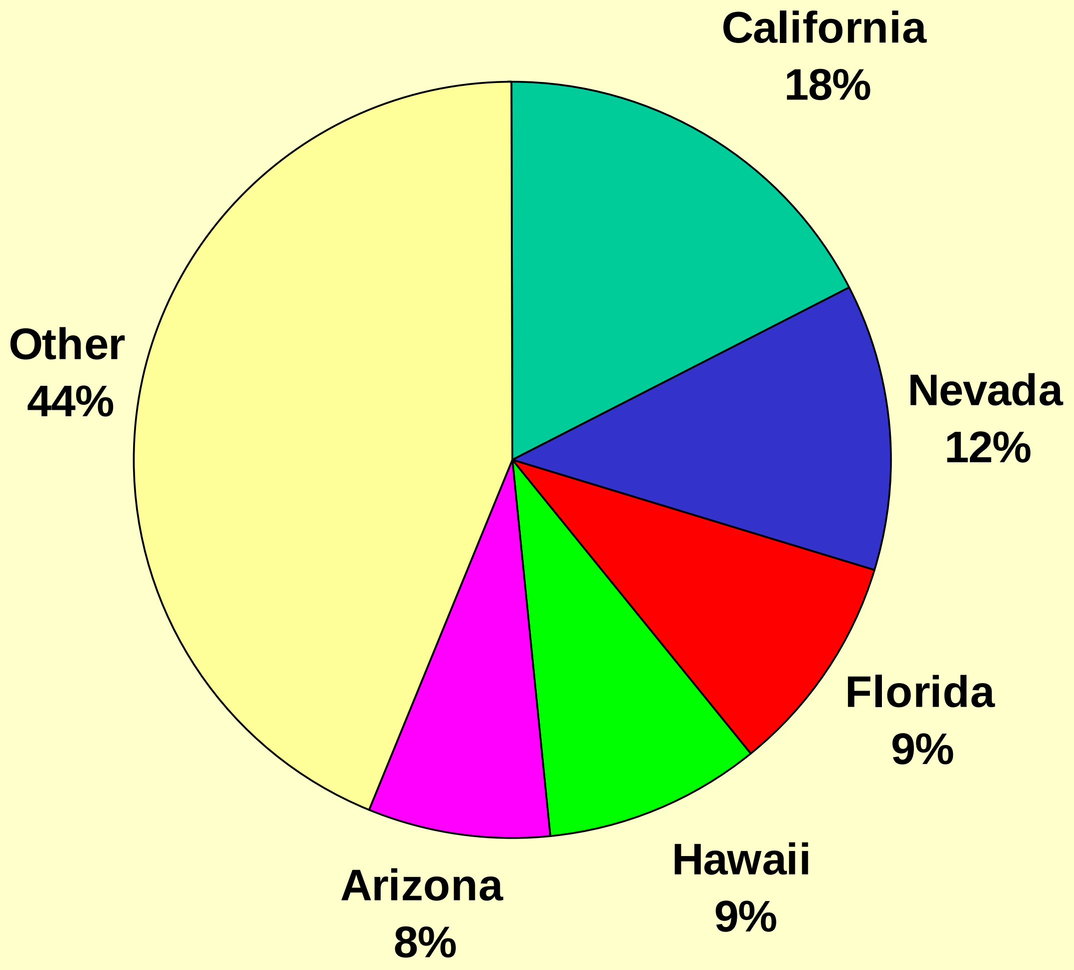
In the first month that follows a recasting event, the minimum payment will equal the fully-amortizing payment.

Beginning in March 2005, High-FICO-Score Borrowers Opted for an Above-Market-Rate Option ARM in Exchange for the Low Teaser Rate



Source: Amherst Securities, Bloomberg

Options ARMs Were Most Common in Housing Bubble States That Are Suffering the Greatest Home Price Declines



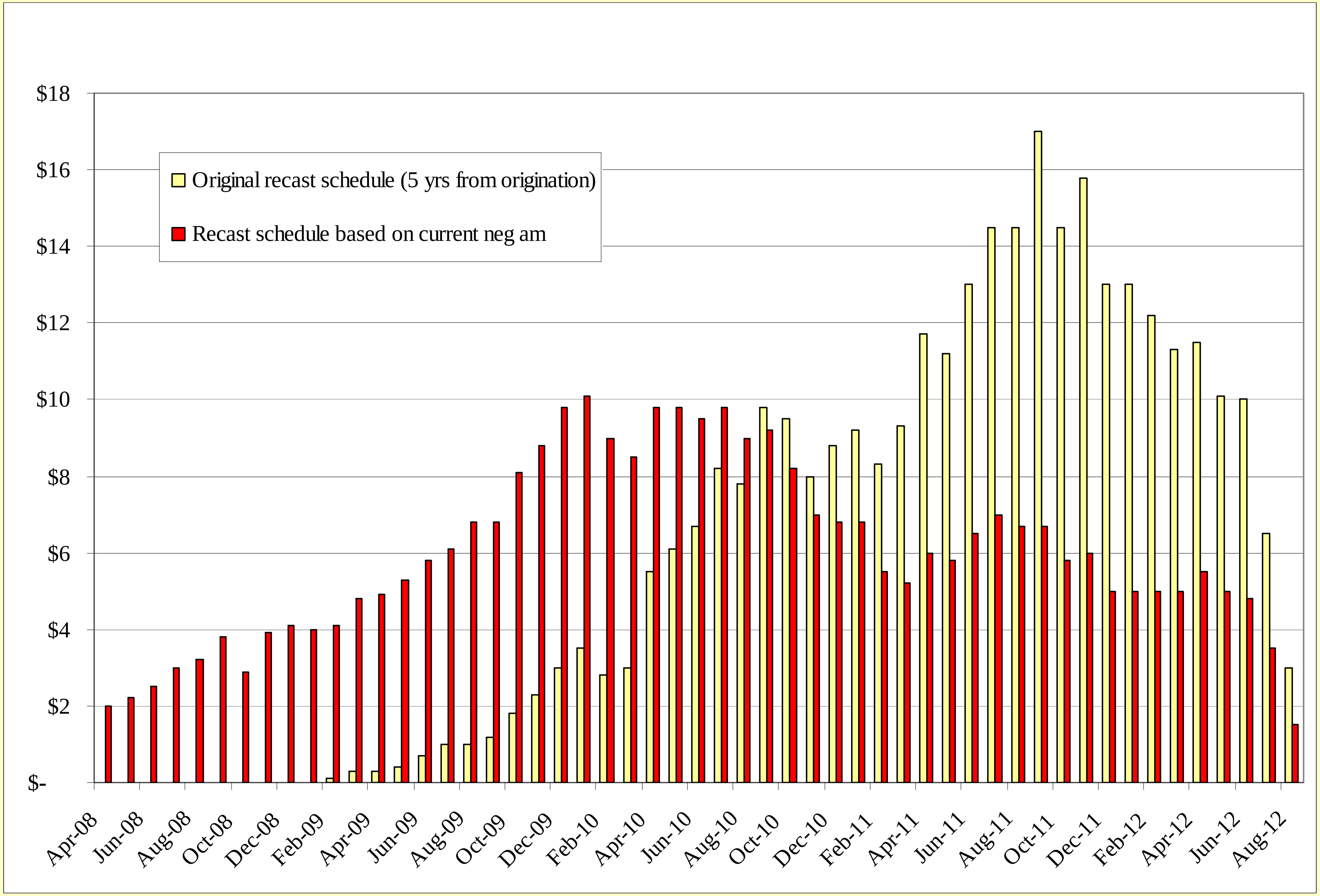
Note: Based on 2006 originations; Source: First American CoreLogic, as reported in *Defaults Rising Rapidly For 'Pick-a-Pay' Option Mortgages*, WSJ, 4/30/08.

Rising Delinquencies Among Option ARMs

- "'My sense is that many option ARM borrowers are in a worse position than subprime borrowers,' says Kevin Stein, associate director of the California Reinvestment Coalition, which combats predatory lending. 'They wind up owing more and the resets are more significant.'"
- "In Q1, Countrywide Financial Corp. said that 9.4% of the option ARMs in its bank portfolio were at least 90 days past due, up from 5.7% at the end of December and 1% a year earlier."
- "Washington Mutual Inc. reported earlier this month that option ARMs account for 50% of prime loans in its bank portfolio, but 70% of prime nonperforming loans."
- "At Wachovia Corp., non-performing assets in the company's option ARM portfolio, which was acquired with the company's purchase of Golden West Financial Corp., climbed to $4.6 billion in the first quarter from $924 million a year earlier."

Source: *Defaults Rising Rapidly For 'Pick-a-Pay' Option Mortgages*, WSJ, 4/30/08.

Option ARMs are Recasting Much Faster Than Expected Due to Negative Amortization



Comments From a Federal Senior Bank Examiner

"The next problem is with the Option ARM product. Approximately 80-90% are paying the minimum credit card payment and most loans are negatively amortizing.

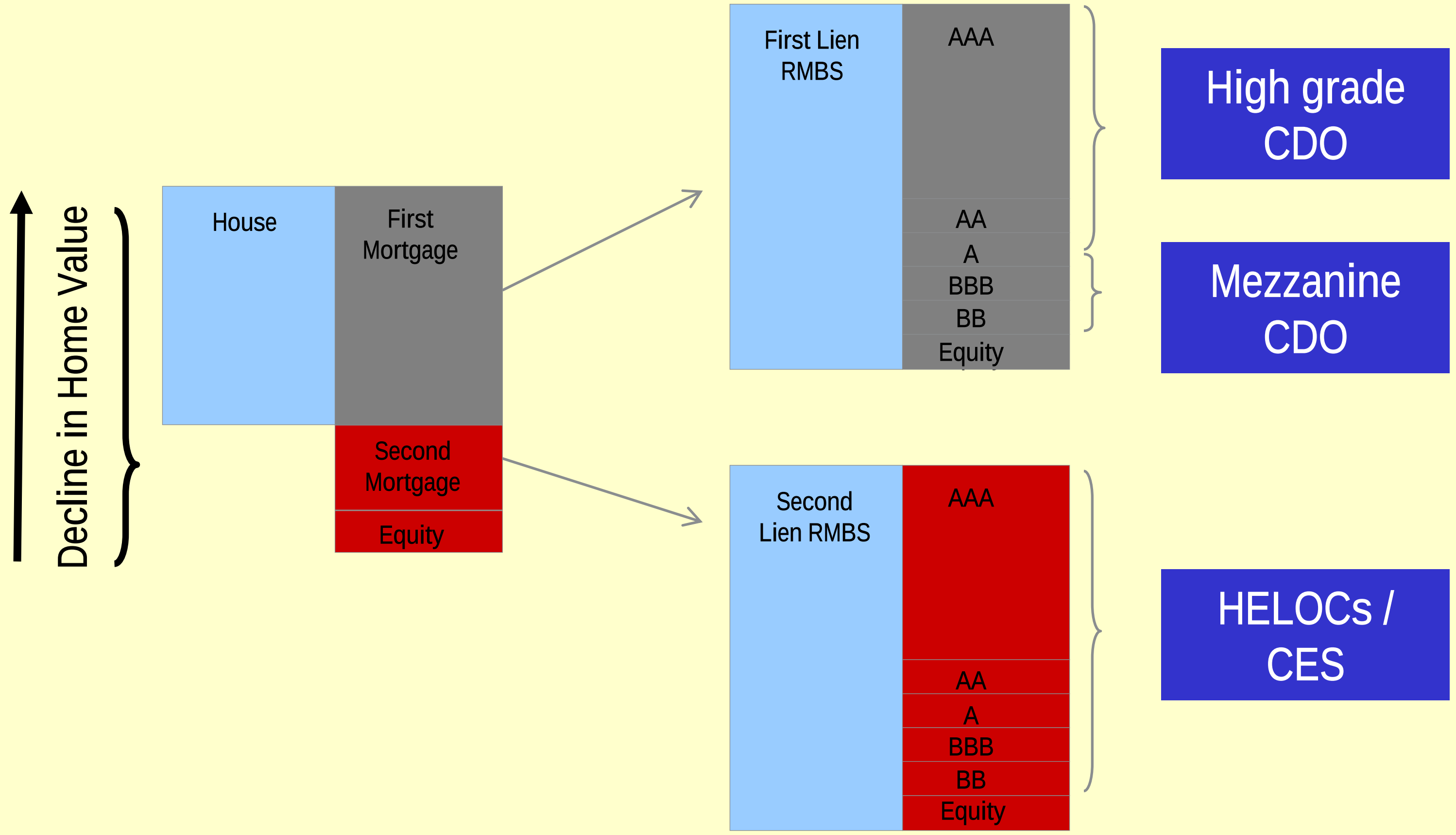
Here the payment shock is two-fold – rate and principal – and *the increase in payments can be astronomical: 200% or higher, not the 10 to 100% that subprime has experienced*. Also, the dollars exposed in Alt-A are nearly 50% higher than subprime (Alt-A average balance is $299k versus $181k for subprime).

Also, *73% were underwritten with Low or No Doc*. The option arm books of many lenders are already showing significant deterioration and they have not even recast yet.

This is the next tsunami to hit the housing market. This will hit much higher price points $600k and above as this was the affordability product used by higher income/higher FICO score households to buy that dream home."

A Primer on HELOCs and Closed-End Second Mortgages (Second Liens)

Home Equity Lines of Credit (HELOC) and Closed-end Second Mortgages (CES) are junior to even the most subordinated tranches of a typical first mortgage securitization. HELOCs and CES are in a first-loss position and are leveraged to a decline in housing values.



Source: "How to Save the Bond Insurers", Pershing Square presentation, 11/28/07.

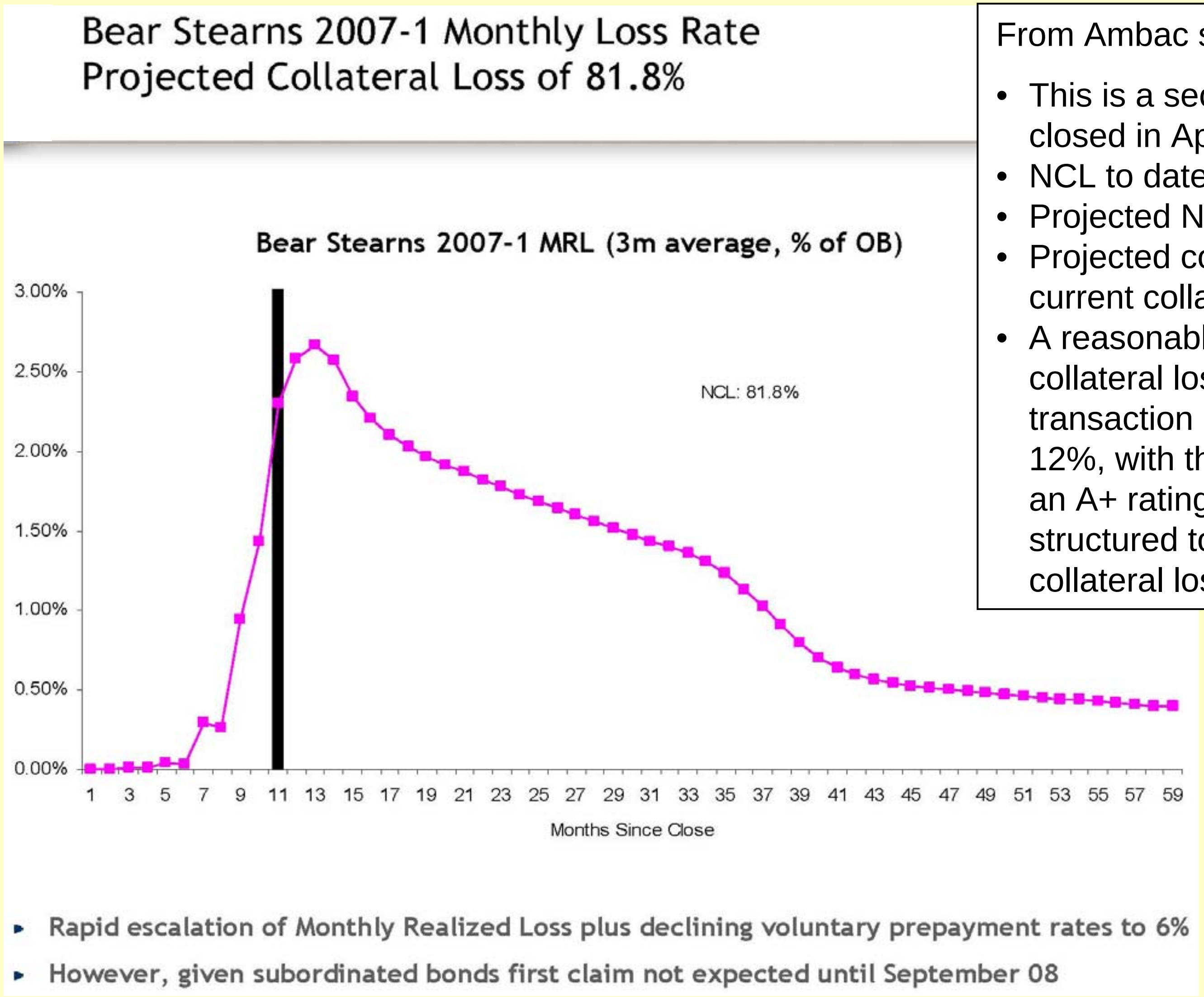
HELOC & CES Exposure Is Effectively Mortgage Insurance

- Mortgage insurers insure junior-most ~25% of high-LTV mortgage loans
- Closed-end seconds are junior to first mortgages, accrued interest, foreclosure costs, brokerage commissions, and other expenses
- HELOC and CES risk is actually structurally inferior to mortgage insurance risk
  - Mortgage insurers at least have the option to acquire the underlying first mortgage in order to improve recoveries
- In a flat to declining home price environment, we believe HELOCs and CES are likely to suffer 100% loss severity upon default
  - MBIA agrees: in its Q1 08 earnings release, the company assumes 100% severity upon HELOC and CES default
- Standard & Poor's reported that delinquencies on home-equity lines of credit issued in 2005 and 2006 jumped in March 2008 to 9.2% of lines issued in 2005 and 11.5% of loans issued in 2006, both up 6.5% from February.

Source: "How to Save the Bond Insurers", Pershing Square presentation, 11/28/07; WSJ, 4/21/08.

Pools of HELOCs and CESs Can Suffer Astronomical Losses Due to 100%+ Severities

On One Second Lien Deal, Ambac Expected Losses of 10-12% -- But Now Estimates 81.8%



From Ambac slide:

- This is a second lien deal that closed in April 2007
- NCL to date 9.9%
- Projected NCL 81.8%
- Projected collateral loss as a % of current collateral: 86%
- A reasonable estimate of projected collateral loss for the above transaction might have been 10-12%, with the transaction having an A+ rating at inception and being structured to withstand 28-30% collateral loss

Source: Ambac Q1 08 presentation; *funds managed by T2 Partners are short Ambac*

Many Banks Have Large Exposures to Home Equity Loans

Regulatory Data: Home Equity Exposure Defined as Second Lien Closed-End Loans and Revolving 1-4 Family Loans

	Institution	% of Gross Loans	% of Assets	% of Equity	Growth: 2005-2007
1	Countrywide Financial Corporation	30.89%	16.35%	236.23%	-23.30%
2	Washington Mutual, Inc.	25.98%	19.36%	258.25%	19.91%
3	First Horizon National Corporation	25.95%	18.12%	314.15%	-9.92%
4	National City Corporation	21.88%	17.52%	196.45%	-10.14%
5	Wells Fargo & Company	20.71%	14.76%	178.27%	23.95%
6	Huntington Bancshares Incorporated	17.83%	13.21%	121.45%	50.17%
7	SunTrust Banks, Inc.	16.96%	12.39%	123.20%	25.68%
8	Commerce Bancorp, Inc.	15.90%	5.78%	102.27%	41.72%
9	PNC Financial Services Group, Inc.	15.67%	8.16%	76.32%	10.76%
10	JPMorgan Chase & Co.	15.27%	5.43%	68.86%	36.25%
11	Fifth Third Bancorp	13.45%	10.25%	124.19%	-2.29%
12	Regions Financial Corporation	13.35%	9.11%	64.82%	119.82%
13	Bank of America Corporation	12.90%	6.83%	79.86%	67.48%
14	KeyCorp	12.03%	9.09%	117.37%	-6.92%
15	Sovereign Bancorp, Inc.	10.83%	7.40%	88.63%	-36.72%
16	U.S. Bancorp	10.36%	6.92%	78.12%	9.76%
17	M&T Bank Corporation	10.25%	7.59%	75.88%	6.22%
18	Citigroup Inc.	8.15%	3.21%	61.83%	70.55%
19	BB&T Corporation	8.15%	5.64%	59.16%	15.27%
20	Wachovia Corporation	8.03%	4.99%	50.83%	15.40%
21	Synovus Financial Corp.	7.13%	5.78%	55.24%	33.51%
22	Marshall & Ilsley Corporation	6.61%	5.11%	43.52%	-8.44%
23	Popular, Inc.	5.81%	3.91%	48.52%	5.27%
24	Zions Bancorporation	5.39%	3.98%	39.82%	42.06%
25	Capital One Financial Corporation	2.41%	1.65%	10.20%	68.73%
	Median	**12.90%**	**7.40%**	**78.12%**	**15.40%**
	Mean	**13.68%**	**8.90%**	**106.94%**	**22.59%**

Source: *U.S. Home Equity Woes: Banks Grapple With Higher Losses*, Fitch, 3/14/08

The Timing Indicates That We Are Still in the Early Stages of the Bursting of the Great Mortgage Bubble

- Mortgage lending standards became progressively worse starting in 2000, but really went off a cliff beginning in early 2005
- The worst loans are those with two-year teaser rates. As the subsequent pages show, they are defaulting at unprecedented rates, especially once the interest rates reset
- Such loans made in Q1 2005 started to default in high numbers in Q1 2007, which not surprisingly was the beginning of the current crises
- The crisis has continued to worsen as even lower quality loans made over the remainder of 2005 reset over the course of 2007, triggering more and more defaults
- It takes an average of 15 months from the date of the first missed payment by a homeowner to a liquidation (generally a sale via auction) of the home
- Thus, the Q1 2005 loans that defaulted in Q1 2007 led to foreclosures and auctions in early 2008
- Given that lending standards got much worse in late 2005, through 2006 and into the first half of 2007, there are sobering implications for expected defaults, foreclosures and auctions in 2009 and beyond, which promise to drive home prices down further

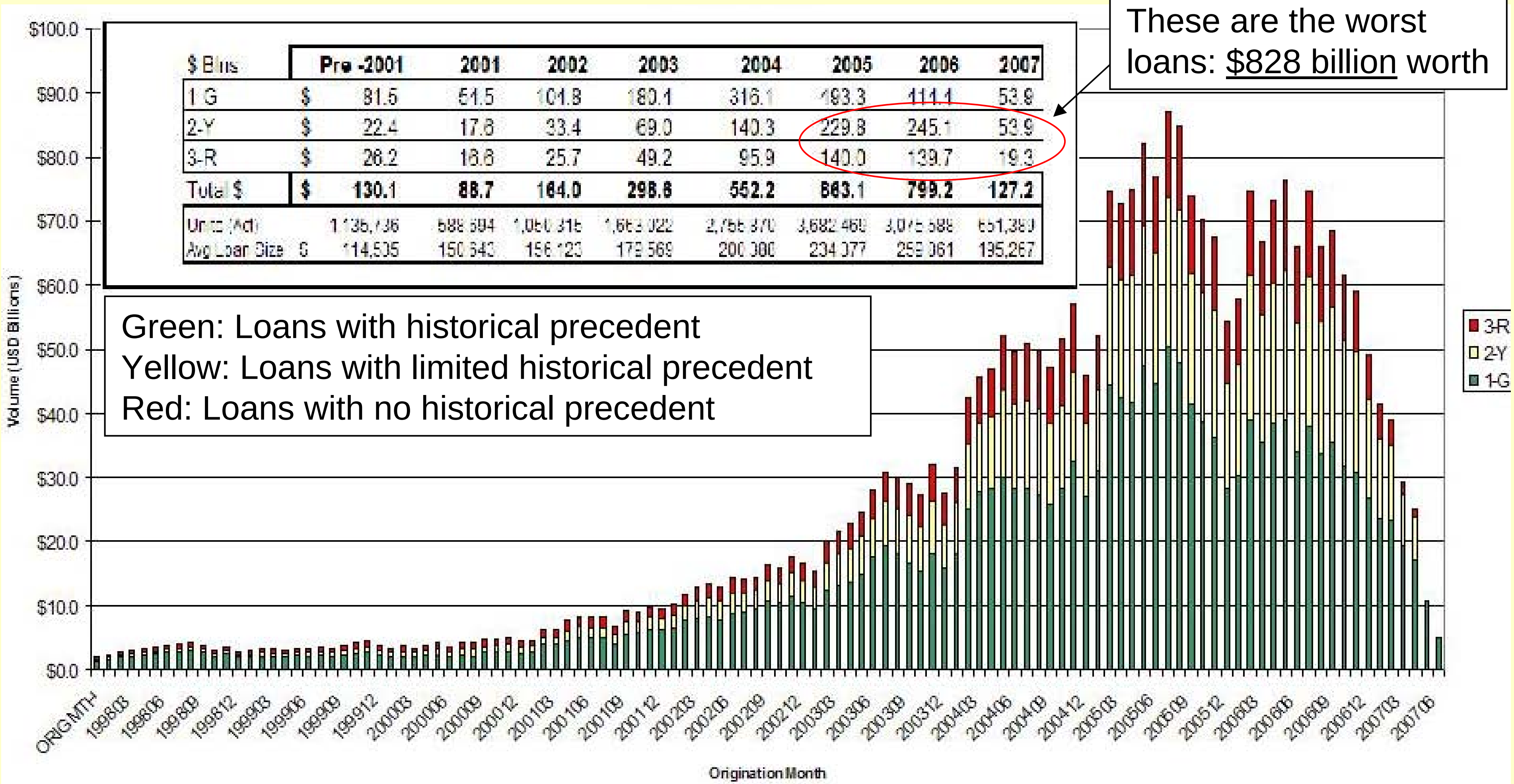
In summary, today we are only in the early innings of an enormous wave of defaults, foreclosures and auctions that is hitting the United States. We predicted in early 2008 that it would get so bad that it would require large-scale federal government intervention – which has occurred, and we're likely not finished yet.

A Closer Look at Mortgage Loans That Were Securitized: Quantity and Quality

Hundreds of Billions of Dollars of Mortgages Were Securitized, Many On Terms With No Historical Precedent

Securitized First Liens – Origination Volume

These are the worst loans: $828 billion worth



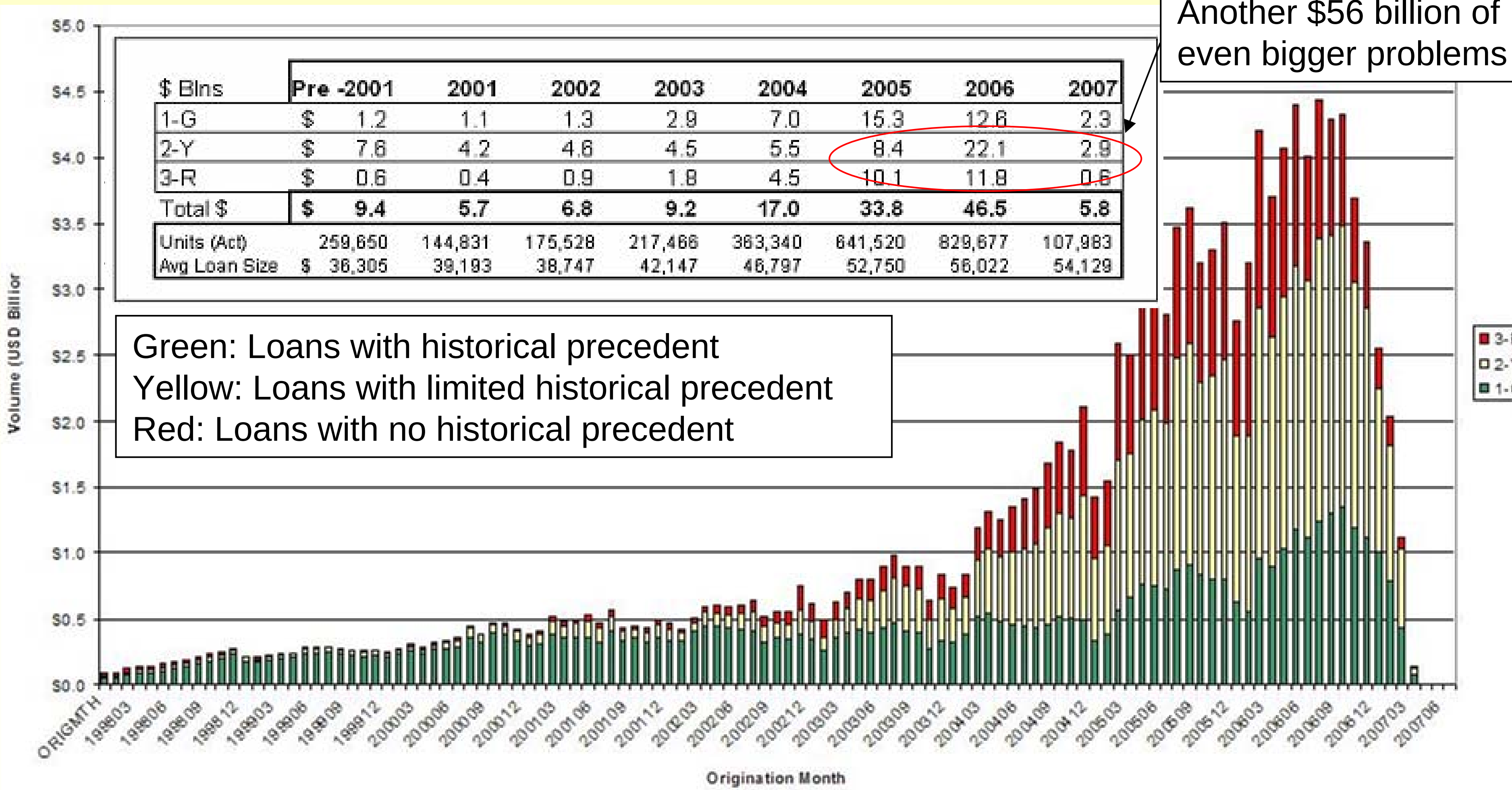
$ Blns		Pre -2001	2001	2002	2003	2004	2005	2006	2007
1 G	$	81.5	54.5	101.8	180.4	316.1	493.3	414.4	53.9
2-Y	$	22.4	17.6	33.4	69.0	140.3	229.8	245.1	53.9
3-R	$	26.2	16.6	25.7	49.2	95.9	140.0	139.7	19.3
Total $	**$**	**130.1**	**88.7**	**164.0**	**298.6**	**552.2**	**863.1**	**799.2**	**127.2**
Units (Act)		1,135,736	588,594	1,050,315	1,663,022	2,755,370	3,682,469	3,075,588	651,389
Avg Loan Size	$	114,505	150,643	156,123	179,569	200,380	234,377	259,861	195,267

Green: Loans with historical precedent
Yellow: Loans with limited historical precedent
Red: Loans with no historical precedent

Source: Amherst Securities Group, L.P.

Tens of Billions of Dollars of 2nd Lien Mortgages Were Also Securitized, Many On Terms With No Historical Precedent

Securitized Second Liens – Origination Volume



$ Blns	Pre -2001	2001	2002	2003	2004	2005	2006	2007
1-G	$ 1.2	1.1	1.3	2.9	7.0	15.3	12.6	2.3
2-Y	$ 7.6	4.2	4.6	4.5	5.5	8.4	22.1	2.9
3-R	$ 0.6	0.4	0.9	1.8	4.5	10.1	11.8	0.6
Total $	**$ 9.4**	**5.7**	**6.8**	**9.2**	**17.0**	**33.8**	**46.5**	**5.8**
Units (Act)	259,650	144,831	175,528	217,466	363,340	641,520	829,677	107,983
Avg Loan Size	$ 36,305	39,193	38,747	42,147	46,797	52,750	56,022	54,129

Source: Amherst Securities Group, L.P.

Volume of June 2005 Fixed Rate and 2/28*
Full Doc Securitized Mortgage Loans

Fixed Full Doc – June 2005 Production
Total Volume: $ 8.1 billion
Green: 70.0%; Yellow: 9.3%; Red: 5.4%

Loan-to-Value

FICO

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100	1.4%	0.3%	0.5%	0.6%	1.3%	0.5%	0.7%	1.9%
760-780	0.9%	0.4%	0.4%	0.7%	1.3%	0.5%	0.7%	2.0%
740-760	0.8%	0.3%	0.4%	0.6%	1.2%	0.6%	0.9%	2.2%
720-740	0.8%	0.3%	0.5%	0.7%	1.2%	0.6%	0.8%	2.3%
700-720	0.7%	0.5%	0.5%	0.7%	1.2%	0.8%	0.8%	2.5%
680-700	0.9%	0.4%	0.7%	0.9%	1.7%	1.0%	1.2%	2.6%
660-680	1.0%	0.4%	0.6%	0.8%	1.6%	0.9%	1.2%	2.7%
640-660	1.0%	0.4%	0.7%	1.3%	1.9%	1.2%	1.4%	2.5%
620-640	1.2%	0.5%	0.7%	1.1%	1.8%	1.1%	1.3%	2.3%
600-620	1.0%	0.5%	0.6%	0.8%	1.4%	0.9%	0.9%	1.6%
580-600	0.8%	0.4%	0.5%	0.6%	1.0%	0.6%	0.6%	1.0%
560-580	0.7%	0.3%	0.3%	0.5%	0.8%	0.5%	0.6%	0.3%
540-560	0.6%	0.3%	0.3%	0.4%	0.6%	0.4%	0.4%	
520-540	0.4%				0.4%	0.3%		
500-520	0.3%							
480-500								
460-480								
0-460								0.4%

2/28 Full Doc – June 2005 Production
Total Volume: $16.4 billion
Green: 39.9%; Yellow: 25.2%; Red: 26.1%

Loan-to-Value

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								0.34%
760-780								0.59%
740-760								0.89%
720-740					0.25%			1.10%
700-720					0.39%		0.30%	1.71%
680-700					0.64%		0.48%	2.85%
660-680					1.17%	0.49%	0.81%	4.21%
640-660			0.25%	0.41%	1.77%	0.83%	1.42%	5.96%
620-640	0.34%		0.33%	0.58%	2.13%	1.14%	1.95%	7.25%
600-620	0.47%	0.29%	0.46%	0.82%	2.51%	1.30%	2.21%	7.63%
580-600	0.60%	0.32%	0.51%	0.75%	2.24%	1.30%	2.08%	5.87%
560-580	0.68%	0.37%	0.55%	0.82%	1.44%	1.34%	2.23%	1.84%
540-560	0.74%	0.37%	0.56%	0.79%	1.33%	1.29%	1.64%	0.68%
520-540	0.65%	0.43%	0.55%	0.83%	1.20%	1.14%	0.68%	0.33%
500-520	0.61%	0.32%	0.50%	0.68%	1.06%	0.62%	0.31%	
480-500								
460-480								
0-460								

Note: Green: Loans with historical precedent; Yellow: Loans with limited historical precedent;
Red: Loans with no historical precedent

* 2-28 loans are those with two-year teaser interest rates that then reset to much higher rates, which triggers a surge in defaults. Because they offer the lowest monthly payments (for the first two years), they are generally the lowest-quality loans, preferred by speculators and the most over-stretched borrowers.

Source: Amherst Securities Group, L.P.

Volume of June 2005 Fixed Rate and 2/28 *Low Doc* Securitized Mortgage Loans

Fixed Low Doc – June 2005 Production
Total Volume: $ 7.7 billion
Green: 49.2%; Yellow: 25.8%; Red: 8.0%

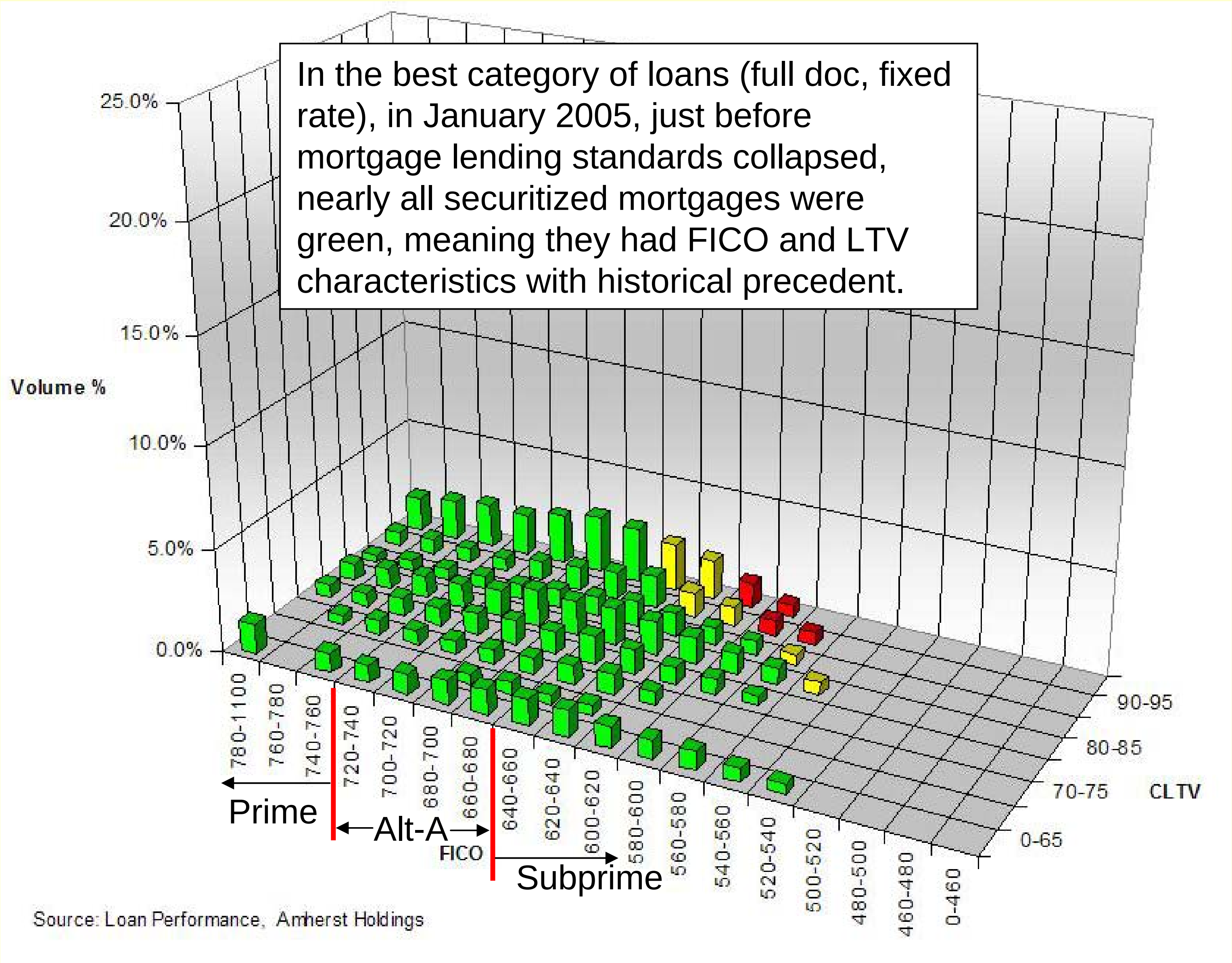
FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100	2.6%	0.7%	0.6%	0.7%	1.2%	0.4%	0.8%	1.3%
760-780	2.3%	0.6%	0.6%	0.8%	1.5%	0.5%	1.0%	1.7%
740-760	1.9%	0.6%	0.7%	0.9%	1.4%	0.5%	1.2%	2.3%
720-740	2.2%	0.8%	0.8%	1.1%	1.7%	0.6%	1.4%	2.7%
700-720	2.4%	0.9%	0.9%	1.2%	1.9%	0.9%	1.5%	3.2%
680-700	2.5%	0.9%	1.0%	1.4%	2.3%	0.9%	1.8%	3.2%
660-680	2.0%	0.8%	0.9%	1.1%	2.0%	0.6%	1.4%	2.4%
640-660	1.5%	0.5%	0.6%	0.9%	1.4%	0.6%	1.1%	2.0%
620-640	1.2%	0.5%	0.5%	0.8%	1.2%	0.6%	1.0%	1.5%
600-620	0.5%	0.3%	0.3%	0.3%	0.5%	0.3%	0.3%	0.3%
580-600	0.4%				0.3%			
560-580								
540-560								
520-540								
500-520								
480-500								
460-480								
0-460	0.3%							0.4%

2/28 Low Doc – June 2005 Production
Total Volume: $14.1 billion
Green: 17.0%; Yellow: 33.4%; Red: 31.1%

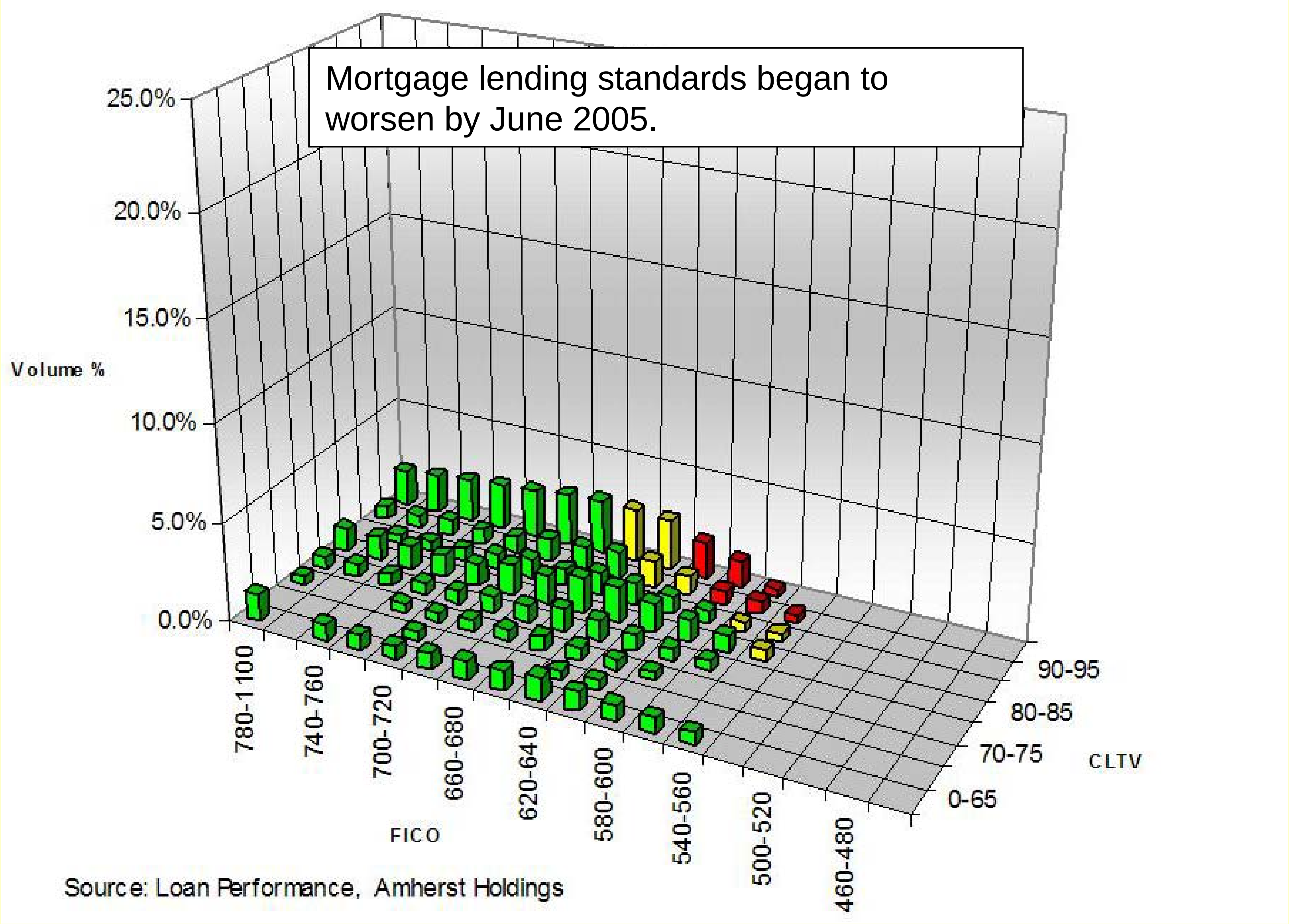
FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								0.7%
760-780					0.3%			1.3%
740-760					0.5%		0.3%	2.0%
720-740					0.6%		0.5%	3.3%
700-720					1.0%		0.6%	4.8%
680-700				0.3%	1.5%	0.4%	1.1%	6.8%
660-680				0.4%	2.2%	0.6%	1.5%	8.1%
640-660	0.3%		0.3%	0.5%	2.6%	0.9%	1.8%	8.8%
620-640	0.4%		0.4%	0.6%	2.4%	1.1%	2.2%	7.0%
600-620	0.5%	0.3%	0.4%	0.6%	1.5%	1.1%	1.7%	2.8%
580-600	0.6%	0.3%	0.4%	0.7%	1.2%	0.9%	1.2%	0.8%
560-580	0.6%	0.3%	0.4%	0.6%	1.0%	0.7%	0.6%	0.4%
540-560	0.5%	0.3%	0.4%	0.6%	0.8%	0.5%	0.4%	
520-540	0.5%		0.4%	0.4%	0.6%	0.3%		
500-520	0.4%			0.4%	0.4%			
480-500								
460-480								
0-460								

Source: Amherst Securities Group, L.P.

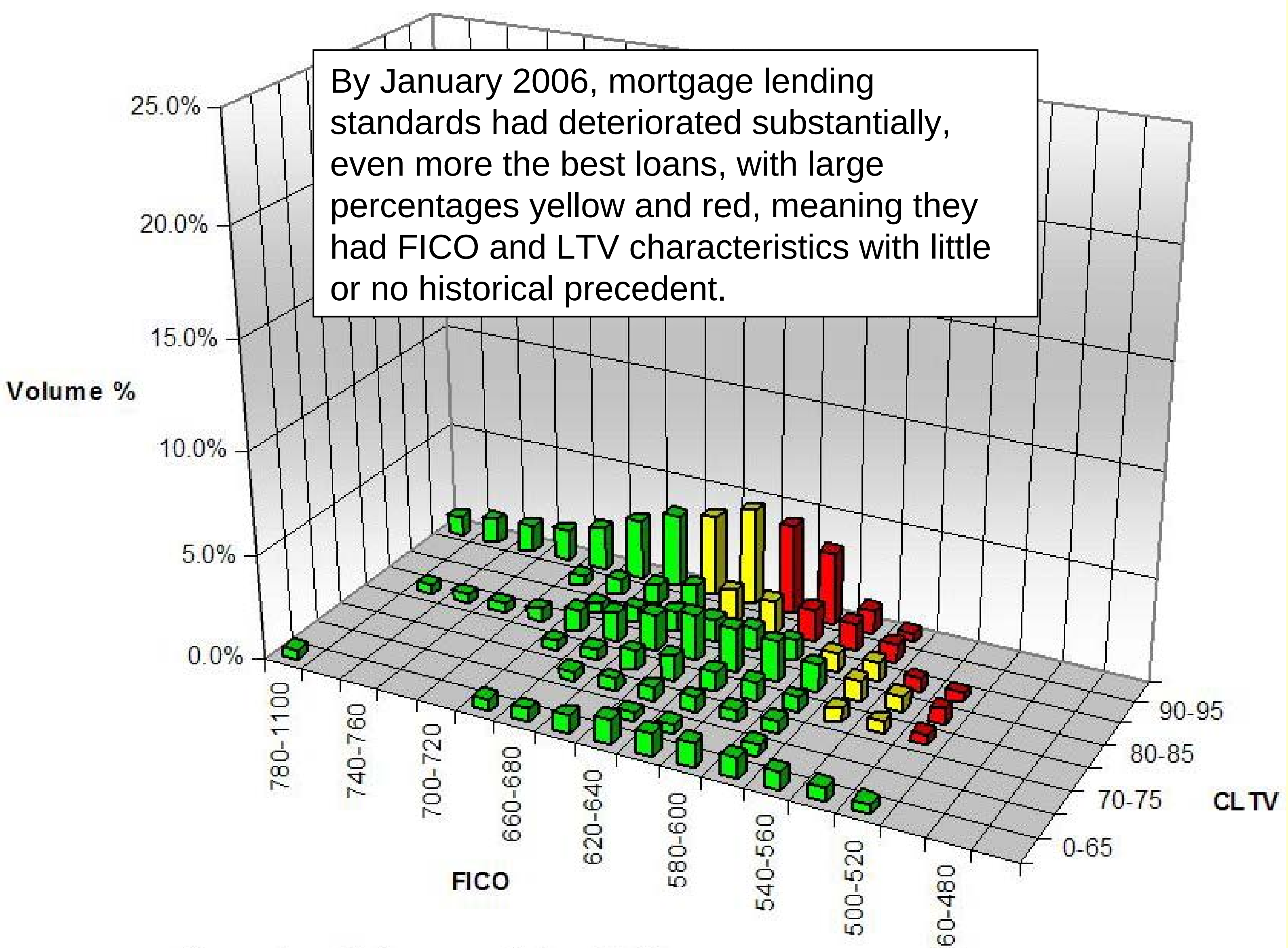
Origination Volume of Fixed Rate, Full Doc Securitized Mortgage Loans, January 2005



Origination Volume of Fixed Rate, Full Doc Securitized Mortgage Loans, June 2005

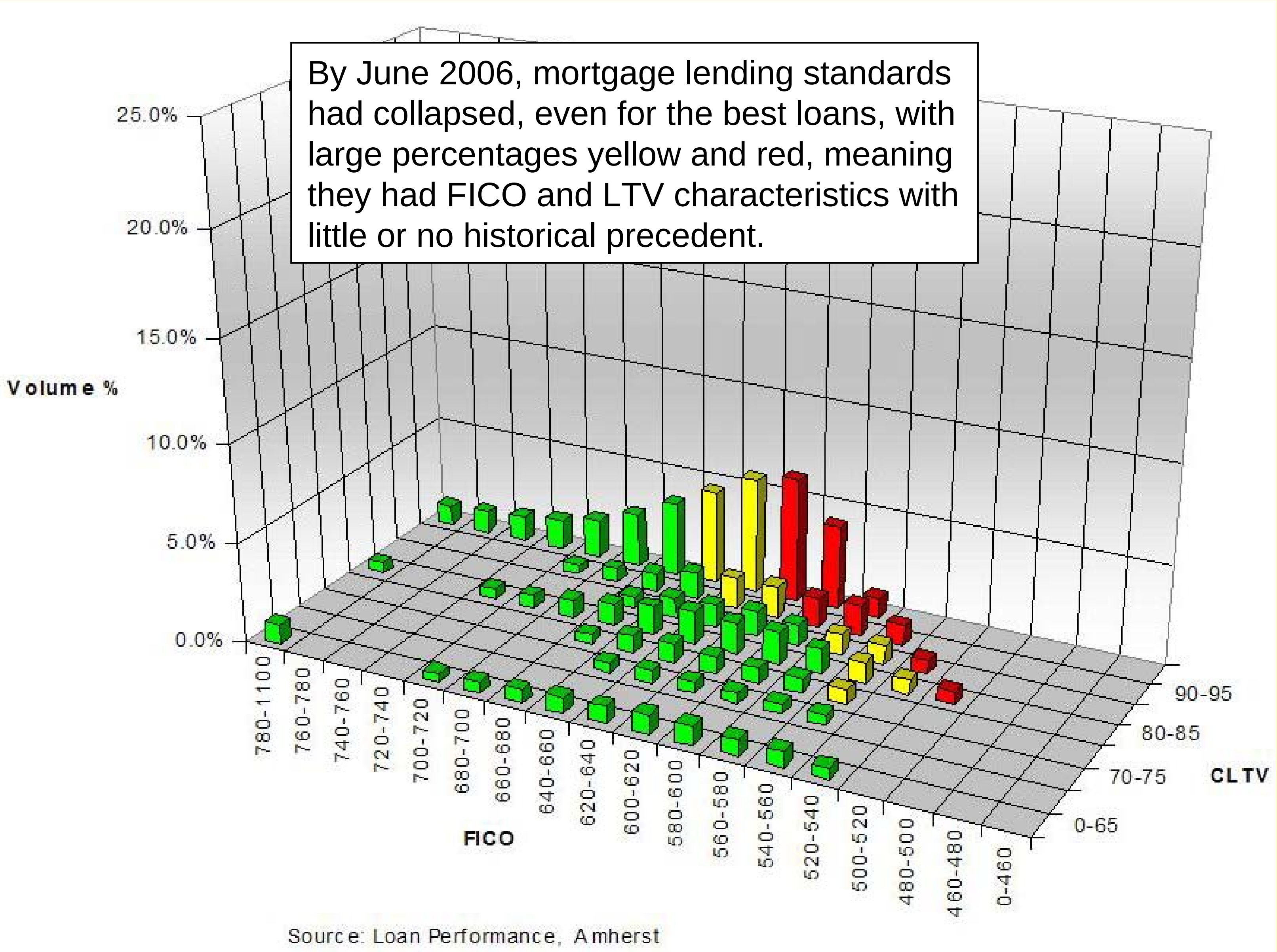


Origination Volume of Fixed Rate, Full Doc Securitized Mortgage Loans, January 2006

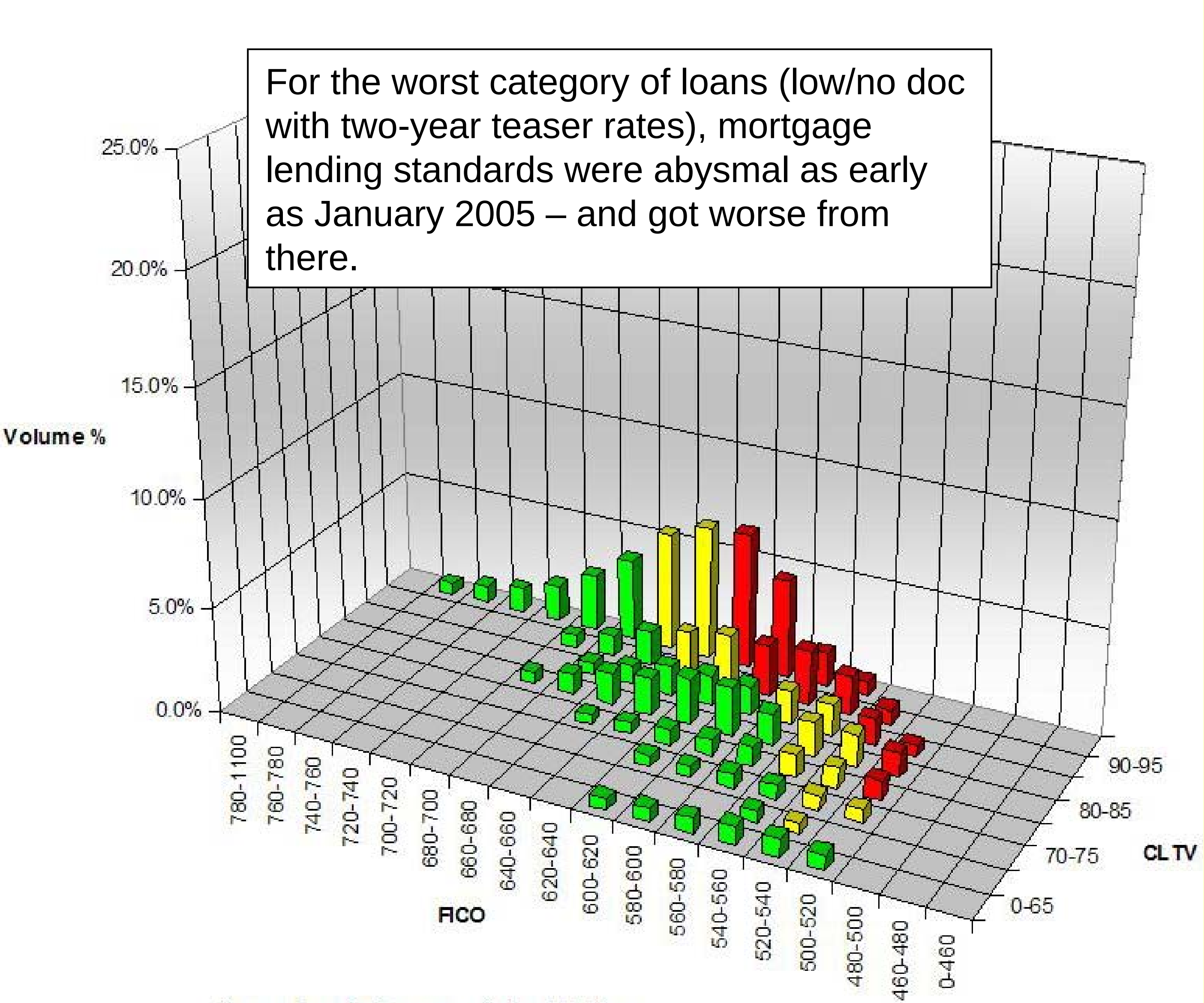


Source: Loan Performance, Amherst Holdings

Origination Volume of Fixed Rate, Full Doc Securitized Mortgage Loans, June 2006

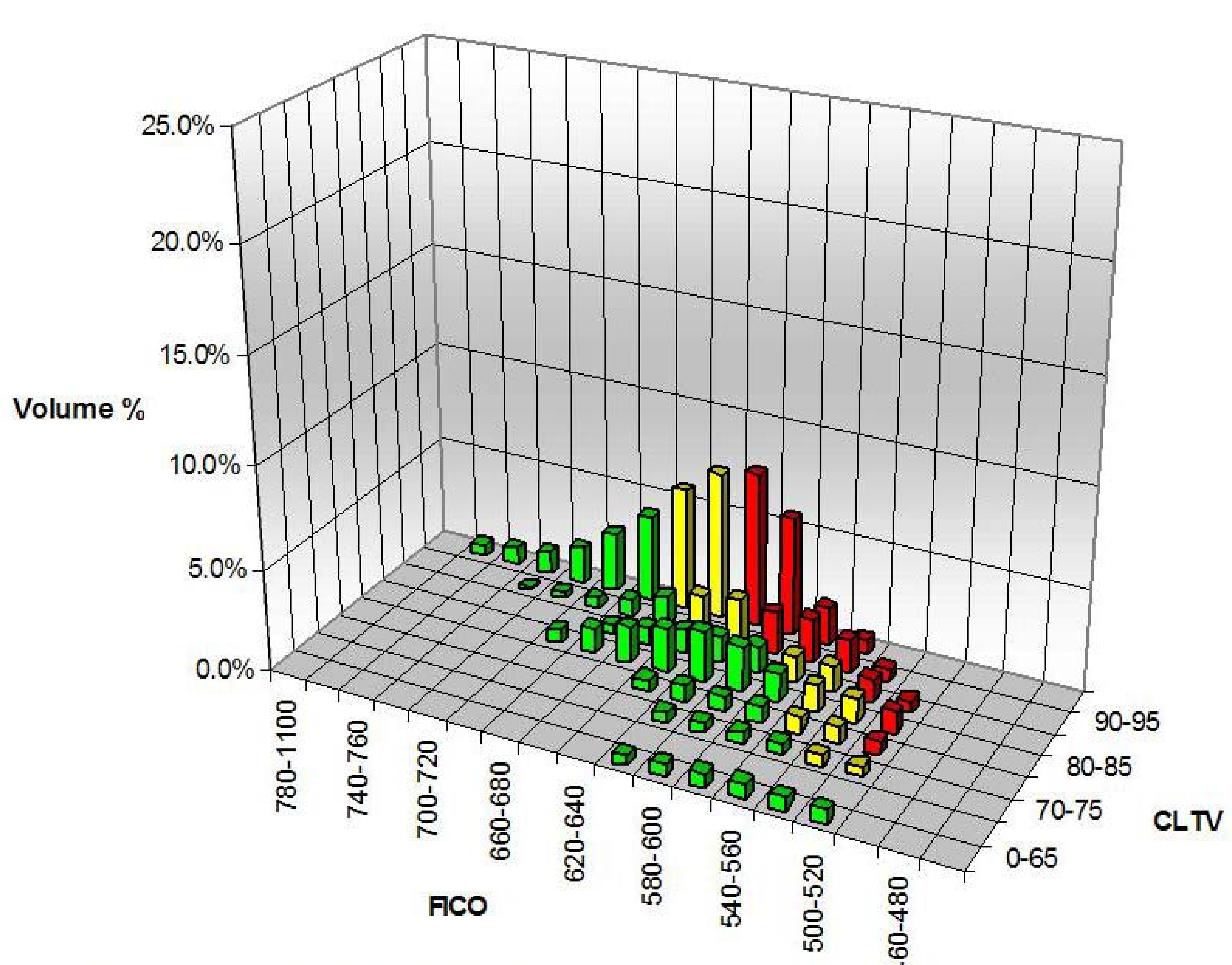


Origination Volume of 2/28, Low Doc Securitized Mortgage Loans, January 2005



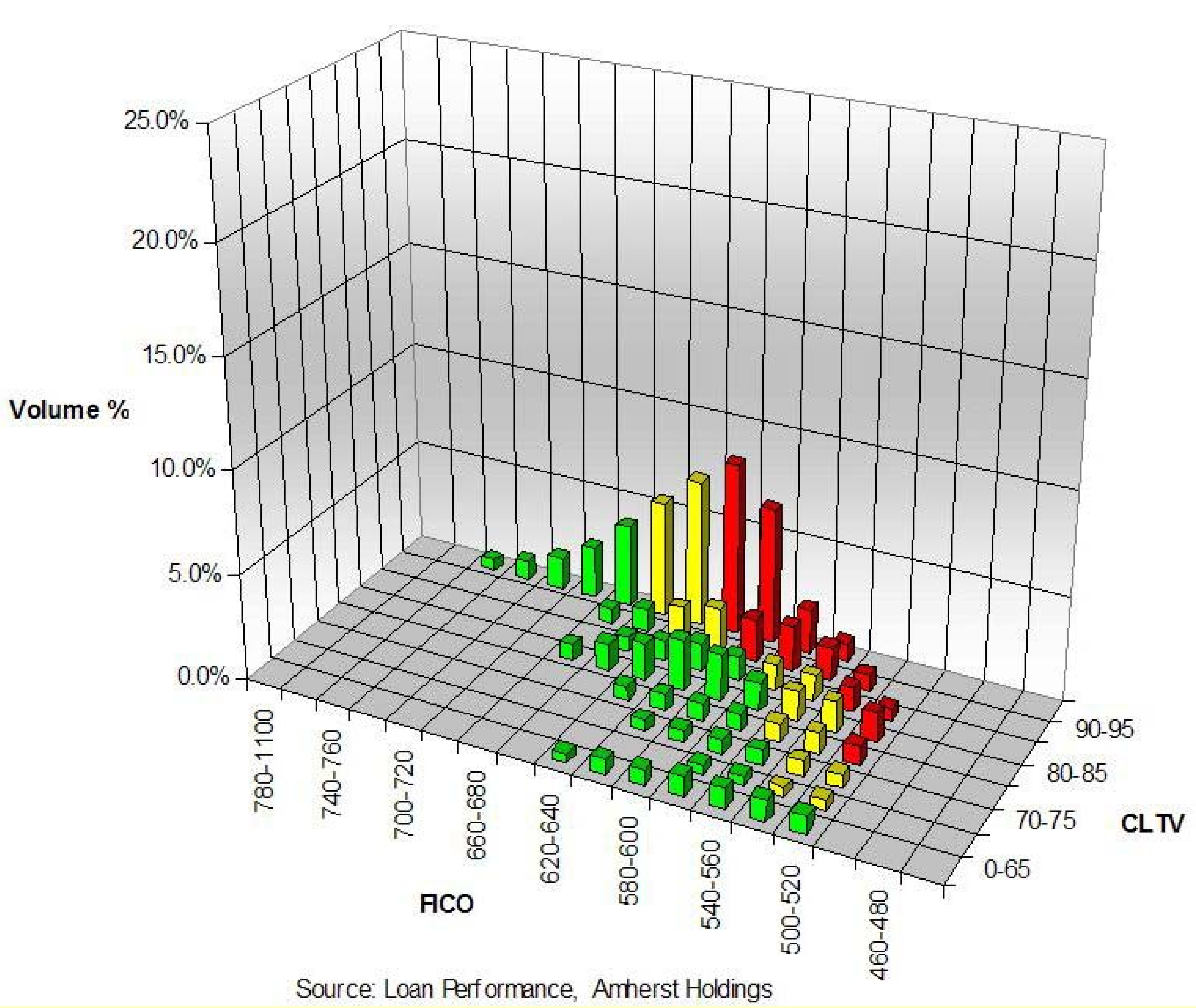
Source: Loan Performance, Amherst Holdings

Origination Volume of 2/28, Low Doc Securitized Mortgage Loans, June 2005

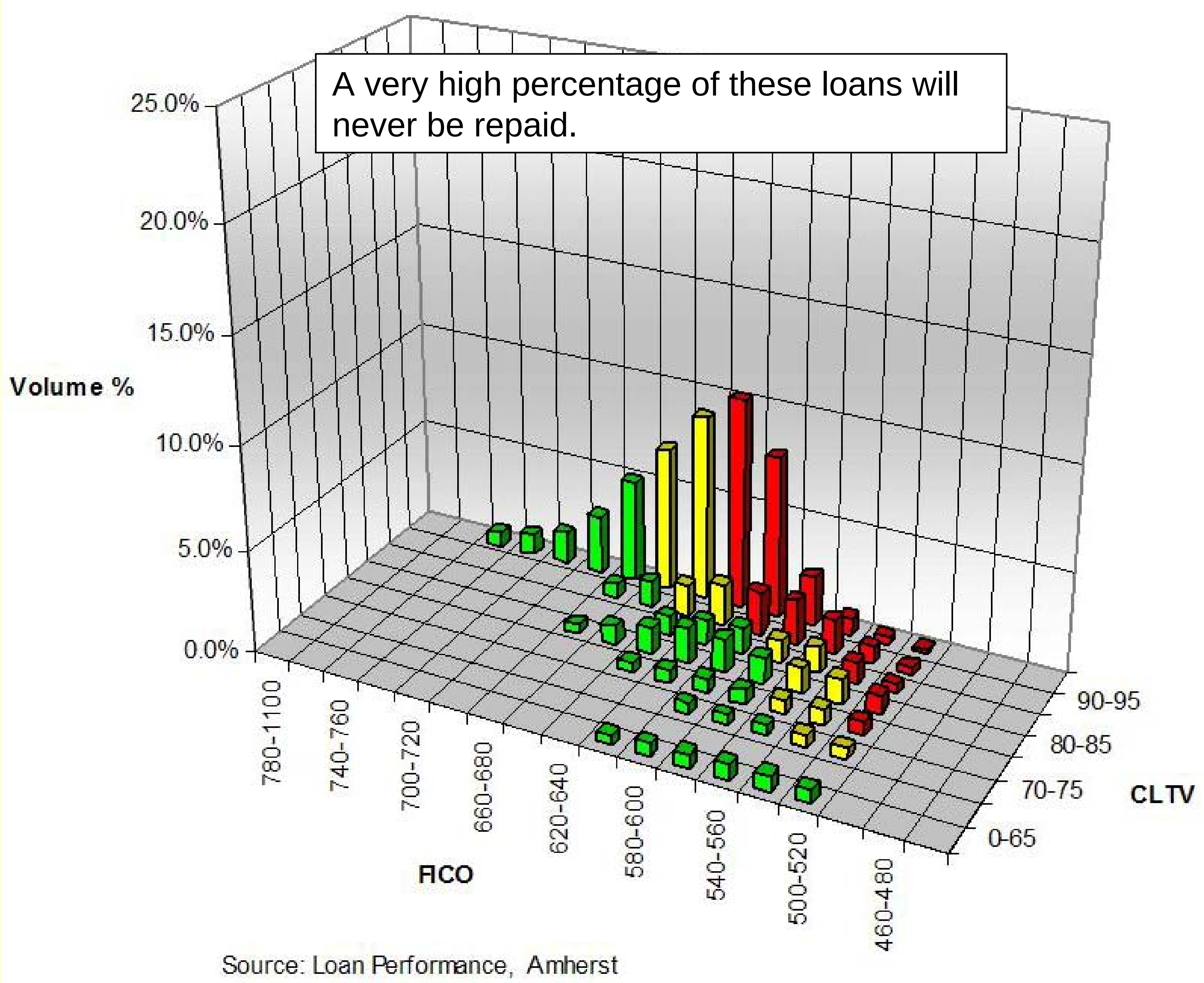


Source: Loan Performance, Amherst Holdings

Origination Volume of 2/28, Low Doc Securitized Mortgage Loans, January 2006



Origination Volume of 2/28, Low Doc Securitized Mortgage Loans, June 2006



A Closer Look at Mortgage Loans That Were Securitized: Defaults

Default Rates of June 2005 Fixed Rate and 2/28 *Full Doc* Securitized Mortgage Loans

Fixed Full Doc – June 2005 Production
Total Volume: $ 8.1
Green: 83.0%; Yellow: 10.3%; Red: 6.7%

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100	0.3%			0.2%	0.3%		0.3%	1.6%
760-780	1.5%			1.0%	1.5%		2.3%	1.5%
740-760	0.5%			1.3%	0.8%	1.5%	2.5%	3.1%
720-740	2.4%		1.6%	1.0%	1.2%	1.5%	4.9%	4.5%
700-720	1.4%			2.5%	2.7%	3.2%	5.0%	5.7%
680-700	3.3%		4.6%	3.3%	6.7%	6.4%	5.5%	9.0%
660-680	1.5%		5.0%	8.4%	8.8%	7.4%	9.9%	11.9%
640-660	2.7%		6.6%	6.3%	7.2%	8.8%	11.9%	14.5%
620-640	5.2%	8.3%	10.8%	8.4%	12.9%	15.6%	15.1%	19.2%
600-620	8.3%		16.7%	12.3%	16.2%	15.9%	23.2%	25.2%
580-600	9.6%			13.4%	17.7%	16.7%	20.6%	33.2%
560-580	11.8%			13.7%	19.4%		27.4%	
540-560	15.9%				17.0%			
520-540								
500-520								
480-500								
460-480								
0-460								

2/28 Full Doc – June 2005 Production
Total Volume: $16.4
Green: 46.9%; Yellow: 26.0%; Red: 27.2%

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								12.3%
760-780								14.6%
740-760								21.1%
720-740					23.9%			26.4%
700-720					24.2%		16.1%	23.8%
680-700					20.4%		20.1%	29.1%
660-680					26.6%	22.3%	22.9%	31.0%
640-660			12.5%	14.8%	26.9%	21.4%	24.3%	32.8%
620-640	6.5%		13.5%	18.6%	27.9%	20.7%	25.1%	36.7%
600-620	11.4%	15.1%	13.8%	18.8%	28.8%	21.3%	28.0%	41.0%
580-600	11.2%	14.6%	16.7%	19.9%	31.7%	25.8%	32.6%	44.0%
560-580	12.0%	15.5%	17.0%	20.7%	27.3%	30.3%	34.7%	44.5%
540-560	13.8%	16.2%	20.7%	24.0%	27.9%	33.3%	39.0%	44.3%
520-540	19.0%	22.0%	21.4%	25.9%	31.9%	32.2%	41.3%	48.0%
500-520	20.5%	20.8%	21.7%	32.7%	34.4%	37.5%	42.7%	
480-500								
460-480								
0-460								

Unprecedented default rates – and lending standards got much worse subsequent to June 2005!

Source: Amherst Securities Group, L.P.

Default Rates of June 2005 Fixed Rate and 2/28 *Low Doc* Securitized Mortgage Loans

Default rates are much higher for no/low doc "liars" loans

Fixed Low Doc – June 2005 Production
Total Volume: $7.7 billion
Green: 64.3%; Yellow: 27.0%; Red: 8.7%

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100	0.2%	0.3%	1.7%	2.9%	1.6%		4.1%	6.4%
760-780	1.8%	0.0%	0.5%	3.3%	3.7%	1.5%	4.2%	8.7%
740-760	1.4%	3.0%	2.5%	3.2%	3.2%	3.1%	4.1%	10.4%
720-740	0.7%	1.2%	4.7%	3.8%	4.7%	5.9%	8.3%	14.1%
700-720	1.0%	2.7%	6.3%	4.3%	5.9%	3.6%	8.6%	14.5%
680-700	2.8%	3.2%	4.0%	7.1%	8.0%	7.9%	10.0%	20.8%
660-680	3.5%	10.8%	5.7%	8.6%	9.2%	11.2%	13.9%	21.0%
640-660	4.1%	5.0%	15.1%	11.1%	11.8%	17.4%	20.0%	30.3%
620-640	8.8%	18.5%	13.7%	14.4%	15.2%	19.6%	19.8%	32.6%
600-620	7.1%				21.0%			
580-600								
560-580								
540-560								
520-540								
500-520								
480-500								
460-480								
0-460								

2/28 Low Doc – June 2005 Production
Total Volume: $14.1 billion
Green: 29.2%; Yellow: 37.0%; Red: 33.8%

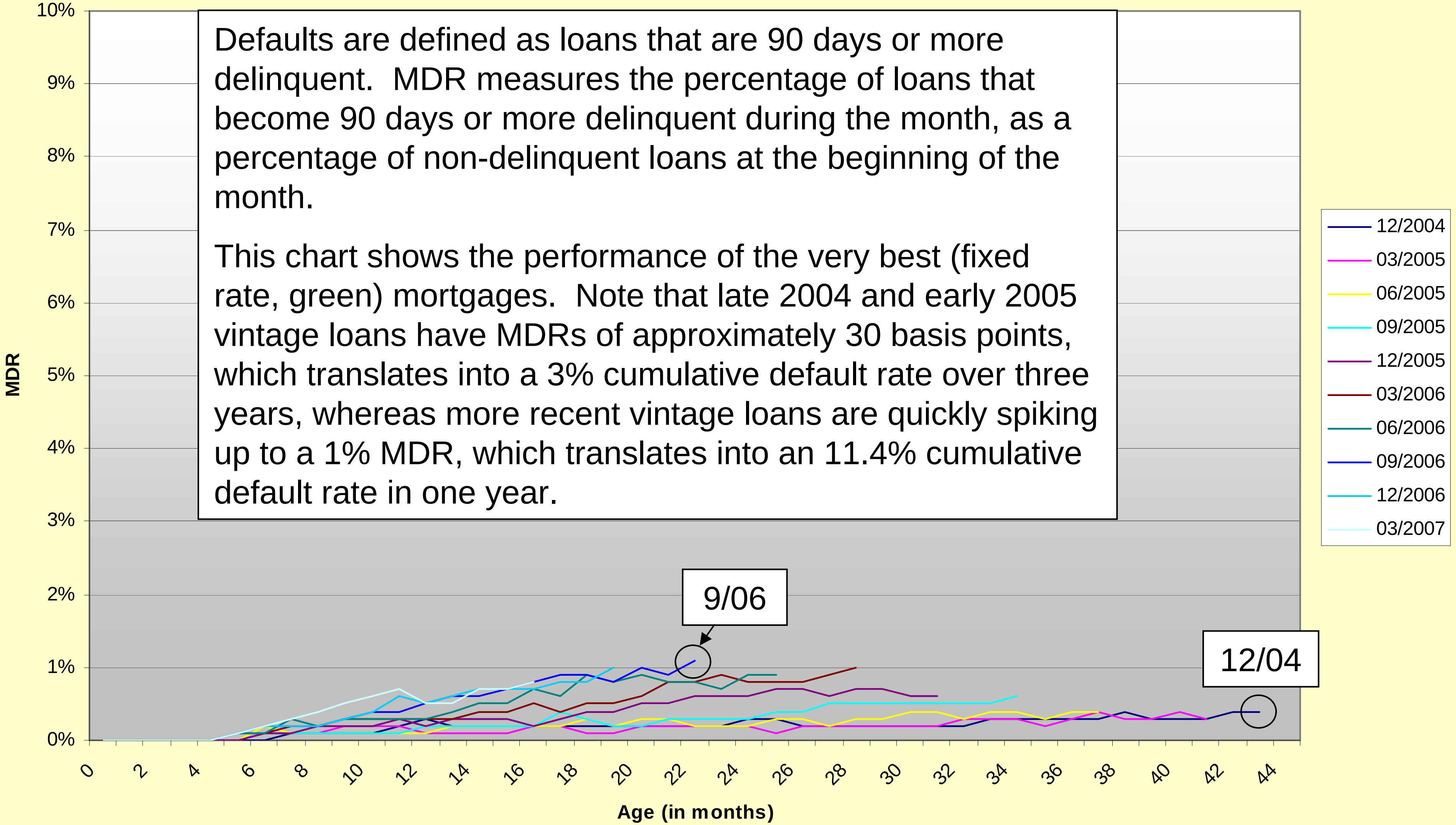
FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								28.0%
760-780					29.7%			32.1%
740-760					30.9%		16.4%	31.0%
720-740					28.7%		18.6%	34.7%
700-720					29.9%		24.8%	36.7%
680-700				16.3%	34.6%	20.8%	26.6%	39.3%
660-680				16.4%	35.5%	28.9%	28.2%	41.2%
640-660	10.2%		11.2%	17.1%	37.6%	24.0%	31.1%	44.2%
620-640	7.7%		13.0%	24.1%	35.5%	30.6%	31.7%	48.1%
600-620	12.9%	18.8%	16.8%	18.5%	29.5%	30.7%	32.7%	48.5%
580-600	13.2%	21.5%	24.0%	23.1%	28.0%	33.4%	35.5%	46.1%
560-580	16.2%	24.0%	22.2%	27.3%	35.1%	41.7%	36.5%	44.4%
540-560	20.4%	21.9%	26.5%	33.1%	33.7%	39.1%	40.0%	
520-540	23.0%		30.4%	33.4%	36.8%	38.5%		
500-520	24.2%			30.5%	34.7%			
480-500								
460-480								
0-460								

Source: Amherst Securities Group, L.P.

Monthly Default Rate for Fixed Rate Securitized Mortgage Loans (Green)

Defaults are defined as loans that are 90 days or more delinquent. MDR measures the percentage of loans that become 90 days or more delinquent during the month, as a percentage of non-delinquent loans at the beginning of the month.

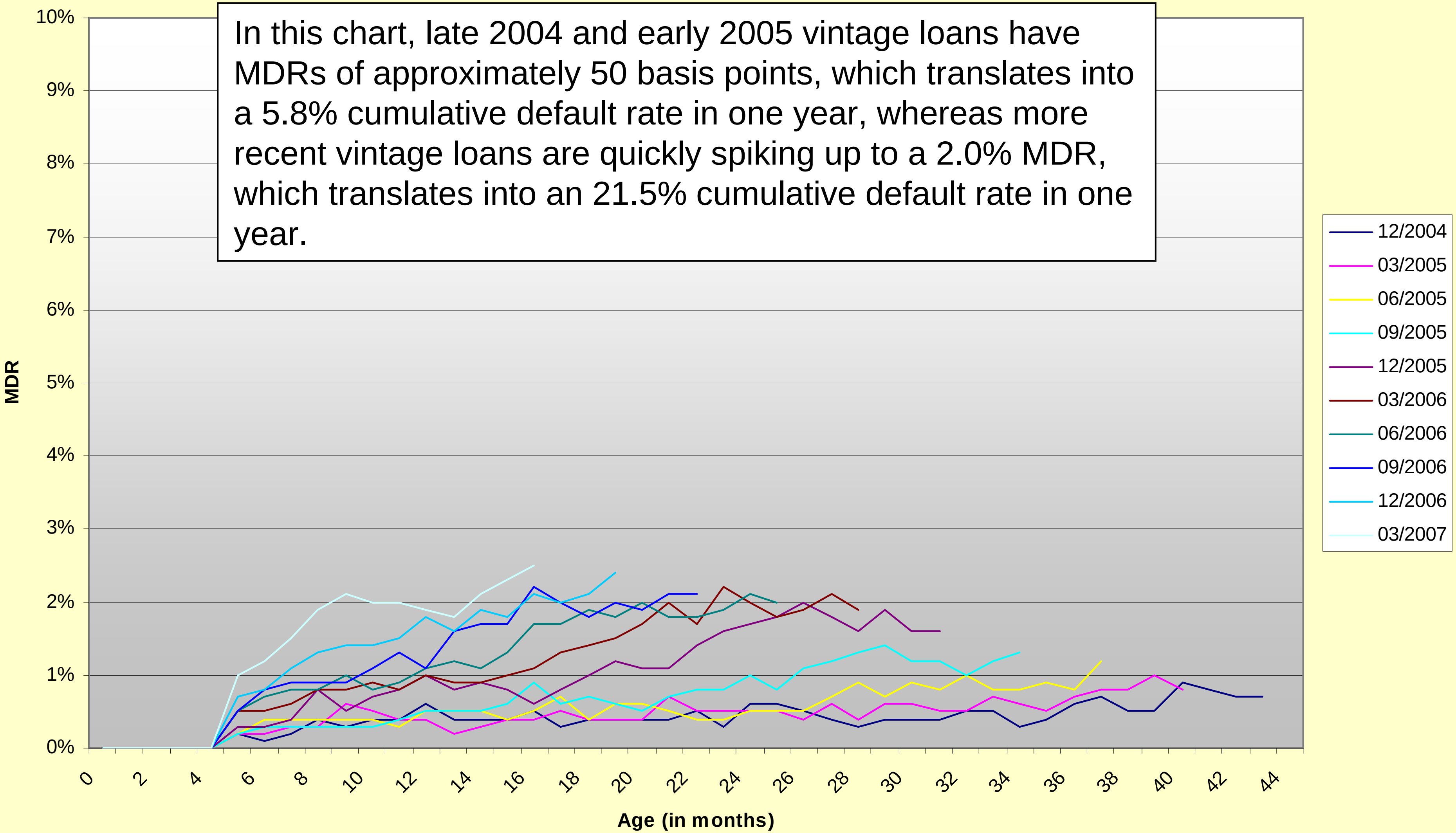
This chart shows the performance of the very best (fixed rate, green) mortgages. Note that late 2004 and early 2005 vintage loans have MDRs of approximately 30 basis points, which translates into a 3% cumulative default rate over three years, whereas more recent vintage loans are quickly spiking up to a 1% MDR, which translates into an 11.4% cumulative default rate in one year.



Source: Amherst Securities Group, L.P.

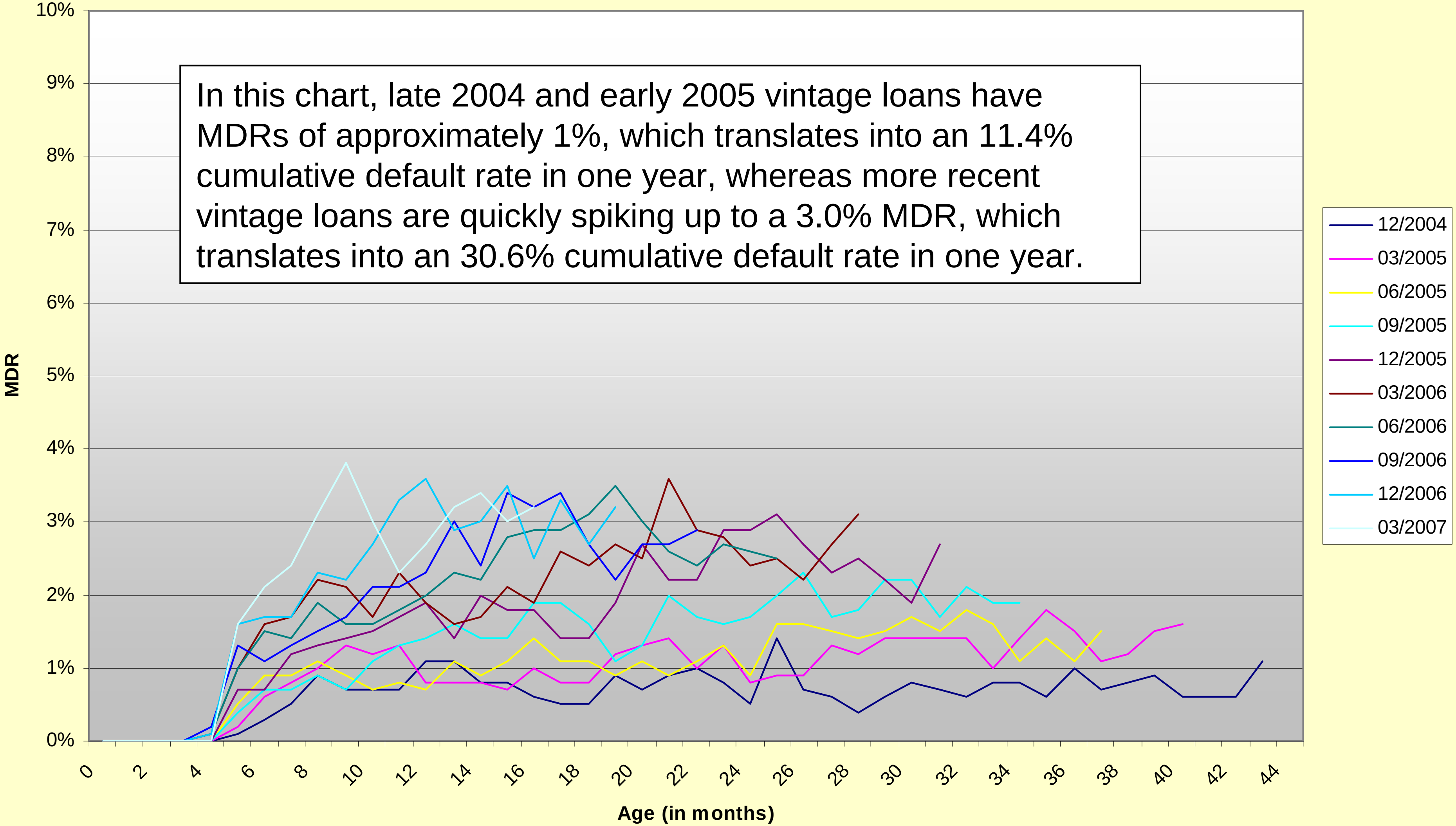
Monthly Default Rate for Fixed Rate Securitized Mortgage Loans (Yellow)

In this chart, late 2004 and early 2005 vintage loans have MDRs of approximately 50 basis points, which translates into a 5.8% cumulative default rate in one year, whereas more recent vintage loans are quickly spiking up to a 2.0% MDR, which translates into an 21.5% cumulative default rate in one year.



Source: Amherst Securities Group, L.P.

Monthly Default Rate for Fixed Rate Securitized Mortgage Loans (Red)



In this chart, late 2004 and early 2005 vintage loans have MDRs of approximately 1%, which translates into an 11.4% cumulative default rate in one year, whereas more recent vintage loans are quickly spiking up to a 3.0% MDR, which translates into an 30.6% cumulative default rate in one year.

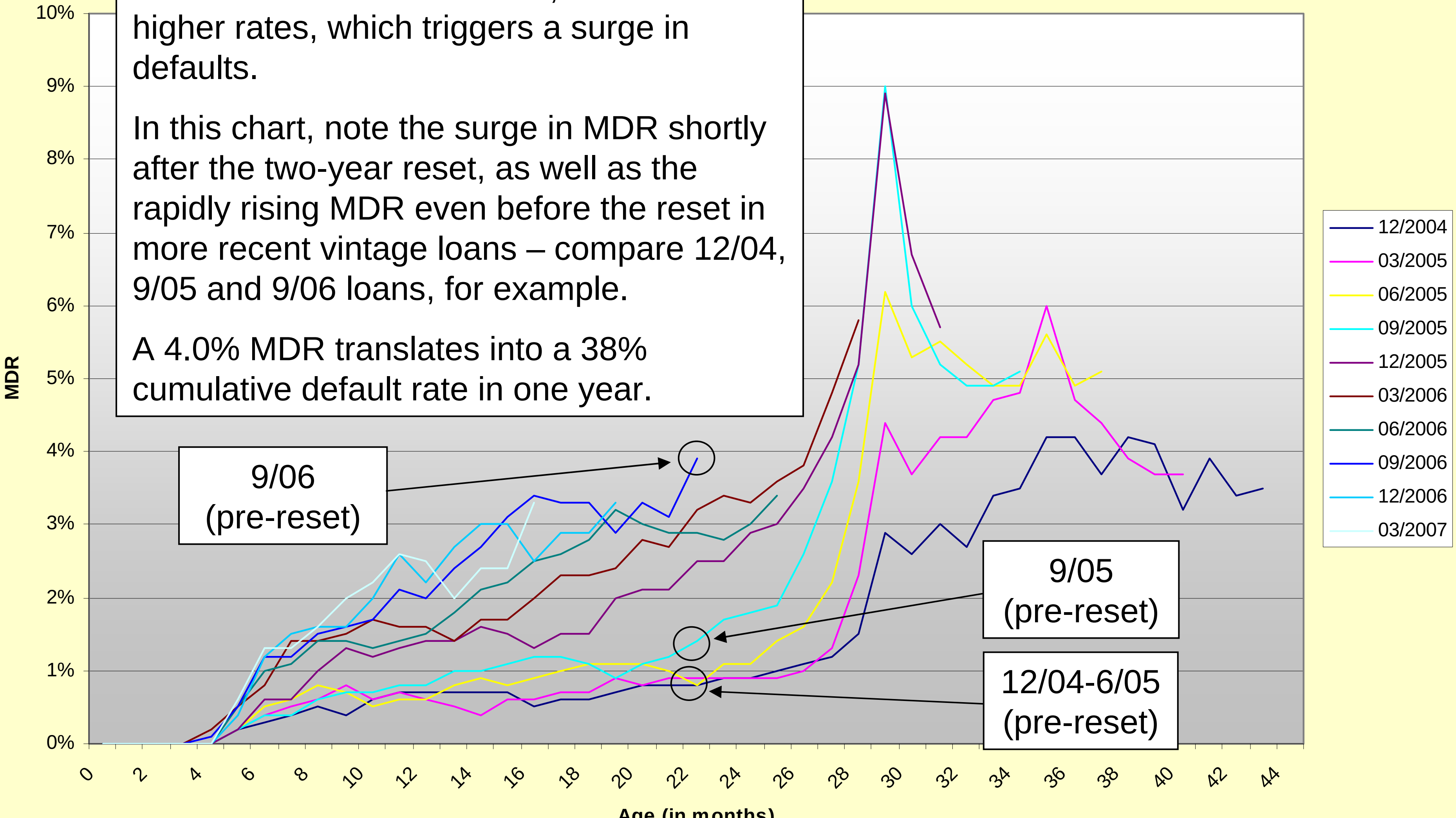
Source: Amherst Securities Group, L.P.

Monthly Default Rate for 2-28 Securitized Mortgage Loans (Green)

2-28 loans are those with two-year teaser interest rates that then reset, often to much higher rates, which triggers a surge in defaults.

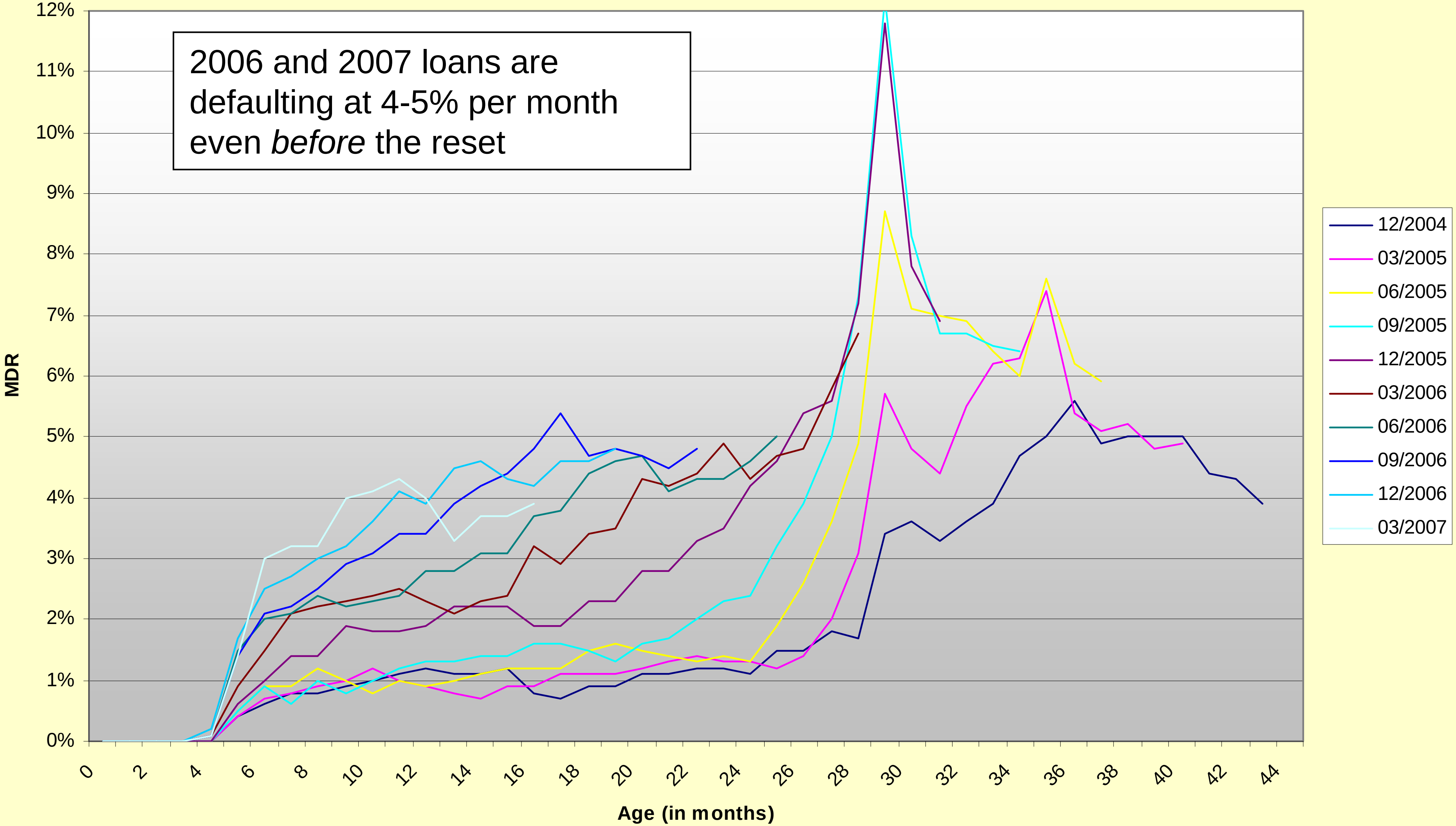
In this chart, note the surge in MDR shortly after the two-year reset, as well as the rapidly rising MDR even before the reset in more recent vintage loans – compare 12/04, 9/05 and 9/06 loans, for example.

A 4.0% MDR translates into a 38% cumulative default rate in one year.



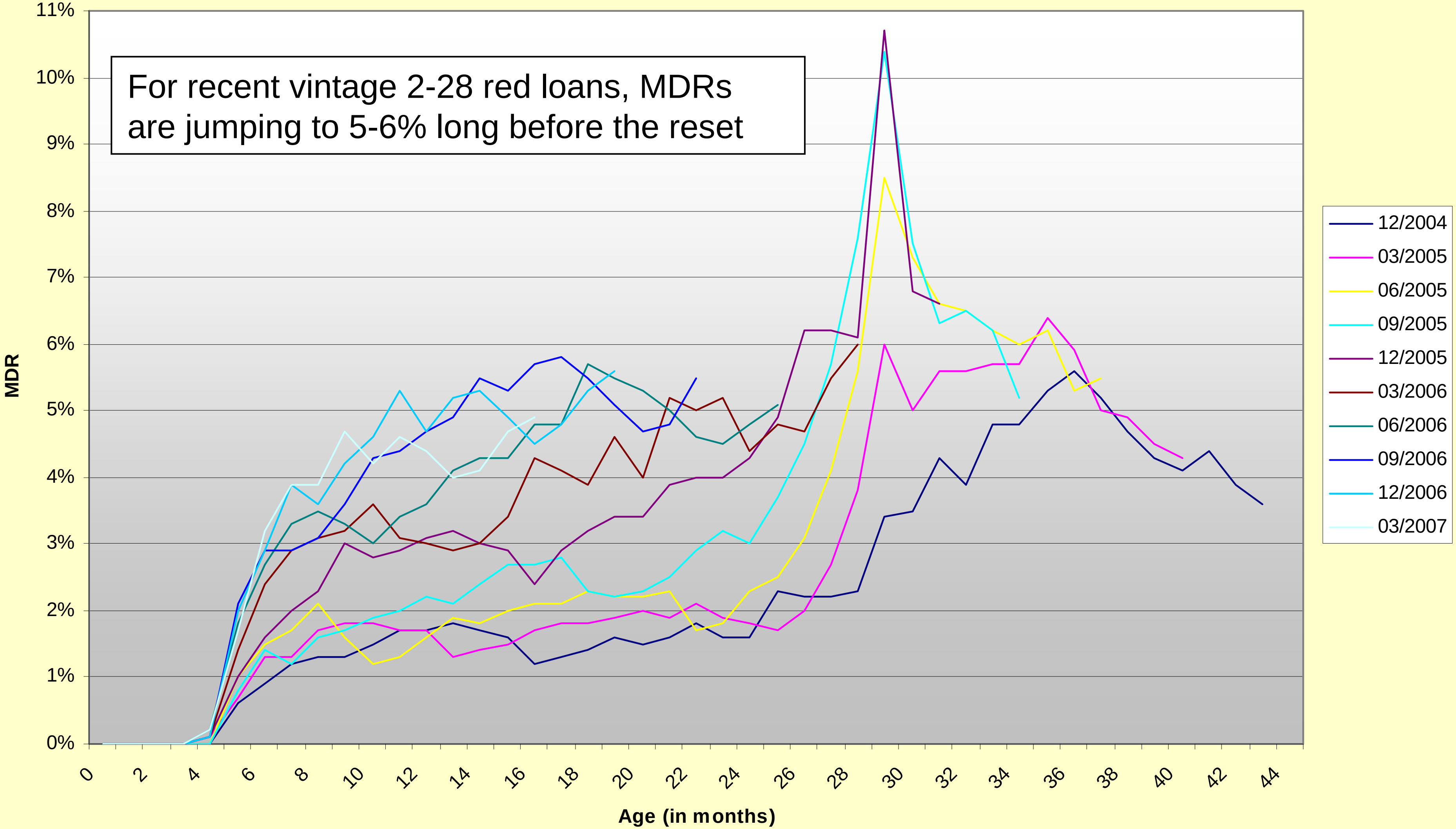
Source: Amherst Securities Group, L.P.

Monthly Default Rate for 2-28 Securitized Mortgage Loans (Yellow)



Source: Amherst Securities Group, L.P.

Monthly Default Rate for 2-28 Securitized Mortgage Loans (Red)

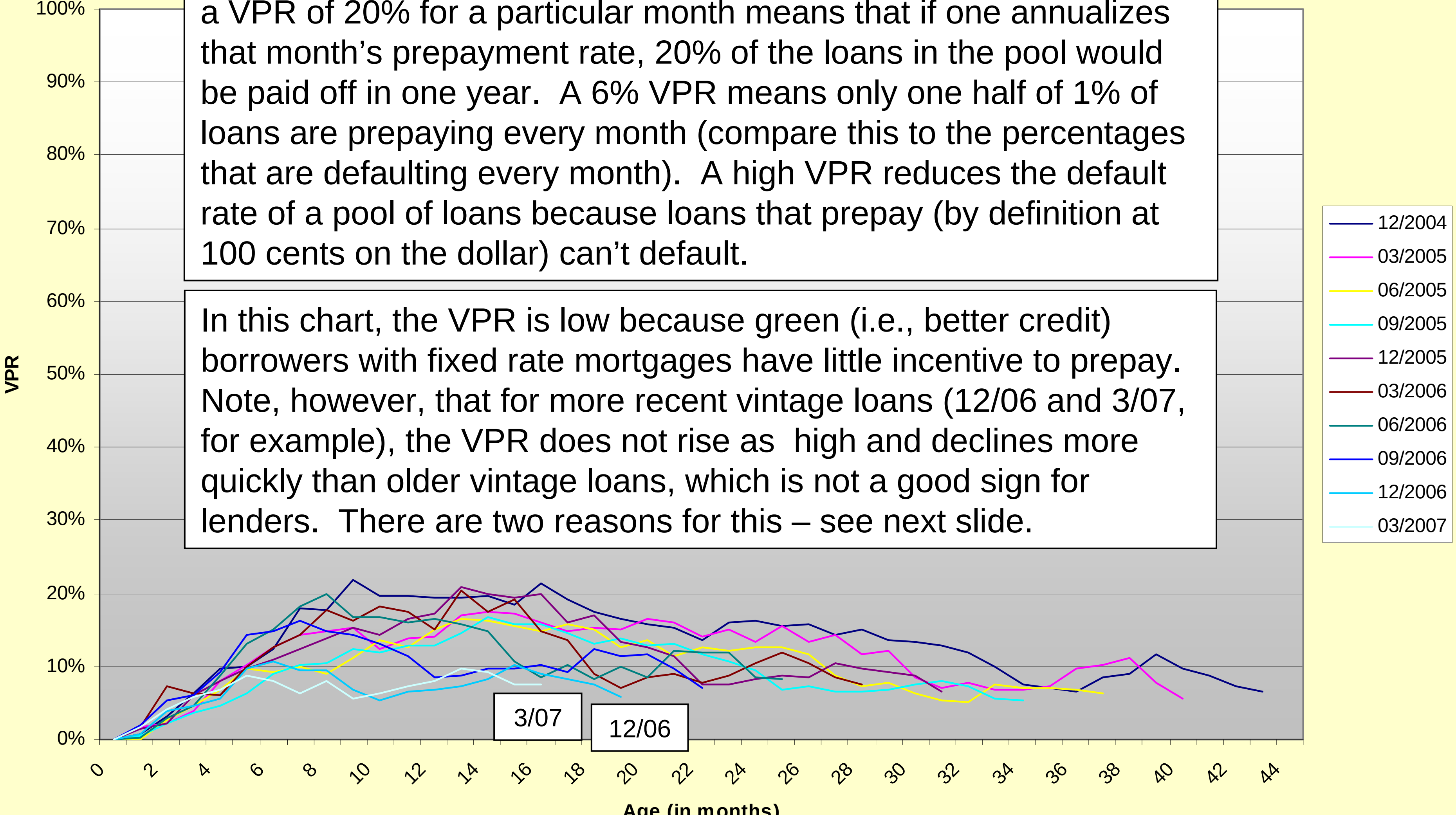


Source: Amherst Securities Group, L.P.

Voluntary Prepayment Rate for Fixed Rate Securitized Mortgage Loans (Green)

The Voluntary Prepayment Rate measures the rate at which borrowers are refinancing and paying off their loans. For example, a VPR of 20% for a particular month means that if one annualizes that month's prepayment rate, 20% of the loans in the pool would be paid off in one year. A 6% VPR means only one half of 1% of loans are prepaying every month (compare this to the percentages that are defaulting every month). A high VPR reduces the default rate of a pool of loans because loans that prepay (by definition at 100 cents on the dollar) can't default.

In this chart, the VPR is low because green (i.e., better credit) borrowers with fixed rate mortgages have little incentive to prepay. Note, however, that for more recent vintage loans (12/06 and 3/07, for example), the VPR does not rise as high and declines more quickly than older vintage loans, which is not a good sign for lenders. There are two reasons for this – see next slide.

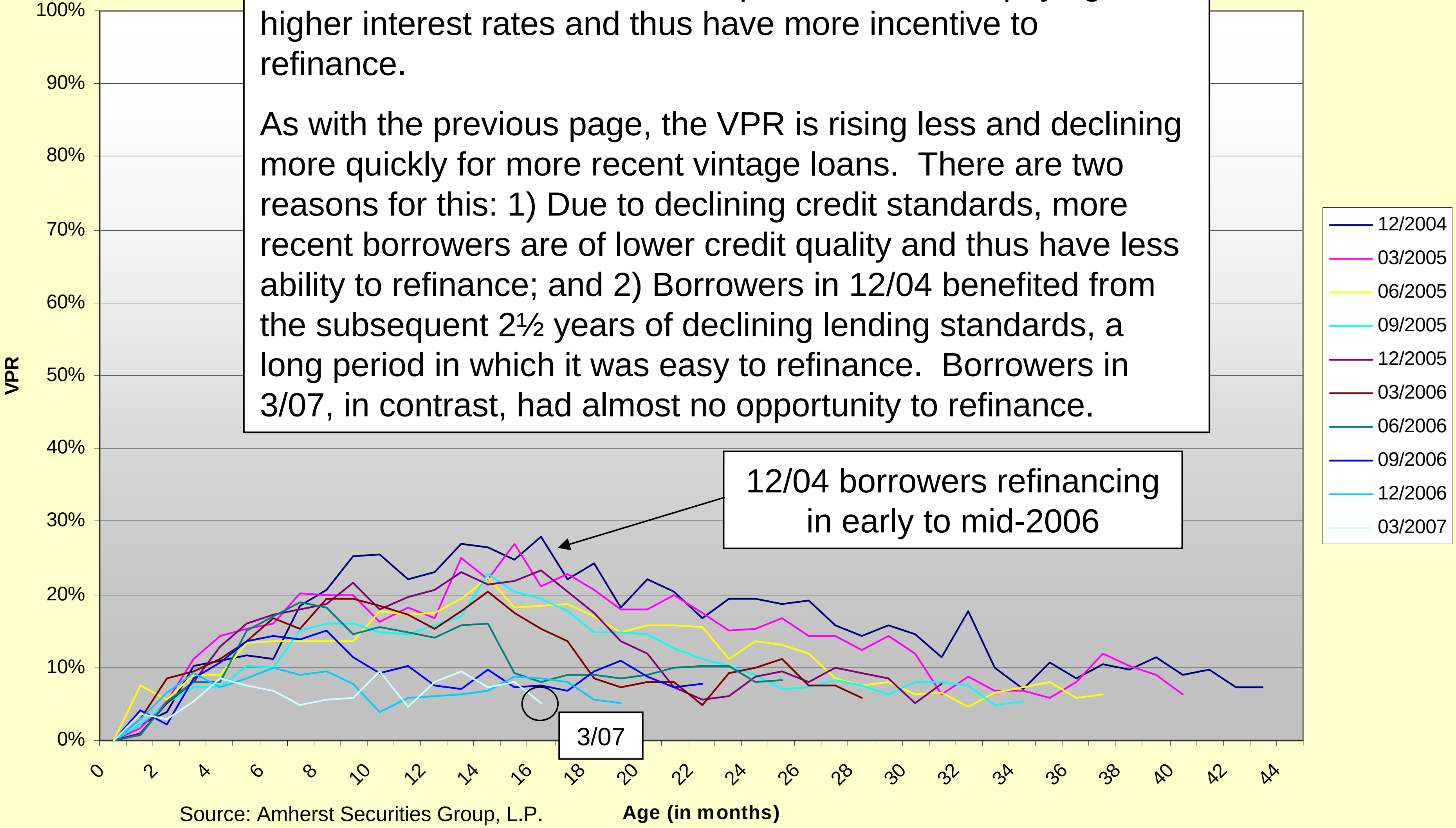


Source: Amherst Securities Group, L.P.

Voluntary Prepayment Rate for Fixed Rate Securitized Mortgage Loans (Yellow)

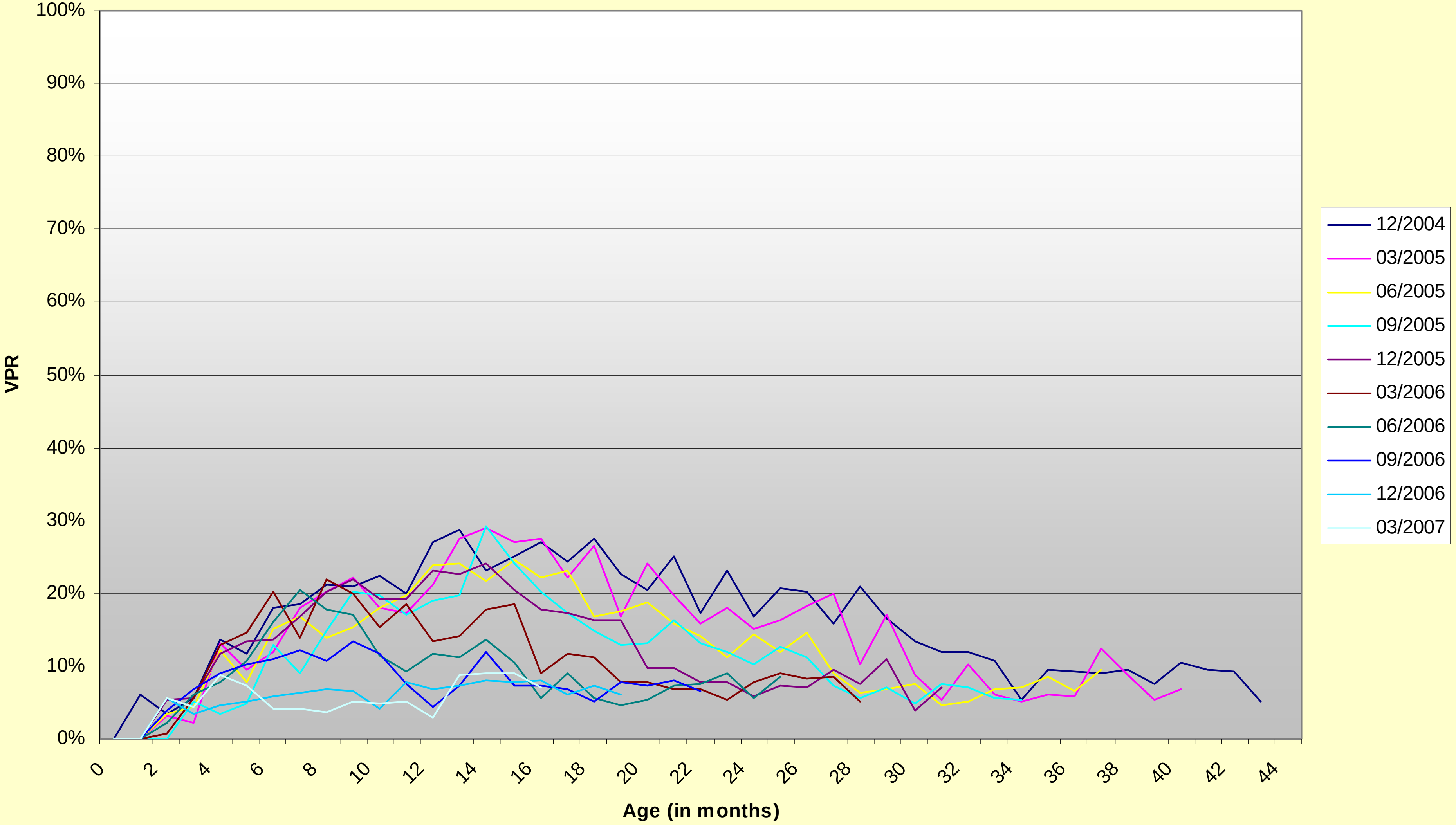
The VPR is higher for yellow and red loans vs. green ones because borrowers, due to their poorer credit, are paying higher interest rates and thus have more incentive to refinance.

As with the previous page, the VPR is rising less and declining more quickly for more recent vintage loans. There are two reasons for this: 1) Due to declining credit standards, more recent borrowers are of lower credit quality and thus have less ability to refinance; and 2) Borrowers in 12/04 benefited from the subsequent 2½ years of declining lending standards, a long period in which it was easy to refinance. Borrowers in 3/07, in contrast, had almost no opportunity to refinance.



Source: Amherst Securities Group, L.P.

Voluntary Prepayment Rate for Fixed Rate Securitized Mortgage Loans (Red)



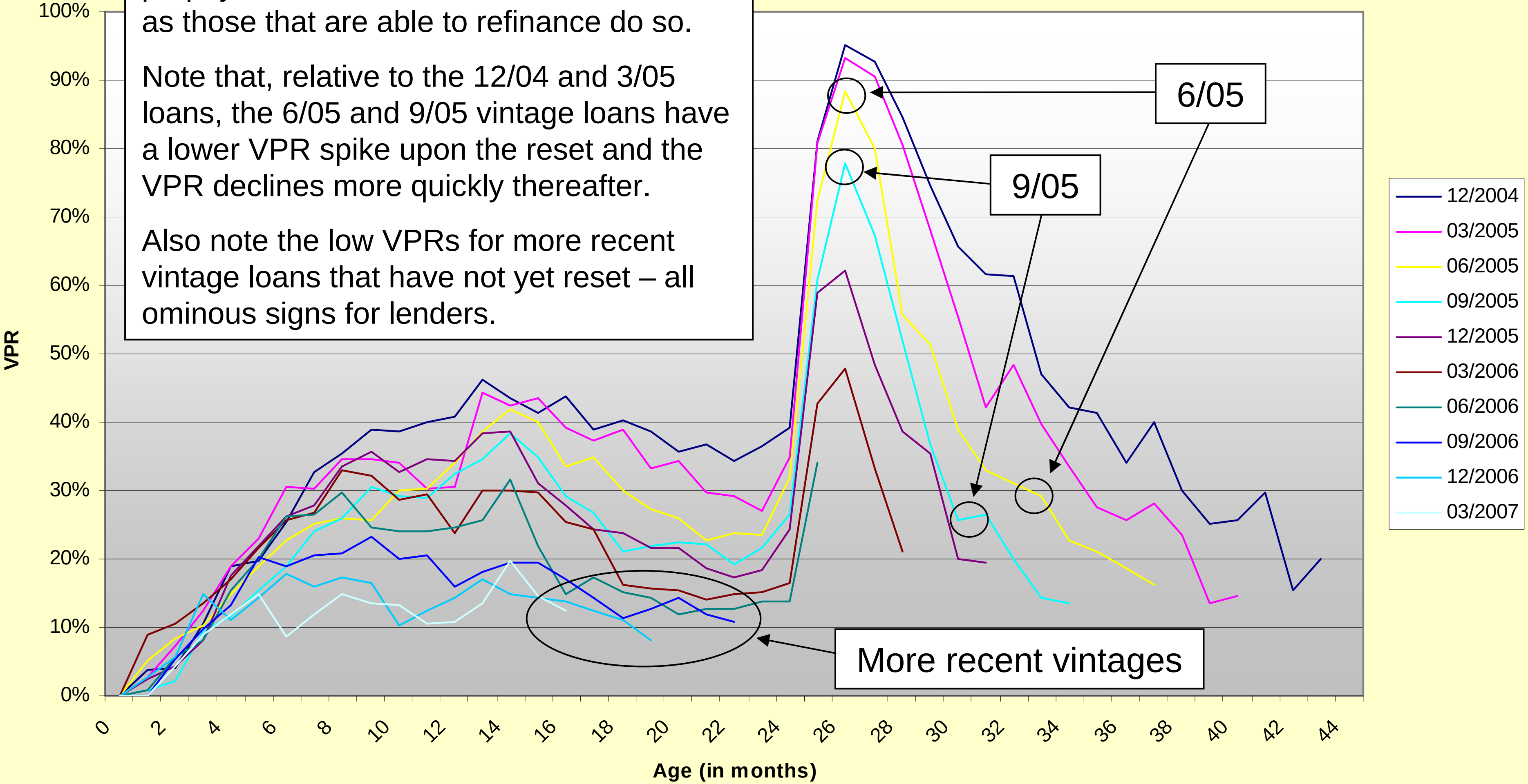
Source: Amherst Securities Group, L.P.

Voluntary Prepayment Rate for 2-28 Securitized Mortgage Loans (Green)

For 2-28 loans, there is a surge in prepayments when the interest rates reset, as those that are able to refinance do so.

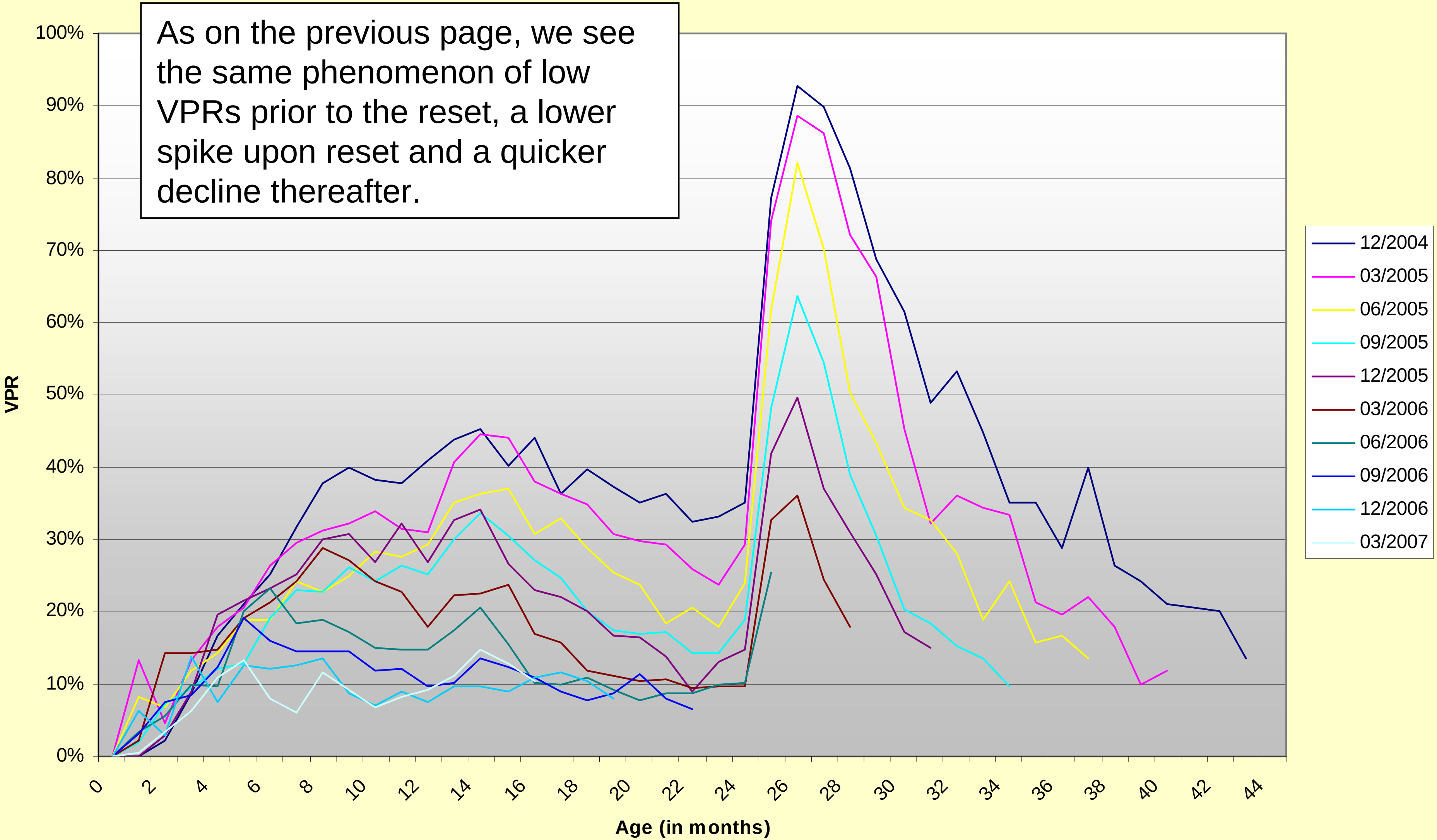
Note that, relative to the 12/04 and 3/05 loans, the 6/05 and 9/05 vintage loans have a lower VPR spike upon the reset and the VPR declines more quickly thereafter.

Also note the low VPRs for more recent vintage loans that have not yet reset – all ominous signs for lenders.



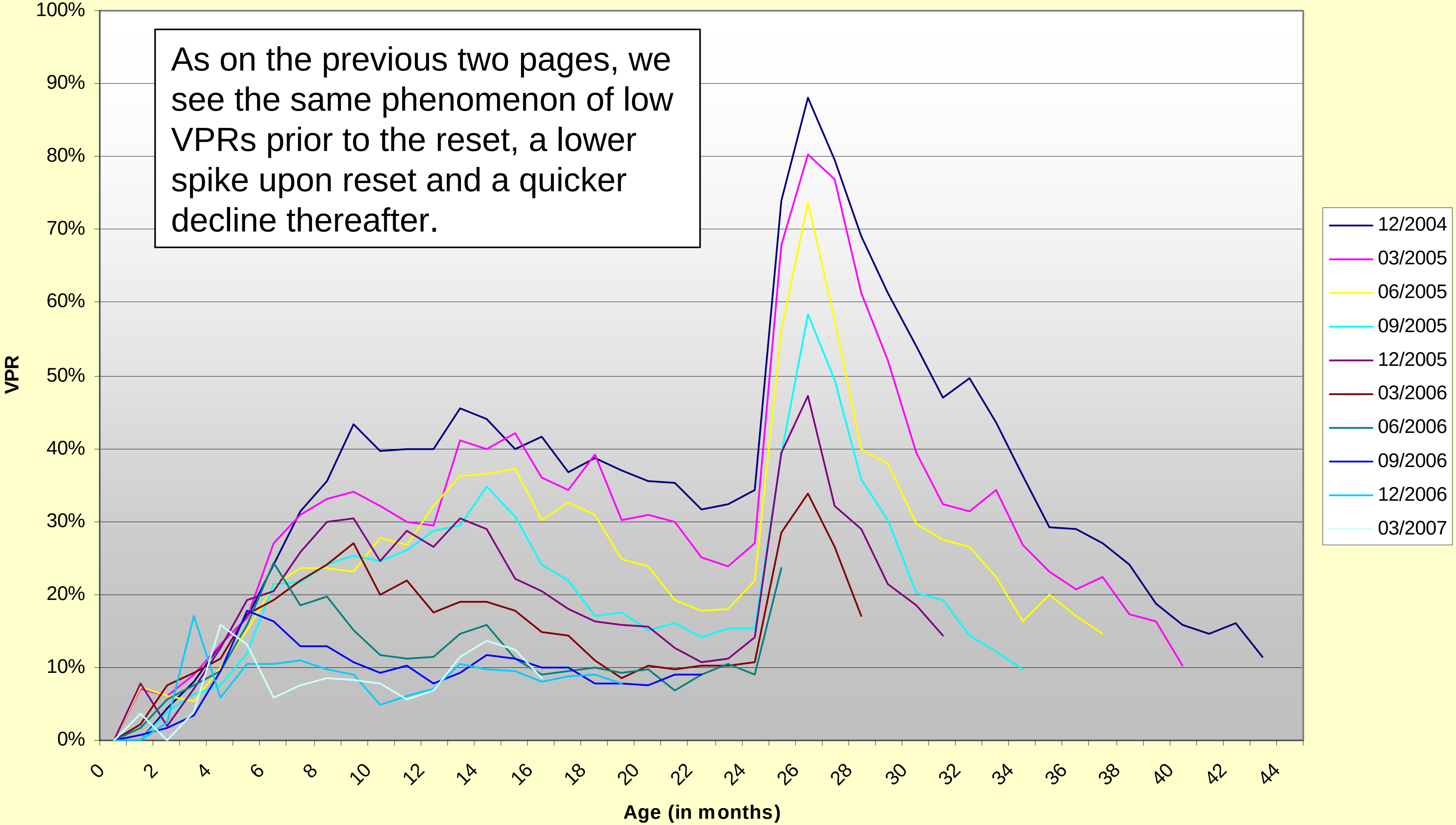
Source: Amherst Securities Group, L.P.

Voluntary Prepayment Rate for 2-28 Securitized Mortgage Loans (Yellow)



Source: Amherst Securities Group, L.P.

Voluntary Prepayment Rate for 2-28 Securitized Mortgage Loans (Red)



Source: Amherst Securities Group, L.P.

Current MDR and VPR Trends Will Quickly Lead to Unprecedented Default Levels

Three-Year Cumulative Defaults

	MDR:	0.3%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	5.0%
	CDR(1 yr):	3.0%	5.8%	11.4%	16.6%	21.5%	26.2%	30.6%	34.8%	46.0%
Voluntary Prepayment Rate (VPR)	6	8%	15%	28%	39%	48%	55%	62%	67%	79%
	8	8%	15%	27%	38%	47%	54%	60%	66%	77%
	12	7%	14%	26%	36%	44%	51%	57%	62%	74%
	18	7%	13%	23%	33%	41%	47%	53%	58%	69%
	24	6%	12%	21%	30%	37%	43%	49%	54%	64%
	30	5%	10%	19%	27%	34%	40%	45%	49%	60%
	35	5%	10%	18%	25%	32%	37%	42%	46%	56%
	45	4%	8%	15%	21%	27%	32%	36%	40%	50%
	50	4%	7%	14%	20%	25%	29%	33%	37%	46%

Historical levels

2004 green, fixed

Late 2005 and thereafter, Green, 2/28

Late 2005 and thereafter, Green, fixed

Late 2005 and thereafter, Red, 2/28

Note: Cumulative defaults represent the amount of loans in default as a percentage of the original balance at WALA 36 when keeping MDR and VPR constant for that time period. Source: Amherst Securities Group, L.P.

If Current Trends Continue, 37.8% of Performing Mortgages That Comprise the ABX 06-2 Will Default in the Next 12 Months

The 20 RMBS Pools That Comprise the ABX 06-2

Cumulative defaults

Monthly default rate

Annualized default rate

Monthly prepay rate

Annualized prepay rate

Cusip	Bonds	Seq Pos	% In Front	CDX	sTr	cTr	SMM	vPr
004421UT8	ACE 2006-NC1 A2D	3rd Flow	38.4%	34.6%	4.4%	41.4%	0.7%	8.0%
040104RG8	ARSI 2006-W1 A2D	3rd Flow	43.1%	39.5%	4.9%	45.6%	0.9%	10.8%
07387UHR5	BSABS 2006-HE3 A3	2nd Flow	40.9%	39.8%	2.9%	29.9%	0.5%	6.0%
144531EX4	CARR 2006-NC1 A4	3rd Flow	46.6%	32.5%	3.7%	36.2%	1.9%	20.3%
045427AD3	CWL 2006-8 2A4	4th Flow	57.8%	40.5%	5.1%	46.8%	0.7%	7.6%
362334FT6	FFML 2006-FF4 A3	2nd Flow	55.5%	37.4%	3.1%	31.4%	0.8%	8.7%
36244KAE5	GSAMP 2006-HE3 A2D	3rd Flow	51.9%	43.4%	4.1%	39.7%	0.8%	8.8%
437084VN3	HEAT 2006-4 2A4	3rd Flow	46.2%	36.0%	4.0%	38.8%	0.7%	8.2%
46626LFM7	JPMAC 2006-FRE1 A4	2nd Flow	40.5%	39.8%	3.5%	34.4%	0.1%	1.0%
542514RM8	LBMLT 2006-1 2A4	3rd Flow	56.4%	47.6%	4.8%	44.5%	0.5%	6.2%
57643LNF9	MABS 2006-NC1 A4	3rd Flow	46.2%	36.1%	3.9%	38.2%	0.9%	10.7%
59020U3D5	MLMI 2006-HE1 A2D	3rd Flow	46.8%	38.4%	3.7%	36.3%	0.9%	10.4%
61749KAF0	MSAC 2006-WMC2 A2D	3rd Flow	44.4%	54.5%	7.4%	60.2%	0.7%	8.1%
617451EV7	MSAC 2006-HE2 A2D	4th Flow	58.7%	44.7%	4.0%	38.5%	1.0%	11.2%
75156TAC4	RAMP 2006-NC2 A3	2nd Flow	52.4%	37.0%	3.8%	37.3%	0.9%	10.8%
76113ABJ9	RASC 2006-KS3 Ai4	3rd Flow	38.8%	36.3%	3.0%	30.9%	1.2%	14.0%
81375WJE7	SABR 2006-OP1 A2C	2nd Flow	6.5%	22.0%	3.4%	33.8%	0.7%	7.8%
86360WAE2	SAIL 2006-4 A5	3rd Flow	61.2%	44.2%	4.8%	44.6%	0.6%	7.5%
86360LAD8	SASC 2006-WF2 A4	3rd Flow	44.0%	26.5%	3.9%	37.9%	1.1%	12.5%
83612CAE9	SVHE 2006-OPT5 2A4	3rd Flow	52.5%	38.7%	3.8%	37.3%	0.8%	8.8%

CDX	sTr	cTr	SMM	vPr
38.5%	4.1%	39.2%	0.8%	9.4%

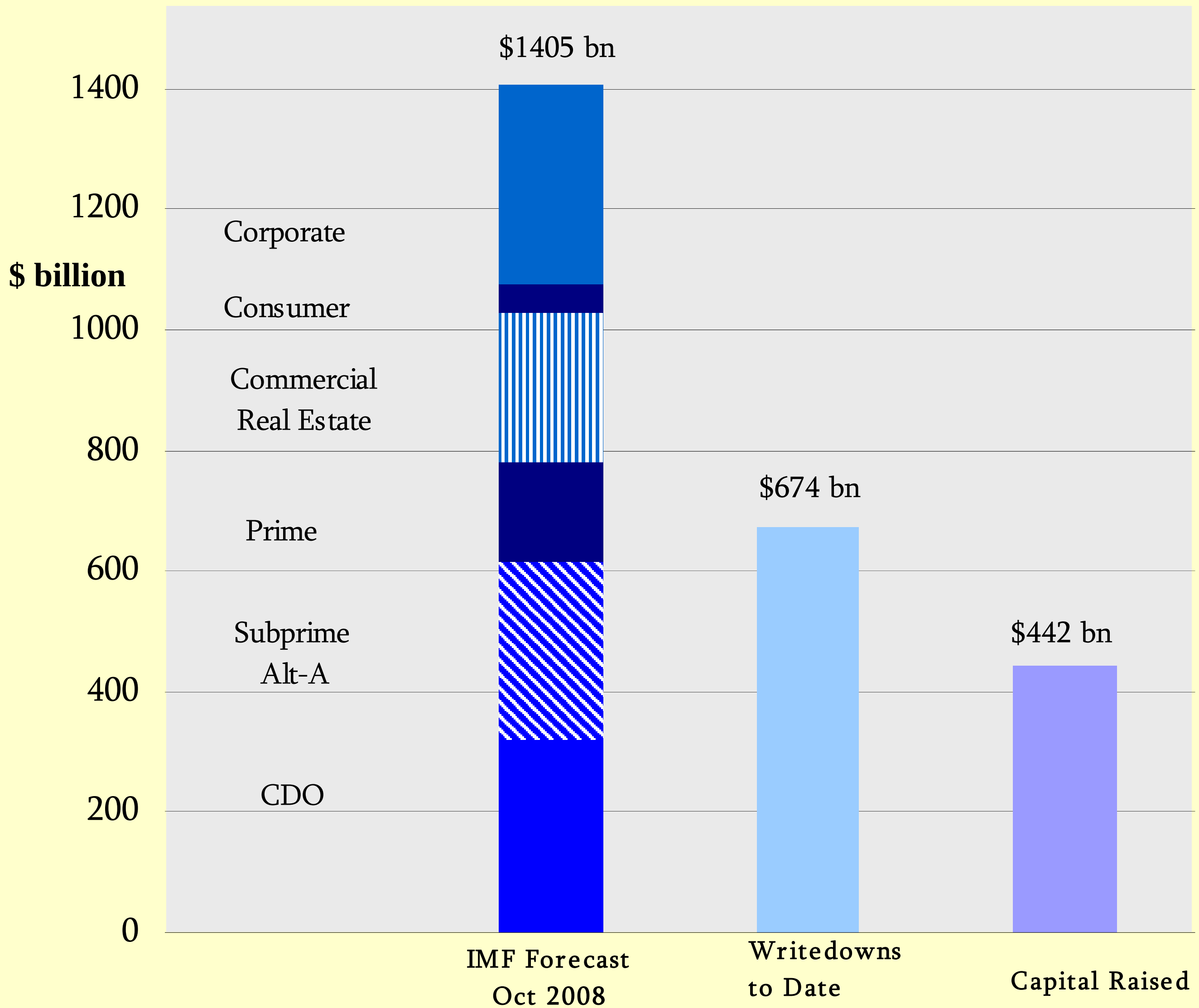
An average of 38.5% of the loans have already defaulted (was 26% in March)

On average, 4.1% of the performing loans in the pools defaulted during the month

The monthly prepay rate only averaged 0.8% (was 2.0% in March)

Source: Amherst Securities Group, November 25th reports, reflecting payments through 10/31/08

The IMF Estimated in October That Total Credit Losses Will Be $1.4 Trillion – And Less Than One Half of This Has Been Realized To Date



Sources: International Monetary Fund, Bloomberg, as of October 8, 2008; Paulson presentation

A Breakdown of the Writedowns/Losses and Capital Raised

Writedowns & Losses and Capital Raised

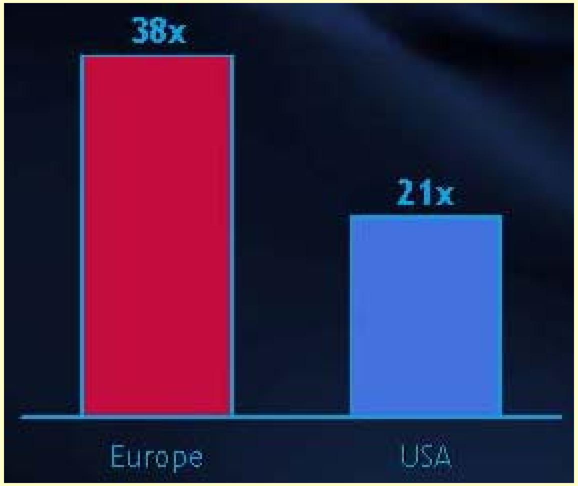
Firm	Writedowns & Losses	Capital Raised	Firm	Writedowns & Losses	Capital Raised
Citigroup	55.1	49.1	E*Trade	3.6	2.4
Merrill Lynch	51.8	29.9	Nomura Holdings	3.3	1.1
UBS	44.2	28.3	Natixis	3.3	6.7
HSBC	27.4	3.9	Bear Stearns	3.2	-
Wachovia	22.5	11.0	HSH Nordbank	2.8	1.9
Bank of America	21.2	20.7	Landesbank Sachsen	2.6	-
IKB Deutshce	15.3	12.6	UniCredit	2.6	-
Royal Bank of Scotland	14.9	24.3	Commerzbank	2.4	-
Washington Mutual	14.8	12.1	ABN Amro	2.3	-
Morgan Stanley	14.4	5.6	DZ Bank	2.0	-
JPMorgan Chase	14.3	7.9	Bank of China	2.0	-
Deutsche Bank	10.8	3.2	Fifth Third	1.9	2.6
Credit Suisse	10.5	2.7	Rabobank	1.7	-
Wells Fargo	10.0	4.1	Bank Hapoalim	1.7	2.4
Barclays	9.1	18.6	Mitsubishi UFJ	1.6	1.5
Lehman Brothers	8.2	13.9	Royal Bank of Canada	1.5	-
Credit Agricole	8.0	8.9	Marshall & Ilsley	1.4	-
Fortis	7.4	7.2	Alliance & Leicester	1.4	-
HBOS	7.1	7.6	U.S. Bancorp	1.3	-
Societe Generale	6.8	9.8	Dexia	1.2	-
Bayerische Landesbank	6.4	-	Caisse d'Epargne	1.2	-
Canadian Imperial	6.3	2.8	Keycorp	1.2	1.7
Mizuho Financial Grouo	5.9	-	Sovereign Bancorp	1.0	1.9
ING Group	5.8	4.8	Hypo Real Etstae	1.0	-
National City	5.4	8.9	Gulf International	1.0	1.0
Lloyds TSB	5.0	4.9	Sumitomo Mitsui	0.9	4.9
IndyMac	4.9	-	Sumitomo Trust	0.7	1.0
WestLB	4.7	7.5	DBS Group	0.2	1.1
Dresdner	4.1	-	Other European banks	7.2	2.3
BNP Paribas	4.0	-	Other Asian banks	4.6	7.8
LB Baden-Wuerttemberg	3.8	-	Other U.S. banks	2.9	1.9
Goldman Sachs	3.8	0.6	Other Canadian banks	1.8	-
			Total	501.1	352.9

Source: Bloomberg.com

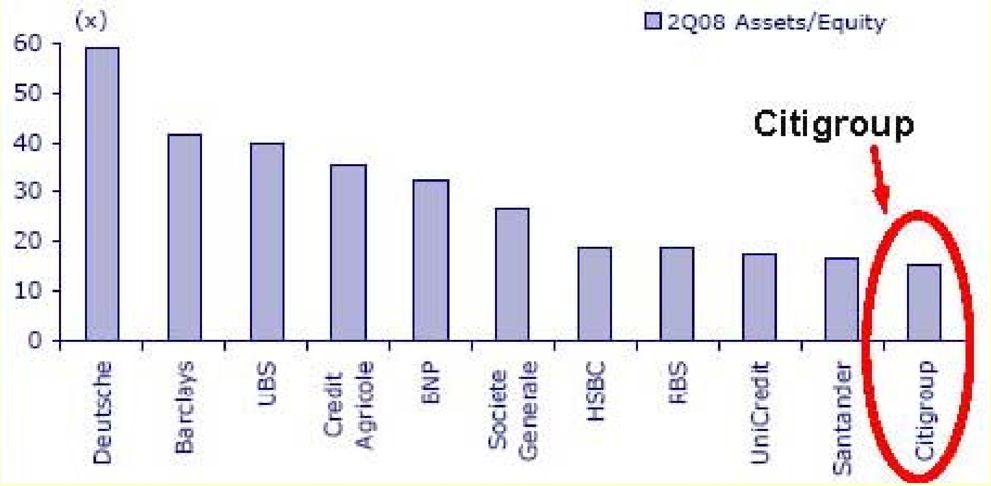
European Banks Are Far More Leveraged Than U.S. Ones

Bank Leverage (Assets/Equity)

Overall



By Bank



Sources: Citigroup, "A Downward Spiral", 9/17/08; "Greed & Fear", 9/10/08; Carlyle presentation, 10/15/08

Where Did the Securitized Mortgages End Up?
A Primer on ABSs and CDOs

Where Did All of These Toxic Loans End Up? They Were Securitized, First Into Asset-Backed Securities Called RMBS's (Residential Mortgage Backed Security)

Quick Review: What is a Securitization?

Originator of Mortgages
(for immediate sale)

↓

Pool of Subprime Mortgages $1,000,000,000
(5,000 loans, @ ˜ $200K)

↓ Sold to

Subprime Mortgage Backed Security Trust Structure

	Thickness of Tranche		
Bond Tranches *	%	Dollars, millions	"Loss Support" **
AAA	80%	$800	20%
AA	5%	$50	15%
A	6%	$60	9%
BBB+	2%	$20	7%
BBB	1%	$10	6%
BBB-	1%	$10	5%
BB	1%	$10	4%
Overcollateralization (Equity)	4%	$40	0%**
	100%	**$1,000**	

Source: Deutsche Bank Securitization Research; "How to Save the Bond Insurers", Pershing Square presentation, 11/28/07.

A Typical RMBS Had Many Tranches
This Is a Pool of Subprime Mortgages

ACE Securities Corp - ACE 2006-HE1

Class	Ratings	Class Amount Outstanding	Subordination	Spread to One- Month LIBOR
A1A	Aaa (AAA)	$757,819,000		0.14
A1B1	Aaa (AAA)	417,082,000		0.15
A1B2	Aaa (AAA)	104,270,000		0.15
A2A	Aaa (AAA)	356,980,000		0.04
A2B	Aaa (AAA)	127,685,000		0.09
A2C	Aaa (AAA)	88,606,000		0.15
A2D	Aaa (AAA)	78,490,000	23.9%	0.25
M1	Aa1 (AA+)	101,428,000	19.9%	0.27
M2	Aa2 (AA)	92,553,000	16.2%	0.29
M3	Aa3 (AA-)	57,053,000	14.0%	0.30
M4	A1 (A+)	48,178,000	12.1%	0.45
M5	A2 (A)	45,643,000	10.3%	0.48
M6	A3 (A-)	41,839,000	8.6%	0.58
M7	Baa1 (BBB+)	40,571,000	7.0%	0.95
M8	Baa2 (BBB)	36,768,000	5.6%	1.35
M9	Baa3 (BBB-)	26,625,000	4.5%	2.45
M10	Ba1 (BB+)	31,696,000	3.3%	5.50
Over Collateralization		82,415,903		
		$2,535,701,903		

76.1% of the pool was rated AAA

95.5% of the pool was rated investment grade

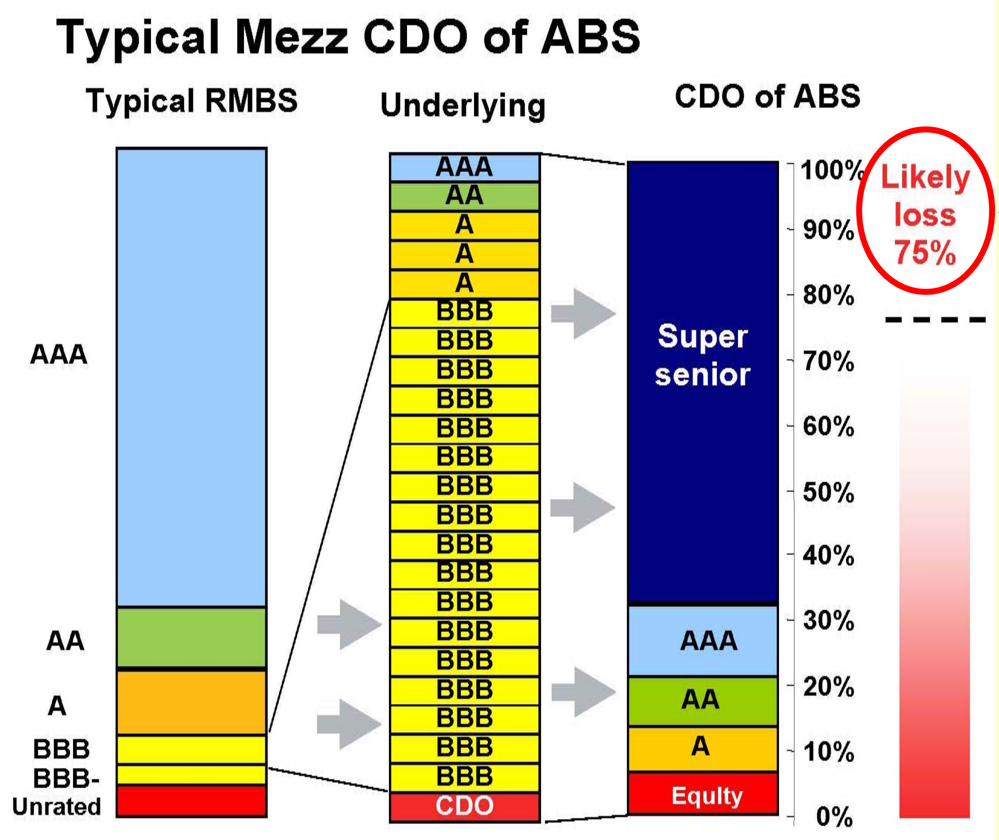
This pool had the following characteristics:

- Average loan: $204,245
- Average interest rate: 7.7%
- Average FICO score: 629 (anything below 660 is subprime)
- Most loans were in CA (33.9%), FL (9.6%) & NY (8.8%)
- 75.7% of loans were originated by Fremont Investment & Loan (filed for bankruptcy 6/18/08) and 10.9% by Ownit Mortgage Solutions (filed for bankruptcy 1/07)

By comparing the interest rate of the underlying loans (7.7%) with the interest paid on nearly all of the pool (LIBOR plus a few basis points), one can see how enormously profitable this structure is to the sponsor

Source: Paulson presentation

Tranches from Asset-Backed Securities Were Pooled into Collateralized Debt Obligations (CDOs)



Loss rates of, say, 20%, in the underlying RMBS's can lead to catastrophic losses for a CDO

This is an example of a "Mezzanine CDO." A "High-Grade CDO" would select collateral primarily from the A and AA tranches mixed with ~25% senior tranches from other, often mezzanine, CDOs

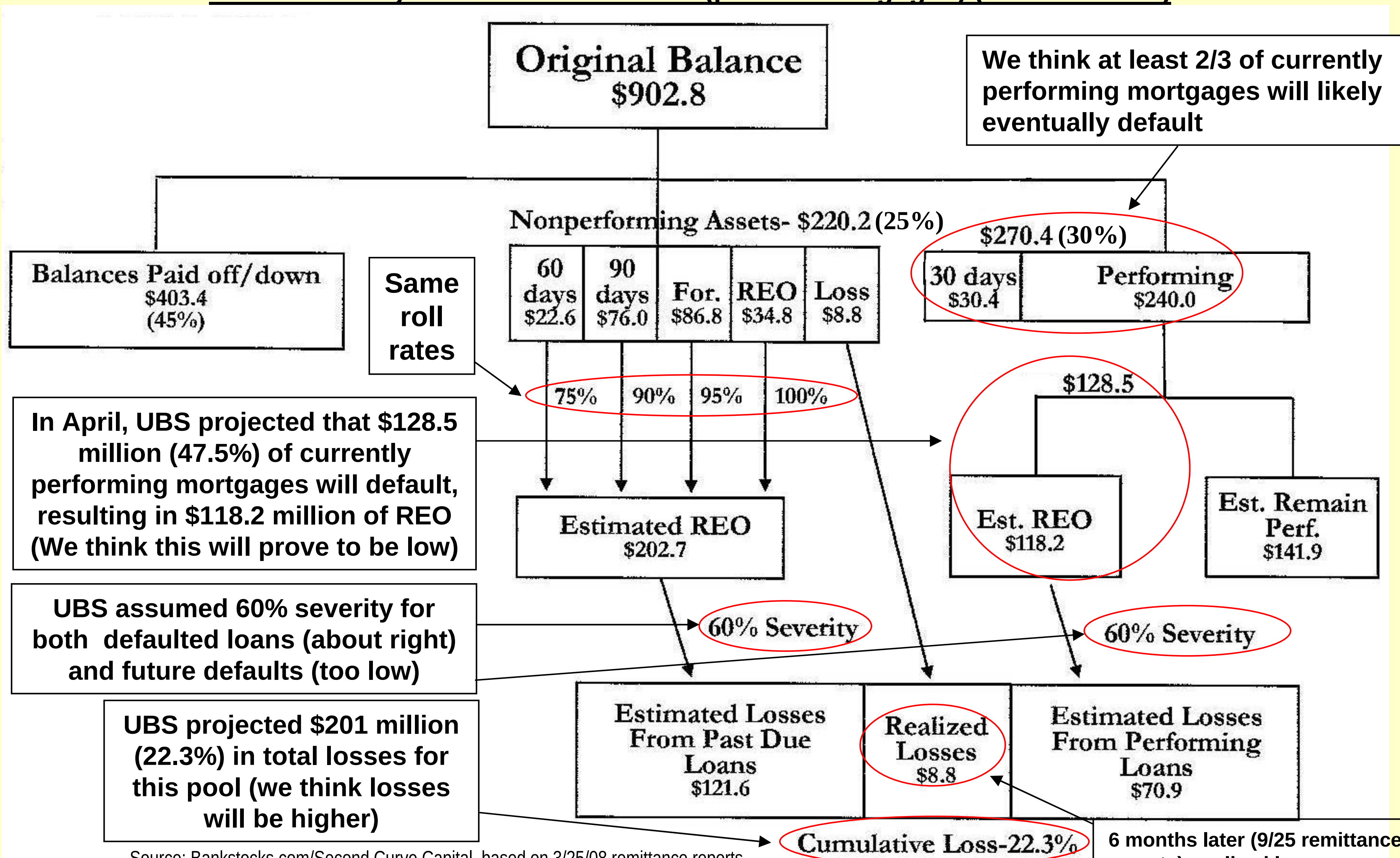
Note: Asset-based securities backed by home mortgages are called Residential Mortgage-Backed Securities (RMBS), those backed by commercial real estate loans are called Commercial Mortgage-Backed Securities (CMBS), etc.

Source: Citigroup, *All Clogged Up: What's Ailing the Financial System*, 2/13/08

This Chart Shows How One Would Analyze a Typical RMBS

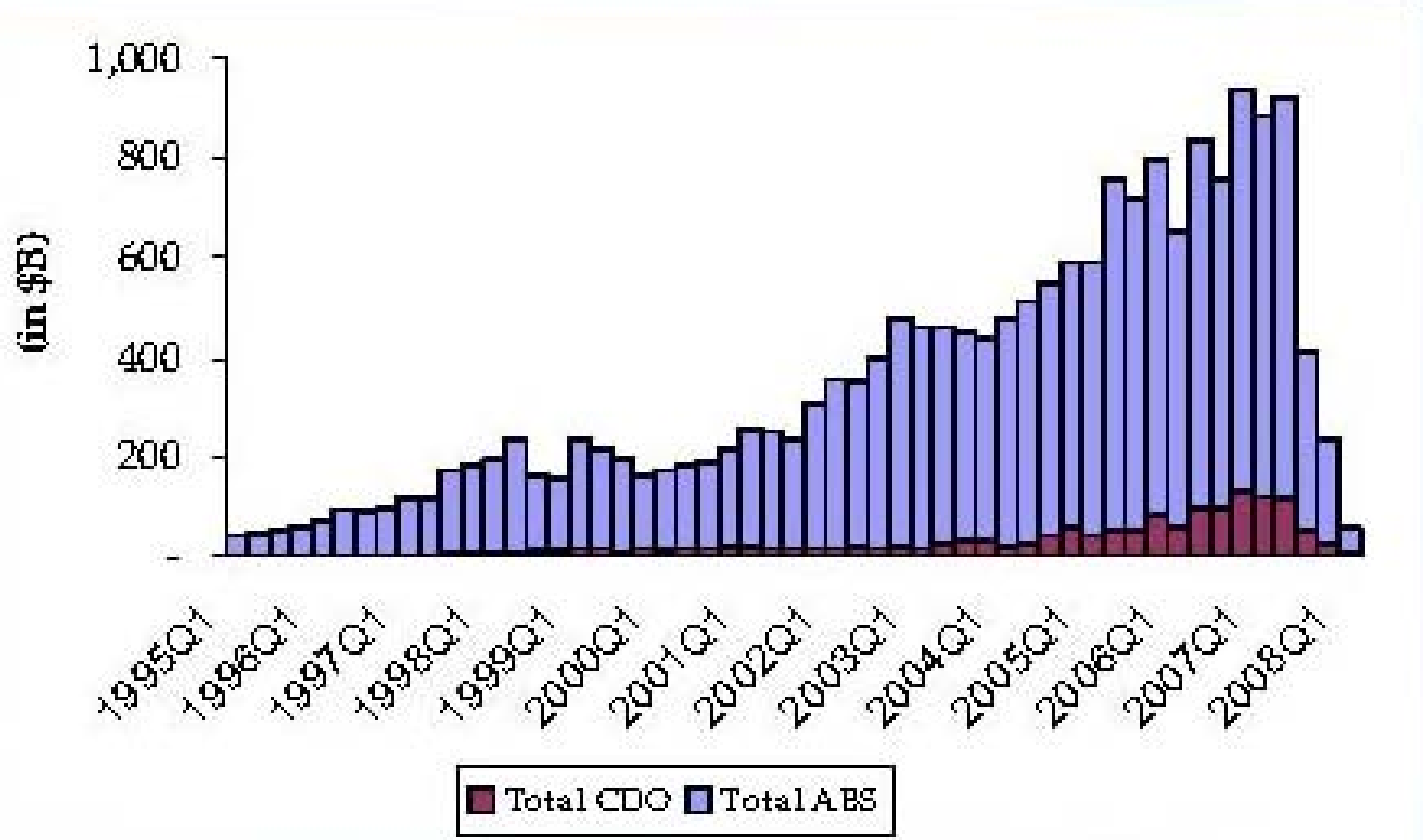
The Four Major Variables Are: 1) Severity on Loans That Have Already Defaulted; 2 & 3) % of Performing Loans That Default vs. Prepay; and 4) Severity of New Defaults

A New Century Financial 2005 RMBS (pool of mortgages) (MABS-05NC2)



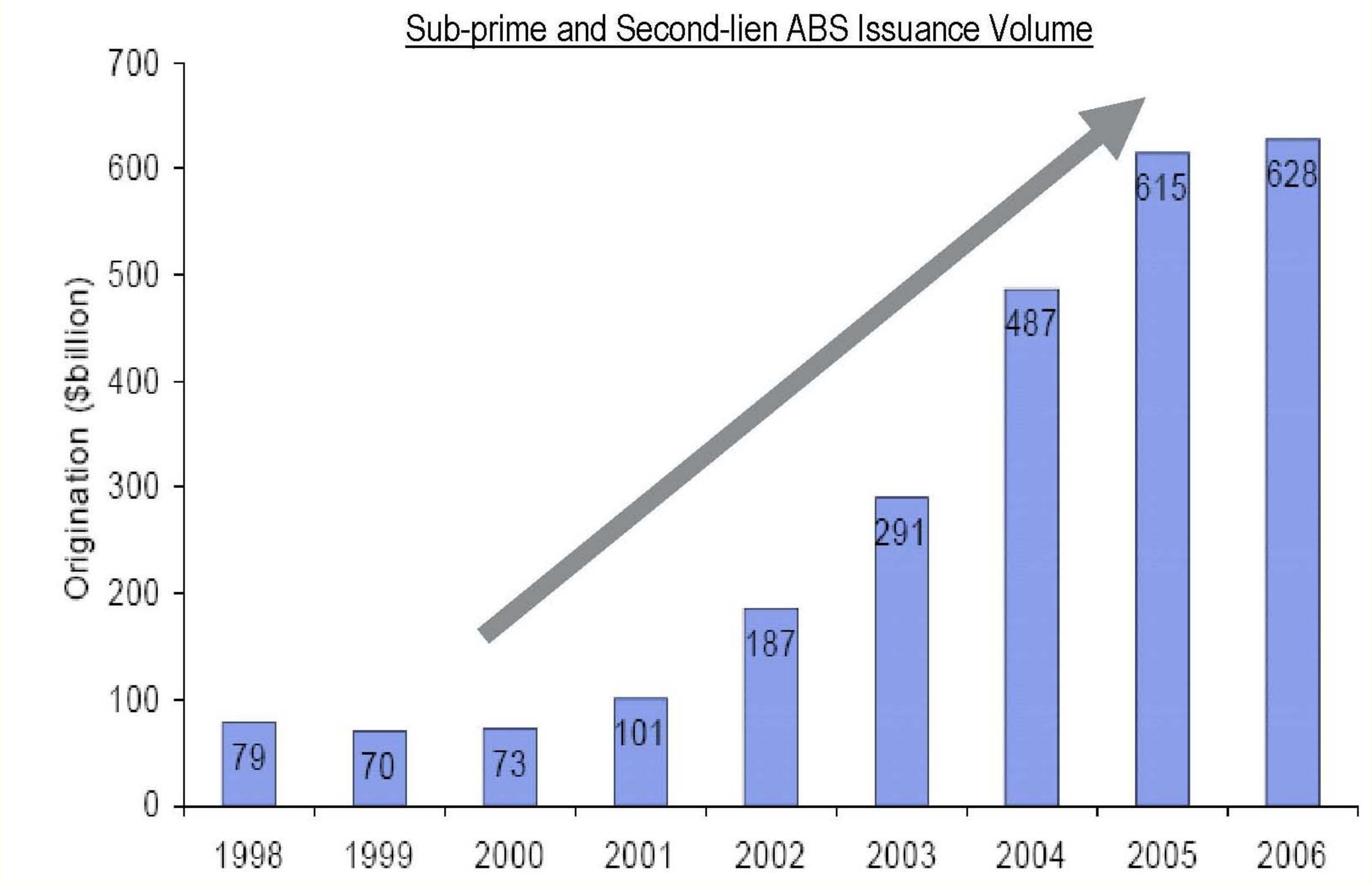
6 months later (9/25 remittance reports), realized losses rose to $38.2 million

Trillions of Dollars of ABSs and CDOs Were Created and Distributed Throughout the Financial System



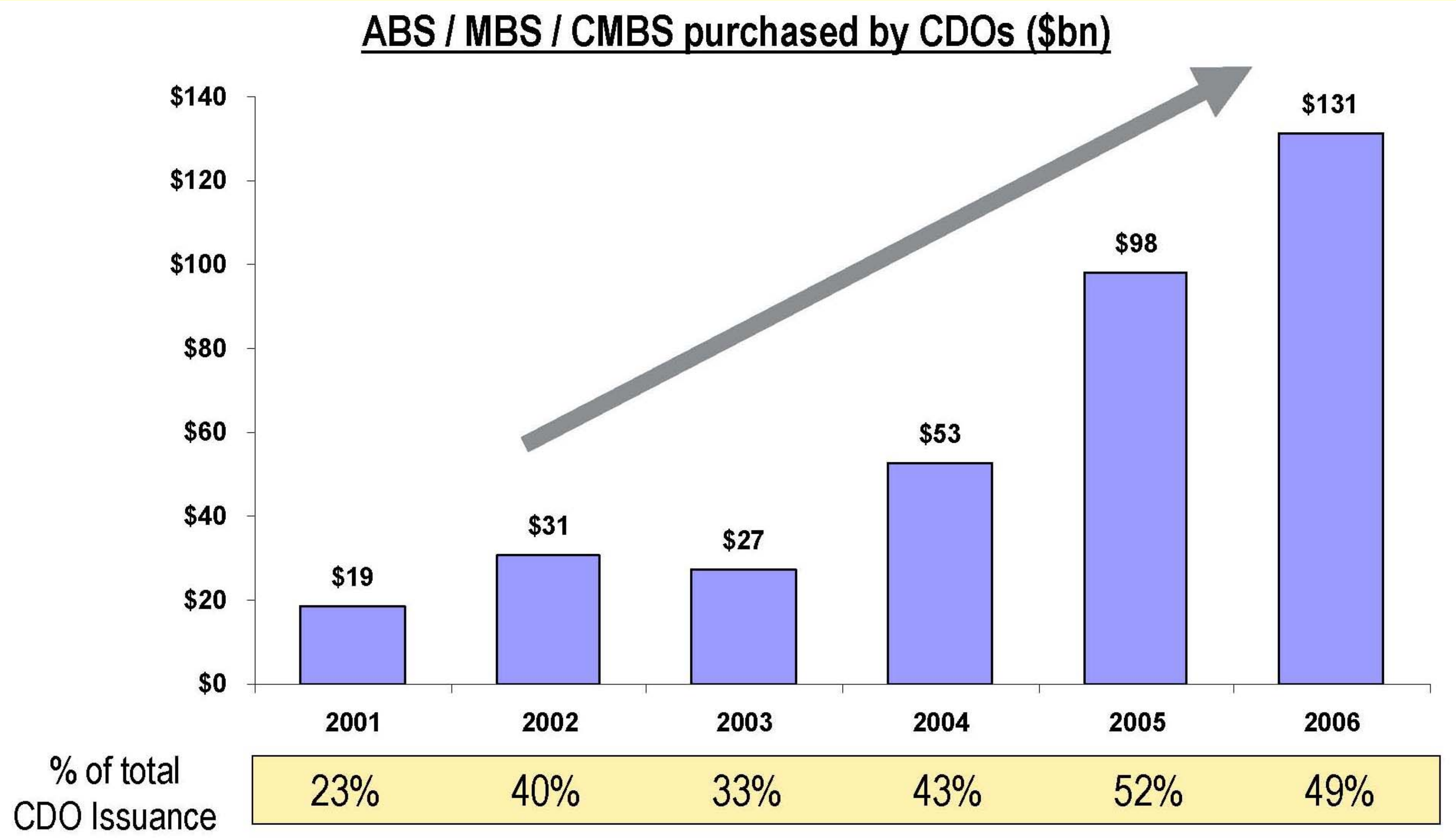
Note: This is *all* ABSs and CDOs, not just those related to mortgages
Source: Lehman Brothers, 4/08; Carlyle presentation 10/15/08

The Issuance of ABSs Backed By Subprime and Second-Lien Mortgages Surged in 2004, 2005 and 2006



Source: Thompson Financial, Deutsche Bank; “Who's Holding the Bag?”, Pershing Square presentation, 5/23/07

Hundreds of Billions of Dollars of Tranches of Various Types of ABSs Ended Up in CDOs



Source: Bear Stearns; "Who's Holding the Bag?", Pershing Square presentation, 5/23/07

An Estimated $320 Billion of CDOs Backed by Subprime Securities Were Issued in 2006 and 2007

	2006/2007 Volume ($ in billions)	Collateral
Mezzanine	$129	"BBB" Securities
High Grade	167	AA/A Subprime RMBS and Mezzanine CDO's
CDO Squared	24	AA/A Mezzanine CDO's
Total	$320	

Source: Merrill Lynch

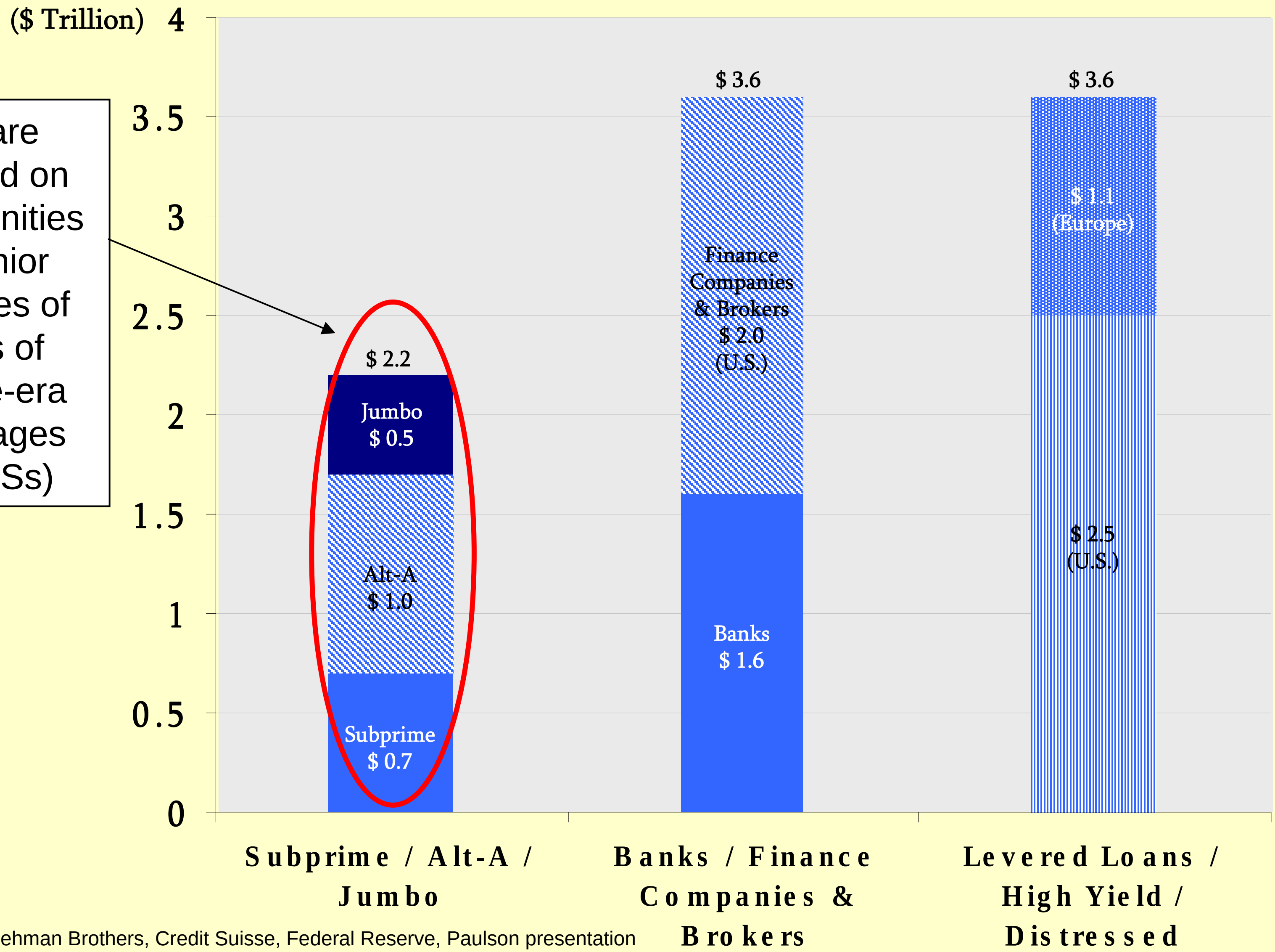
There are approximately $3.2 *trillion* in asset-backed and non-agency mortgage-backed securities where the same structuring techniques and "good times" assumptions were employed to create "highly rated" securities.

Source: Paulson presentation

The Opportunity in Distressed Debt – Specifically, Senior Tranches of Mortgage Pools

There is Nearly $10 Trillion of Debt in Areas That Are or Are Likely to Be Distressed

We are focused on opportunities in senior tranches of pools of bubble-era mortgages (RMBSs)



Sources: Lehman Brothers, Credit Suisse, Federal Reserve, Paulson presentation