

APRIL 29, 2009

BULLISH ON SECURITIZED PRODUCTS

GOVERNMENT INTERVENTION (THE NEW CDO BID) DEFEATING
BLEAK FUNDAMENTALS

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Investment recommendations and themes

- Long consumer, short government
- Massive fiscal and monetary stimulus targeted at household sector. Consumer ABS is a direct beneficiary
- Bias investments to government guaranteed or sponsored sectors
 - Overweight Consumer ABS: great leverage potential through TALF 1.0 and 2.0; good supply dynamics - there won't be enough bonds to go around
 - Overweight senior RMBS
 - HASP/HAMP should stabilize home prices and facilitate refinancings
 - TALF 2.0 should support prices ultimately but subprime will be a last responder
 - Overweight AAA CMBS
- PPIP and TALF 2.0: Building on the big success of TALF 1.0
 - The new RTC
 - The return of ABS CDOs
- Will there be consequences to the massive stimuli? Starting to feel like 2004-2005 when fundamentals were deteriorating but the CDO bid drove price action

Agenda

	Page
Simple ABS worldview: long consumer, short government	3
Bleak fundamentals	8
Consumer ABS	16
ABX, subprime RMBS	24
CMBS: good value in AAAs	30
TALF 1.0, 2.0; PPIP	35

December 2008 outlook: Five point policy plan for the government; critical steps for market recovery. 4 out of 5 under way



1. Lower conforming mortgage rate through massive purchases of agency MBS

- Scale likely needs to be on the order of \$1-2 trillion



HASP:
Weak Link

2. Increase FDIC insurance of modified loans to 100% of the modified balance

- Higher insurance reduces investor property rights issues
- Have borrower explicitly agree that modified and guaranteed debt is NOT dischargeable



PPIP
& TALF 2.0

3. Use remaining TARP funds to purchase distressed assets on a levered basis (expand scope of TALF)

- Mix of sector purchases: 50% RMBS, 20% CMBS, 20% consumer ABS, 10% CLOs



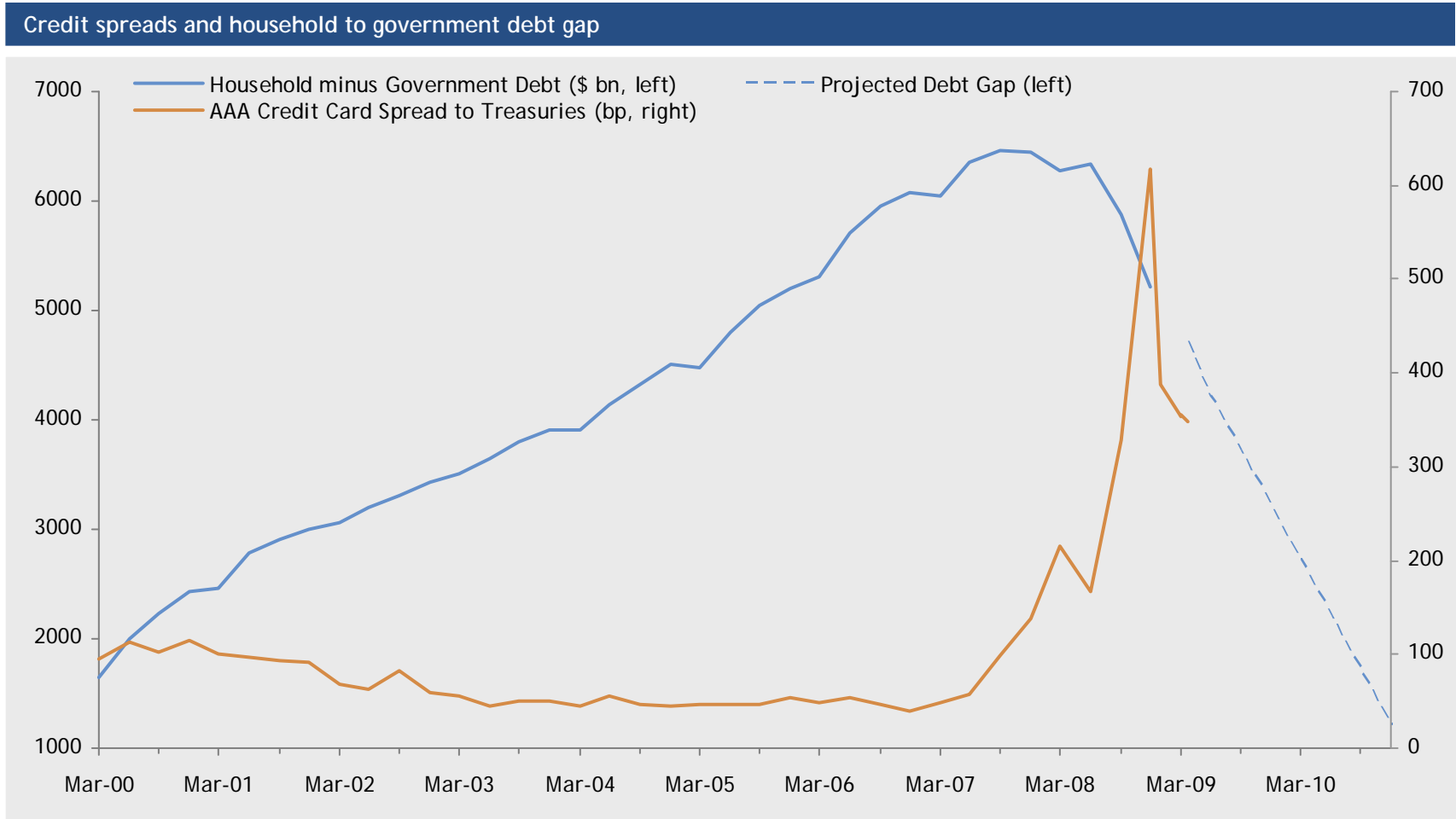
4. Suspend or modify mark-to-market accounting for financial institutions



5. Presidential leadership

- Rally the troops
- Moral suasion... Class warfare has started; debt repayment still optional
- Manage expectations upward

The anticipated \$4+ trillion explosion of government debt, and increased savings rate, is rapidly narrowing household to government debt gap – and ABS credit spreads



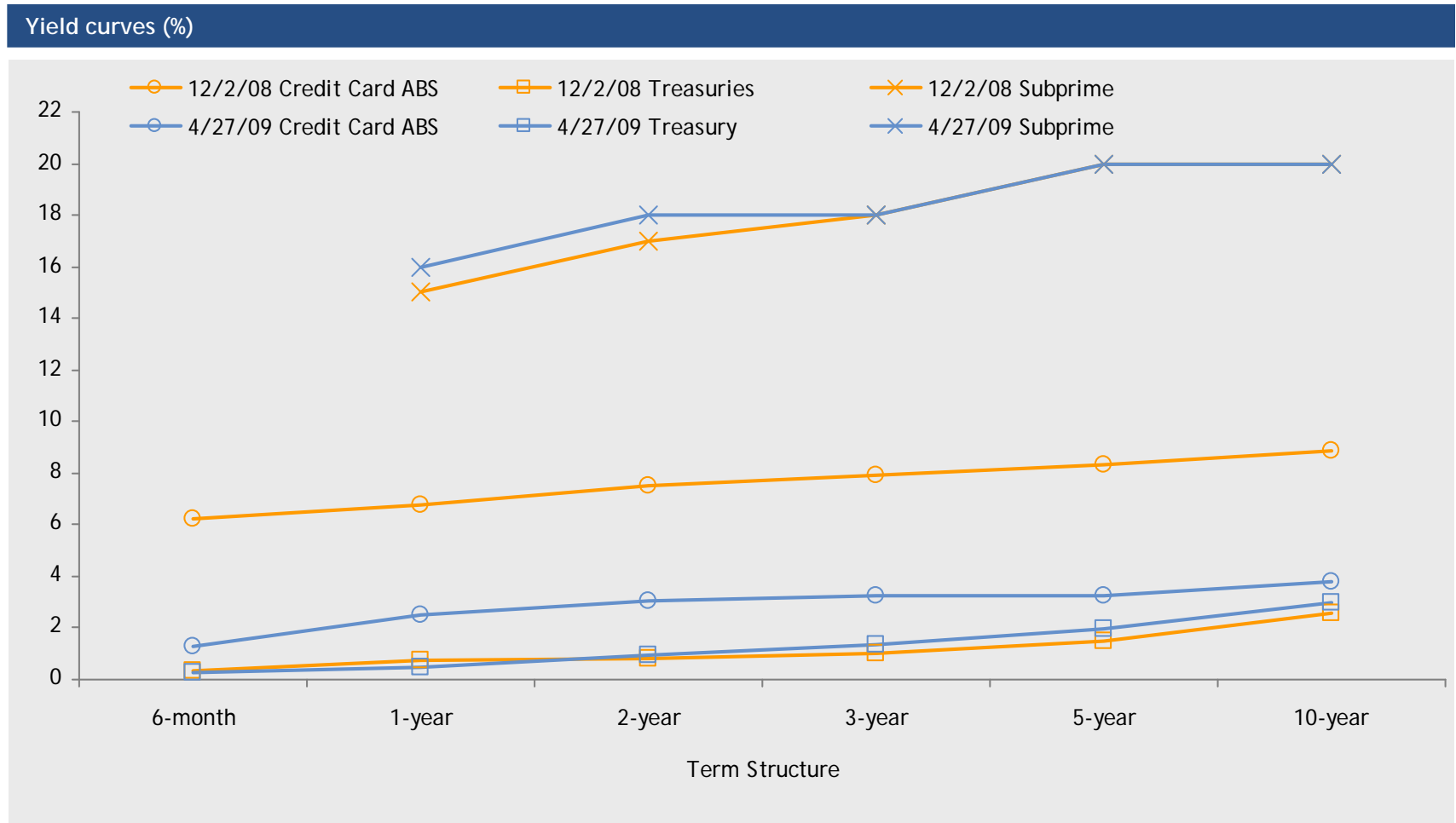
Projected debt gap assumes an additional \$4 trillion decrease.

Source: J.P. Morgan, Federal Reserve

- A secular reversal of the consumer credit spread widening

Yield curves: arbitrage opportunity for government at work on consumer ABS

SIMPLE ABS WORLDVIEW: LONG CONSUMER, SHORT GOVERNMENT

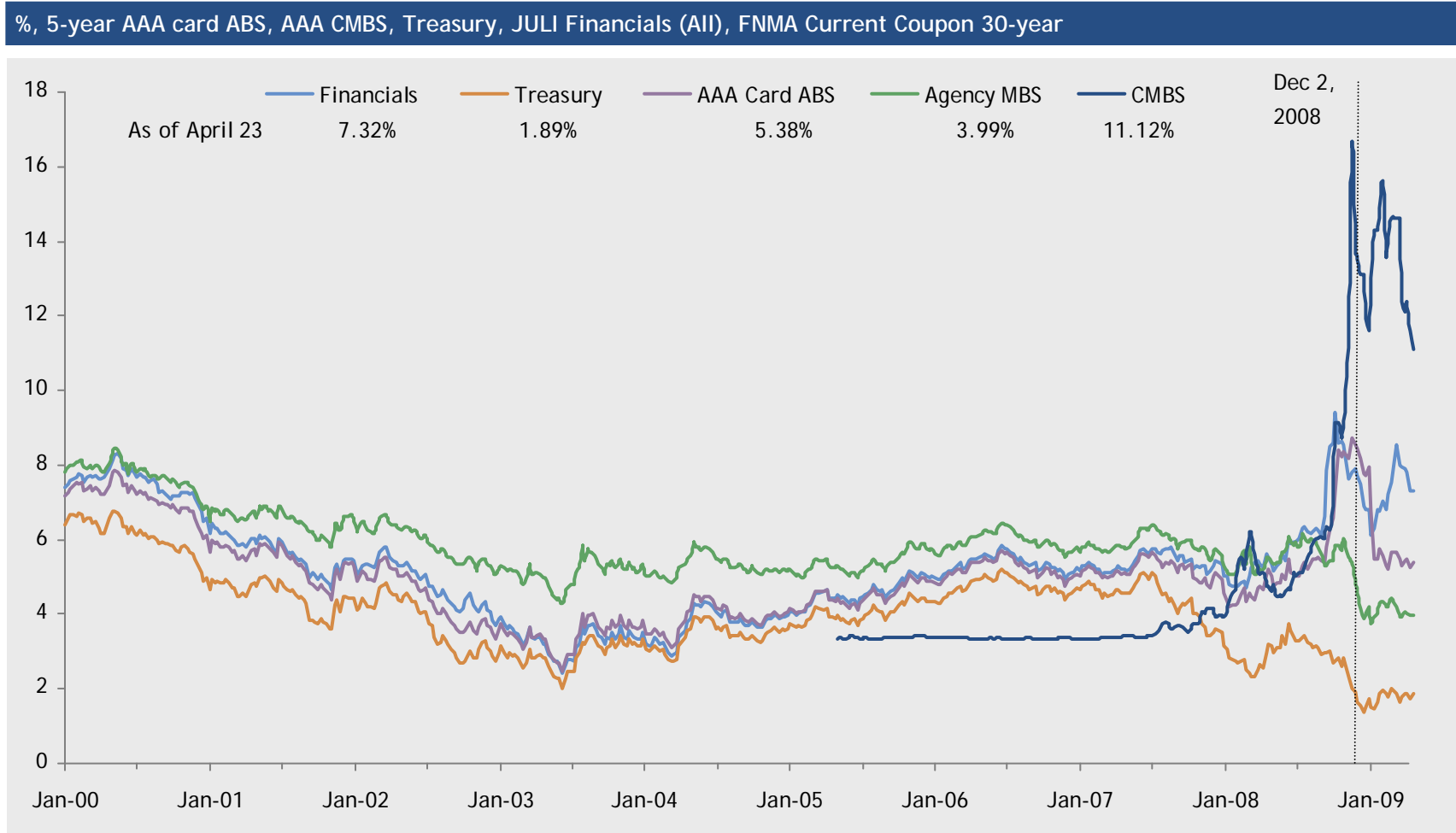


Source: J.P. Morgan

- ABS yields and spreads lower in response to TALF 1.0
- TALF 2.0: more spread tightening ahead

Massive government borrowing stalled the Treasury rally; high yield/high quality bonds, such as AAA consumer ABS and CMBS, are the place to be

SIMPLE ABS WORLDVIEW: LONG CONSUMER, SHORT GOVERNMENT



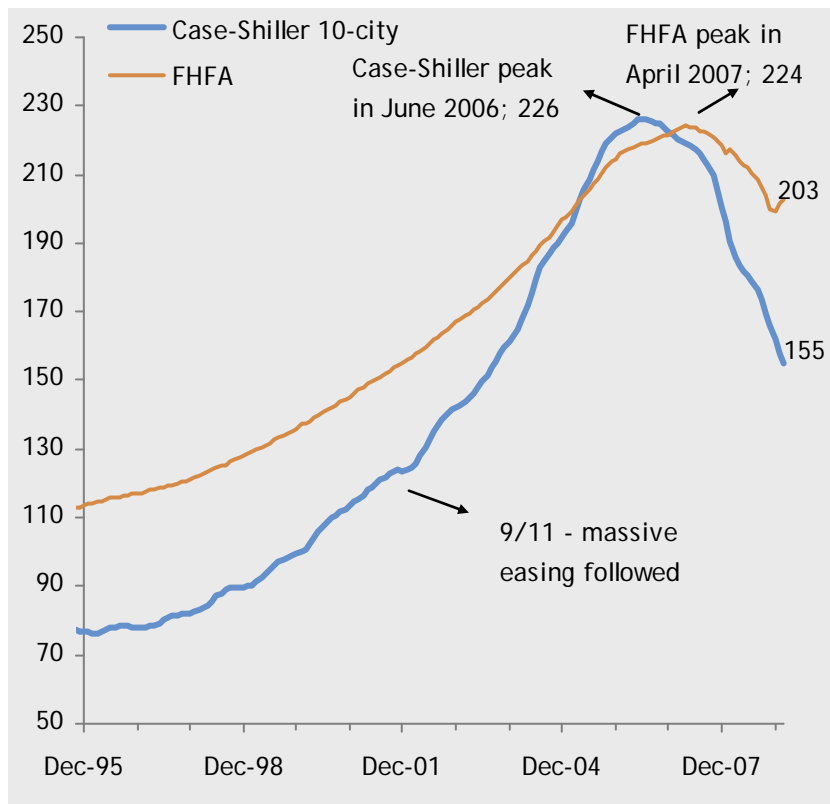
- Historically low Treasury and MBS yields, and narrow MBS spreads, are forcing investors into higher yielding assets
- Consumer ABS a continued beneficiary, especially with TALF leverage

Agenda

	Page
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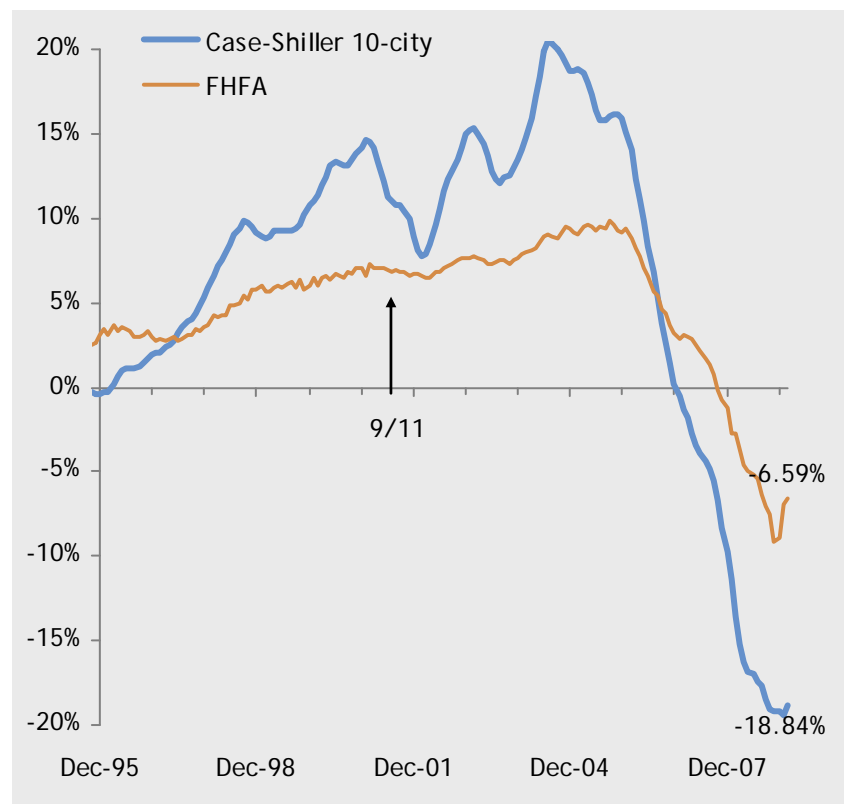
Case-Shiller and FHFA home price indices; down -32% and -10% peak-to-current, another 20% and 11% to go, respectively. Sharpest declines in 2009, drift lower in 2010-2011

Case-Shiller vs. FHFA home price indices



Note: As of February 2009
Source: J.P. Morgan, Federal Reserve Board of Governors, LoanPerformance

Case-Shiller and FHFA home price indices; annual changes

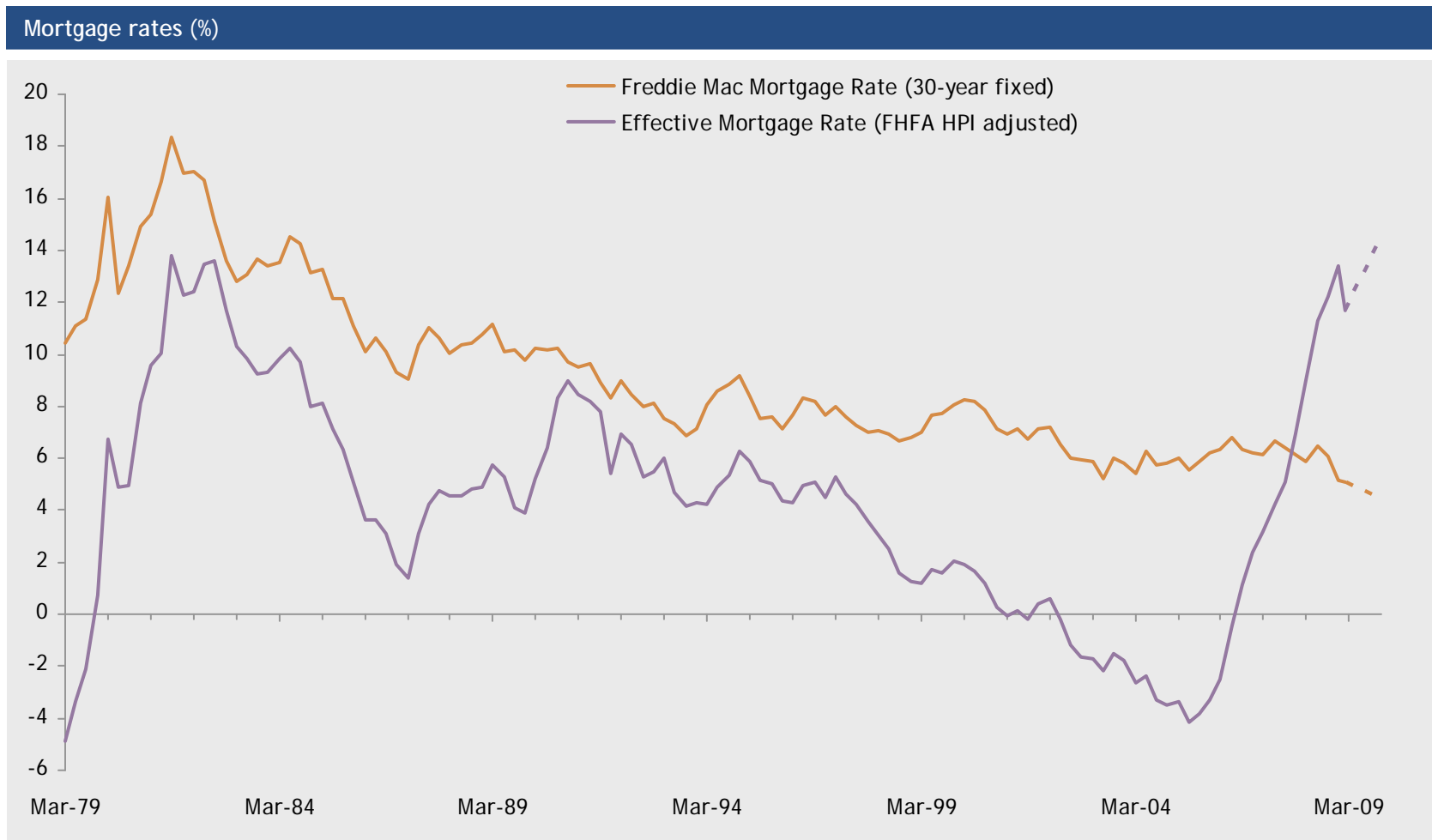


Note: As of February 2009
Source: J.P. Morgan, S&P/Case-Shiller, FHFA

- Tough to originate residential mortgages into a declining home price environment
- Low LTVs are required

	Case-Shiller		FHFA	
	From peak	From current	From peak	From current
To-date	-32%	0%	-10%	0%
Dec-03	-29%	4%	-20%	-11%
Dec-01	-45%	-20%	-31%	-24%
Dec-97	-64%	-47%	-46%	-40%

Nominal and “real” mortgage rates: mortgage rates less attractive when negative HPA is considered

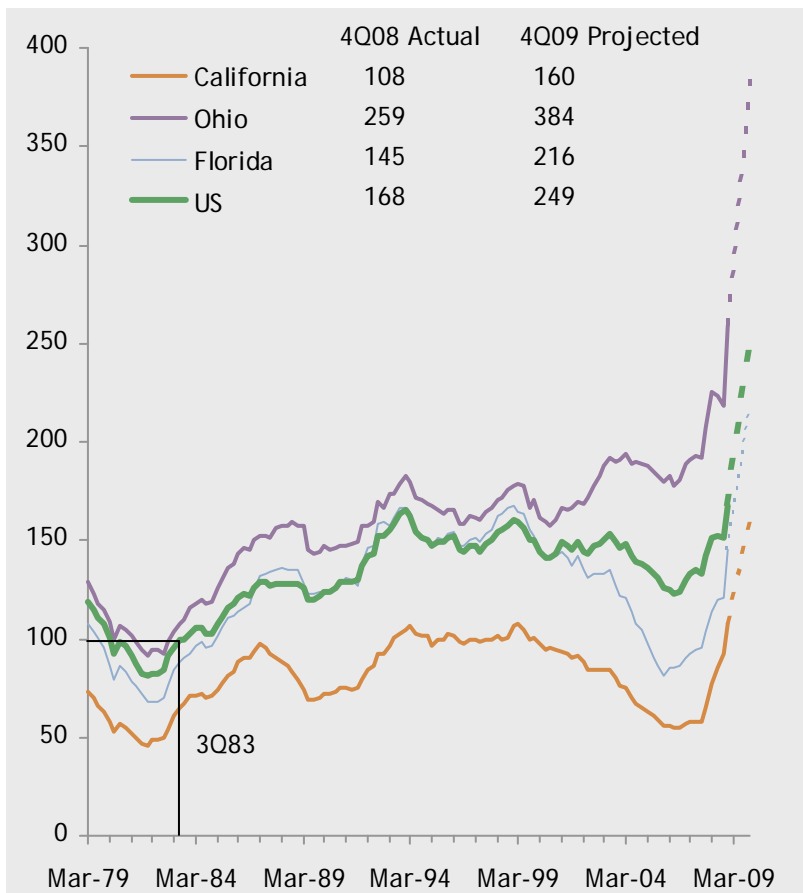


Effective mortgage Rate = Freddie Mac Mortgage Rate - FHFA HPI YOY%
 Source: J.P. Morgan, OFHEO, Freddie Mac

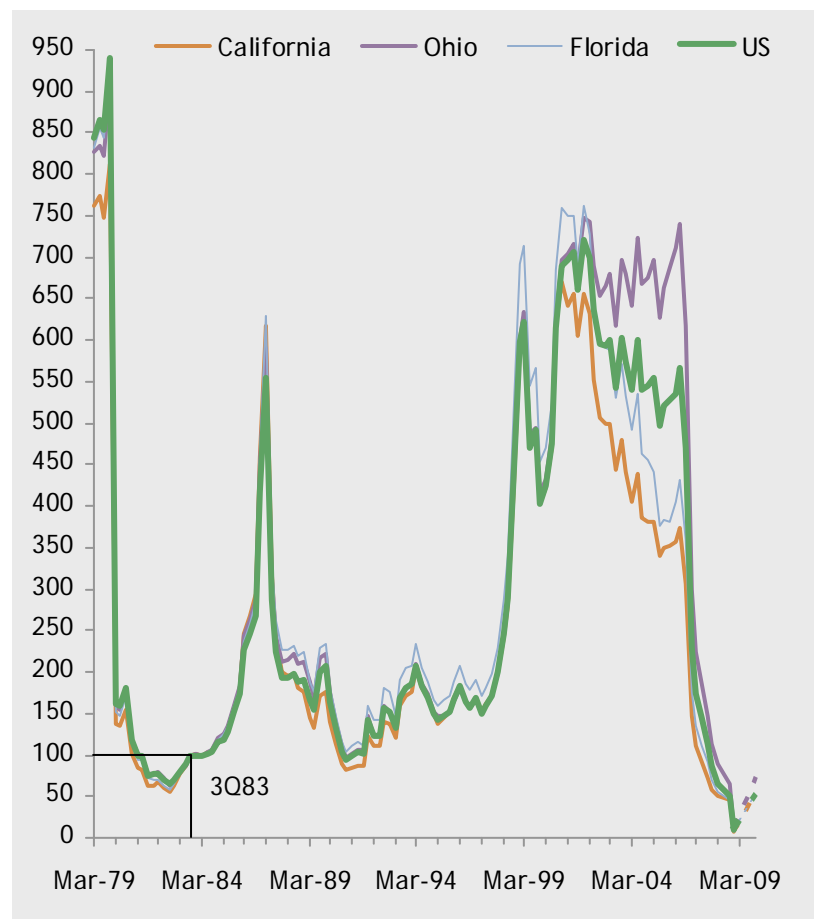
■ FHFA HPI yoy% as deflator

Record affordability from additional price declines and 4.5% mortgage rates. Still record low affordability with "real" rates

NAR Housing Affordability Index (as of 4Q08)



Affordability with "real" mortgage rate (3Q83 = 100)



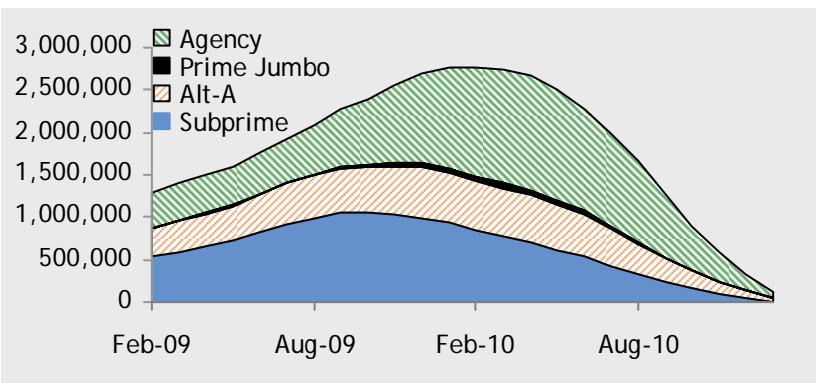
Projected affordability assumes mortgage rates of 4.5% and additional 10% decline in home prices

Source: J.P. Morgan, NAR, Moody's Economy.com

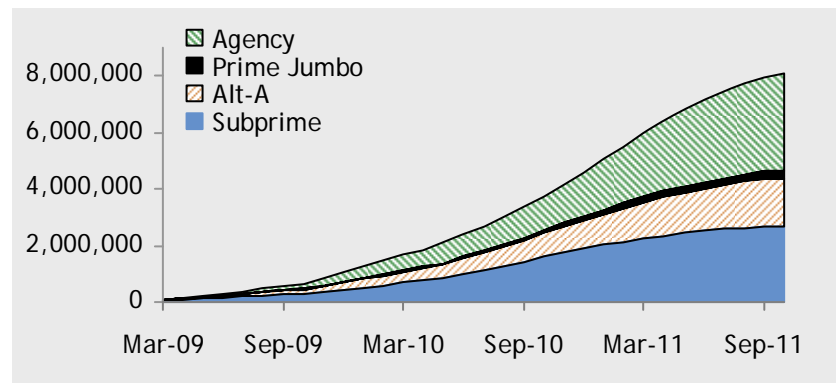
- "Affordability" was great when HPA was high; need HPA to head to zero to make NAR Affordability matter
- Foreclosure reduction could help bring HPA to zero more quickly

Foreclosure inventory & liquidations: 2010 explosion in liquidations. Obama's plan could slow the agency component, reduce supply overhang and stabilize home prices sooner

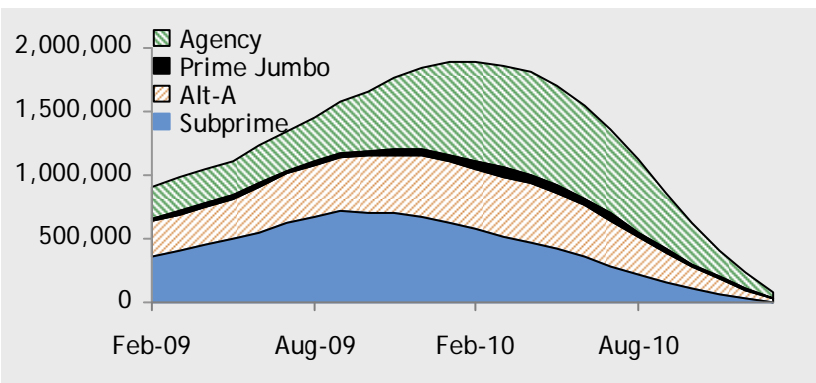
Foreclosure inventory (# loans); without modifications



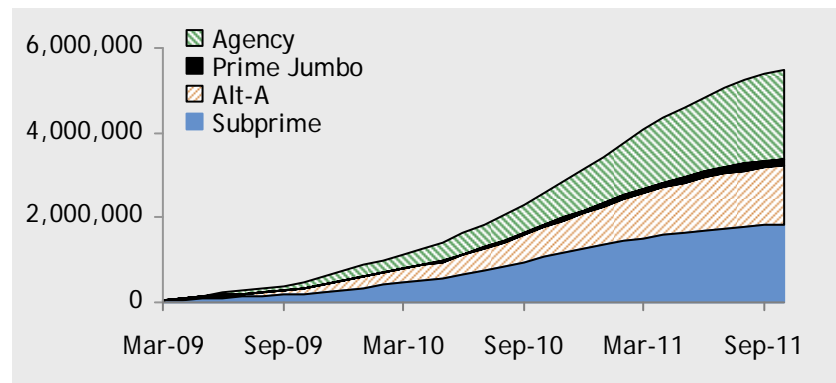
Cumulative liquidations (# loans); without modifications



Foreclosure inventory (# loans); with modifications



Cumulative liquidations (# loans); with modifications

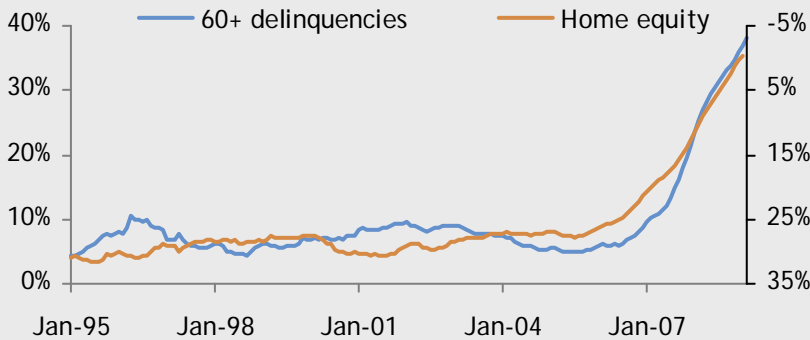


Source: J.P. Morgan, LoanPerformance

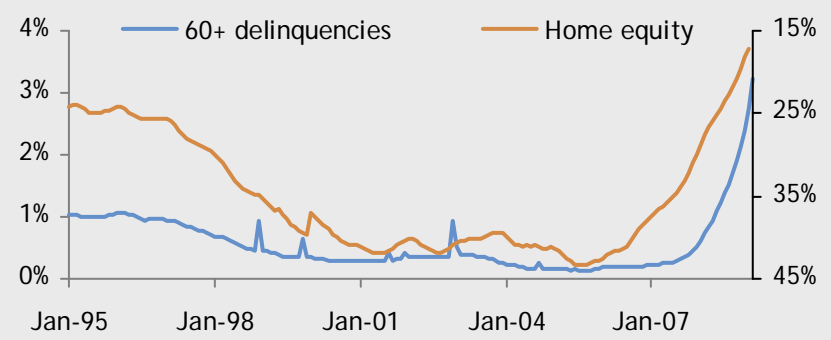
- 1.5mn non-agency liquidations to-date
- Projecting another 8mn until 2011 (including Agency RMBS)
- Modifications could reduce that to roughly 5mn. Agency mortgages the prime beneficiary

Non-agency mortgage performance: 60+ delinquencies vs. home equity. Negative equity is a critical driver of credit

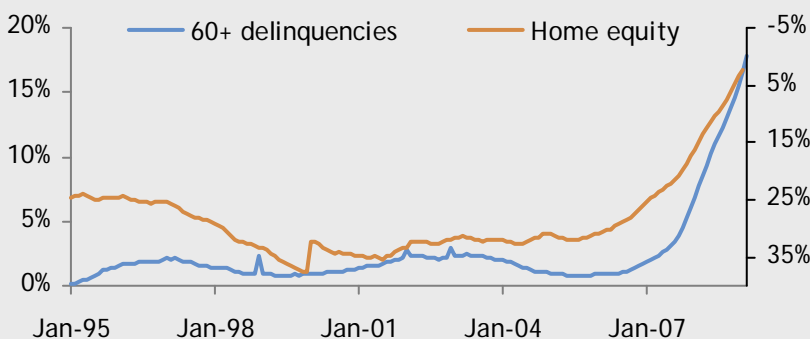
Subprime



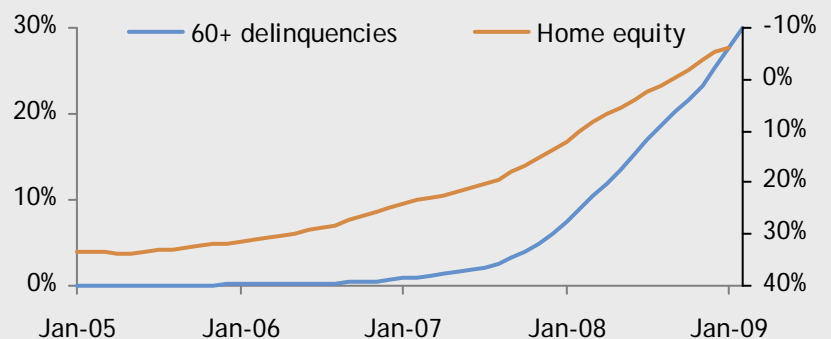
Prime jumbo



Alt-A



Option ARM

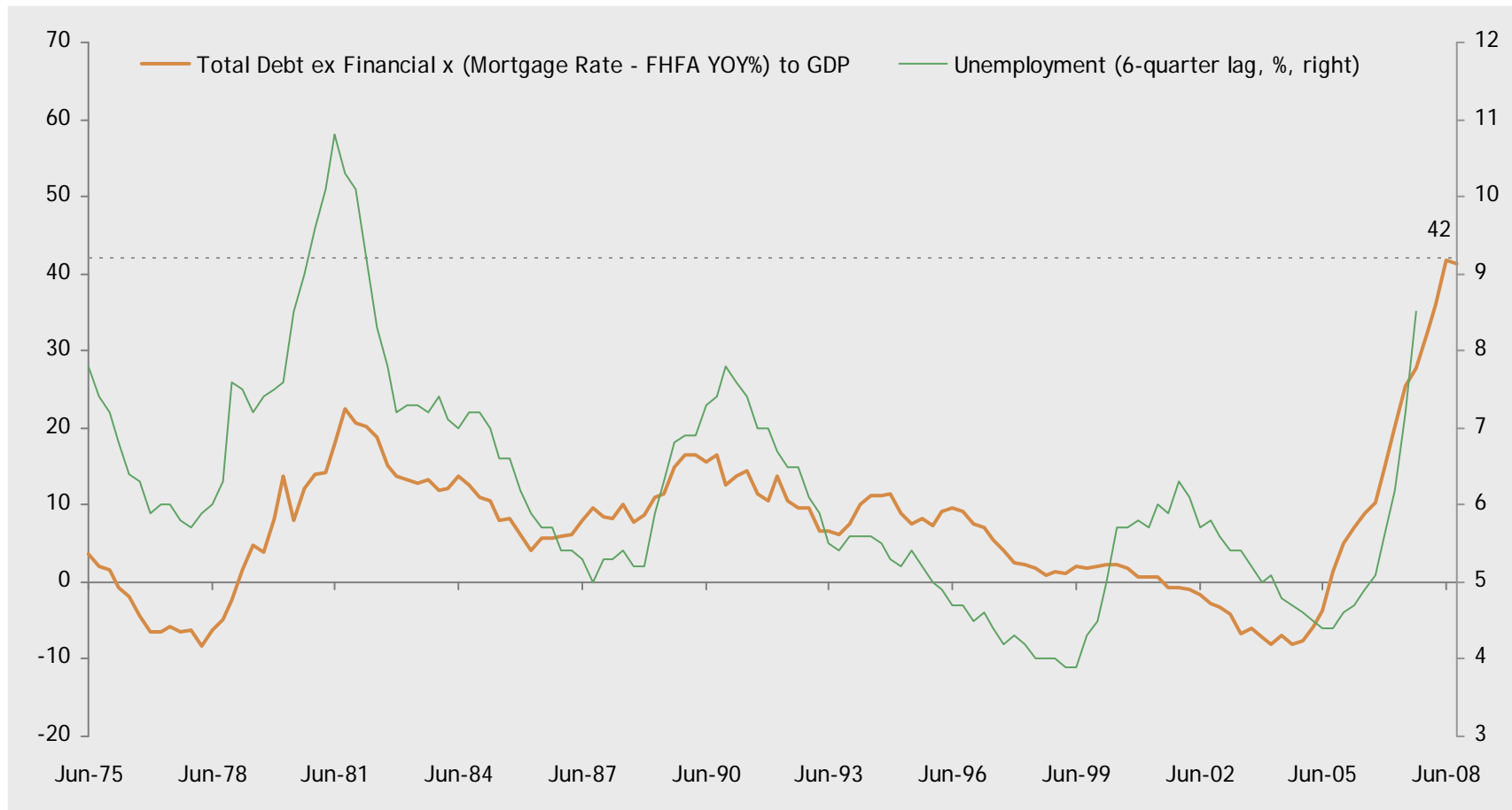


Source: J.P. Morgan, LoanPerformance

- Negative equity likely to remain as a weight on the housing market

Expected-HPA-adjusted aggregate debt to income ratio signals bleak employment picture: 10-12% unemployment easily achievable in 2010 if housing is not stabilized soon

Debt outstanding times (mortgage rate - FHFA HPA) as percent of nominal GDP



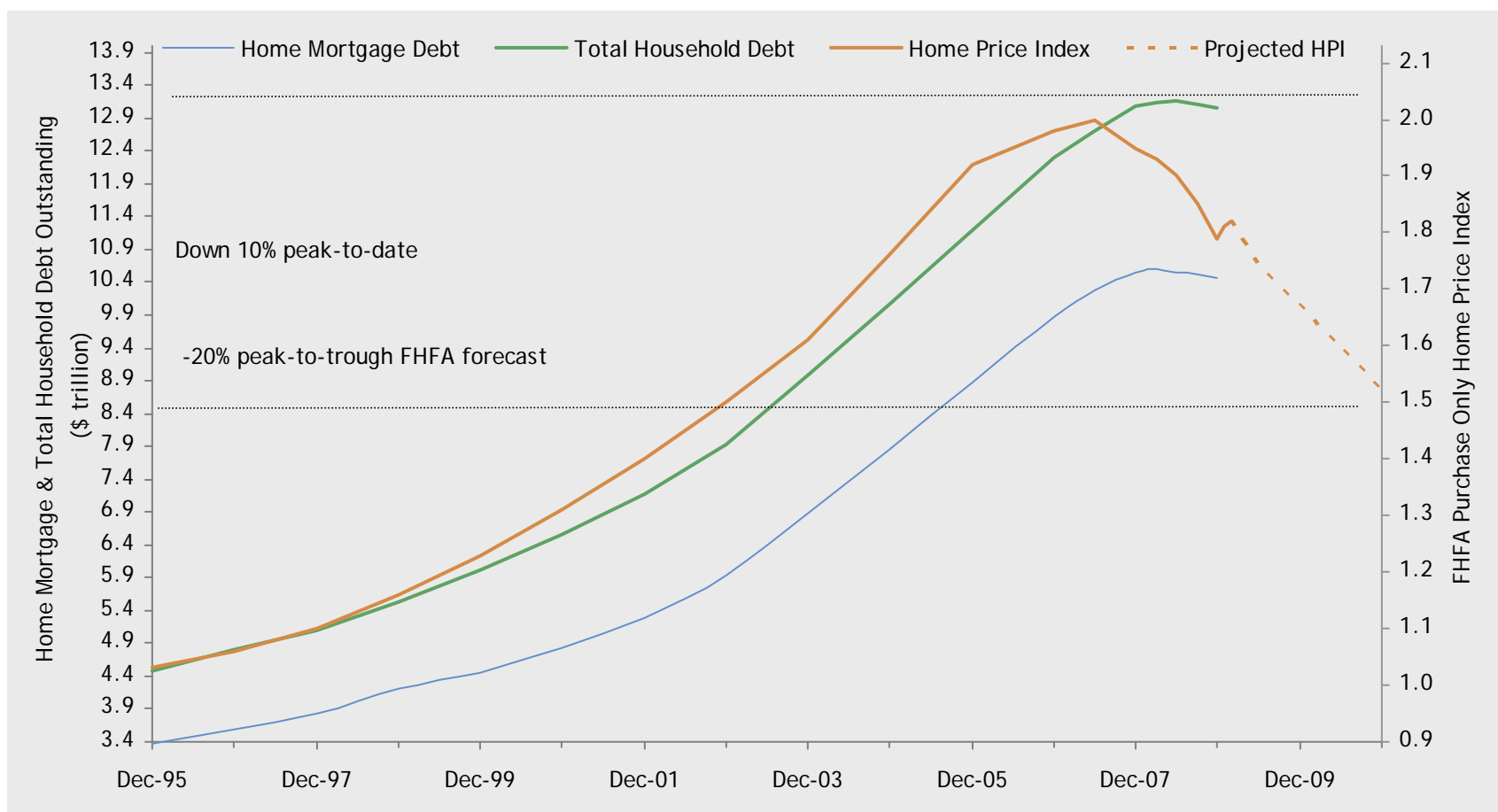
As of 4Q08

Source: J.P. Morgan, FHFA, Federal Reserve Board

- Effective aggregate debt burden at historical highs due to high "real" mortgage rate
- Unemployment worse than 1982 peak seems quite possible

Real estate deflation pressuring \$3-\$5 trillion household debt reduction: FHFA HPI down 10-15% in 2009-2010

Household debt versus FHFA home price index



Household debt outstandings as of 4Q08. Home price index at year end 1995 set to 1.
Source: J.P. Morgan, Federal Reserve, FHFA

- Asset inflation/deflation leads credit expansion/contraction
- Household debt contraction: higher defaults/chargeoffs and higher savings rate

Agenda

	Page
Simple ABS worldview: long consumer, short government	3
Bleak fundamentals	8
Consumer ABS	16
■ TALF financing, ABS structure win out over rising unemployment	
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Despite the success of TALF in re-opening the ABS primary market, supply contraction likely to continue in 2009

Sector supply (\$ Billions)							
	2005	2006	2007	2008	2009 Year-to-Date		2009 Full
					TALF Eligible	Non- TALF	Year Projection
Credit Cards	66	66	90	65			30-60
Bank	62	64	83	63	3.0	3.9	28-55
Retail	4	2	7	2	1.0		2-5
Autos	98	84	62	35			22-35
Prime Loan	54	50	35	32	6.7	3.4	20-33
Other	44	34	27	4			2-12
Home Equity	559	555	224	-			-
Student Loans	64	65	48	23.8			0-5
FFELP	56	50	39	28		2.7	0-3
Private Credit	8	15	9	0.1		1.5	0-2
Global RMBS	35	69	66	-			-
Equipment	9	8	6	3		0.5	2-5
Other	39	40	32	3		1.0	1-5
Total	874	888	529	135	10.7	13.0	55-110

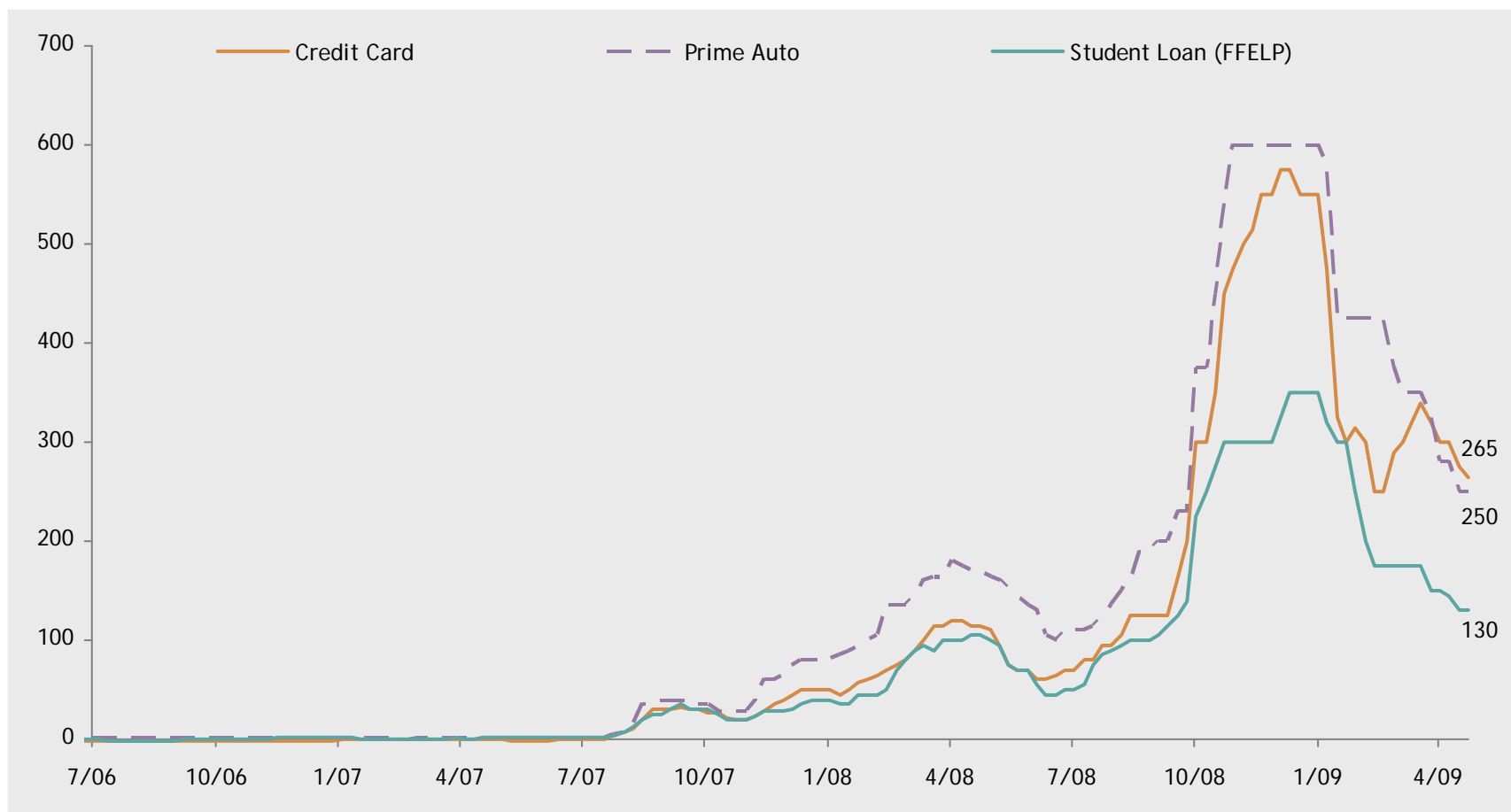
"Auto Other" includes Subprime, Leases, and Fleet. "Other" includes Floorplan, Motorcycle, Small Business Loans, Time Share, Aircraft, Franchise, and other miscellaneous assets. As of April 17, 2009

Source: J.P. Morgan, IGM CorporateWatch, IFR, and Bloomberg

- Low ABS supply VERY bullish for spreads
- Using the \$200 billion TALF availability unlikely

AAA ABS spreads have rallied in 2009 with strong technicals and improved sentiment as the primary market re-opens under TALF

3 year AAA spreads spread to LIBOR (bp)

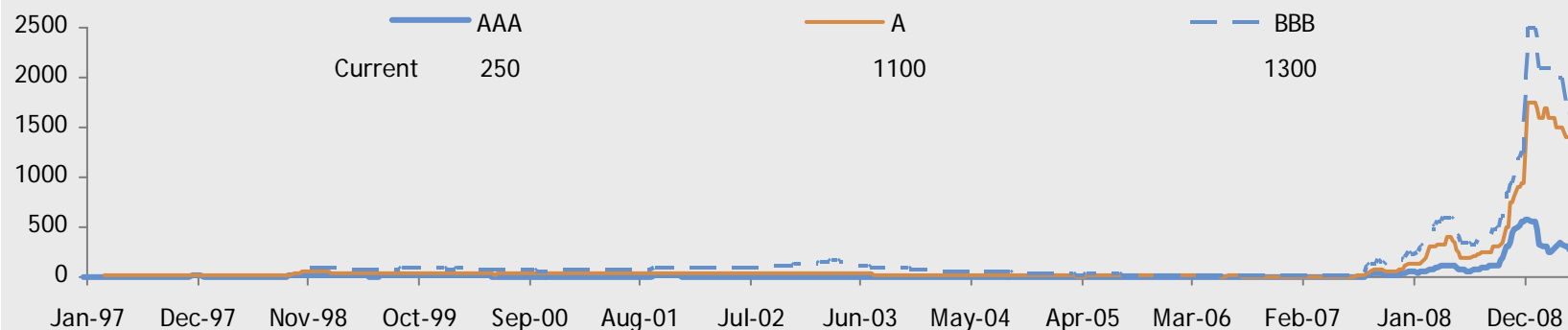


As of April 27, 2009
Source: J.P. Morgan

- Another 100-200bp tightening ahead
- More on off-the-run and subs

Credit Card ABS spreads: tiering still pronounced, but compressing

Credit Card ABS 3-year spreads (bp)



As of April 27, 2009
Source: J.P. Morgan

Spread tiering in Credit Card ABS (3-year AAA spreads, bp)

Issuer	April 27	March 13	Feb 09
Chase	250	320	290
Citibank	275	375	365
Bank of America	275	375	375
American Express	350	420	415
Capital One	350	475	515
Discover	475	550	565
GE	675	875	915
HSBC	675	875	915

Source: J.P. Morgan

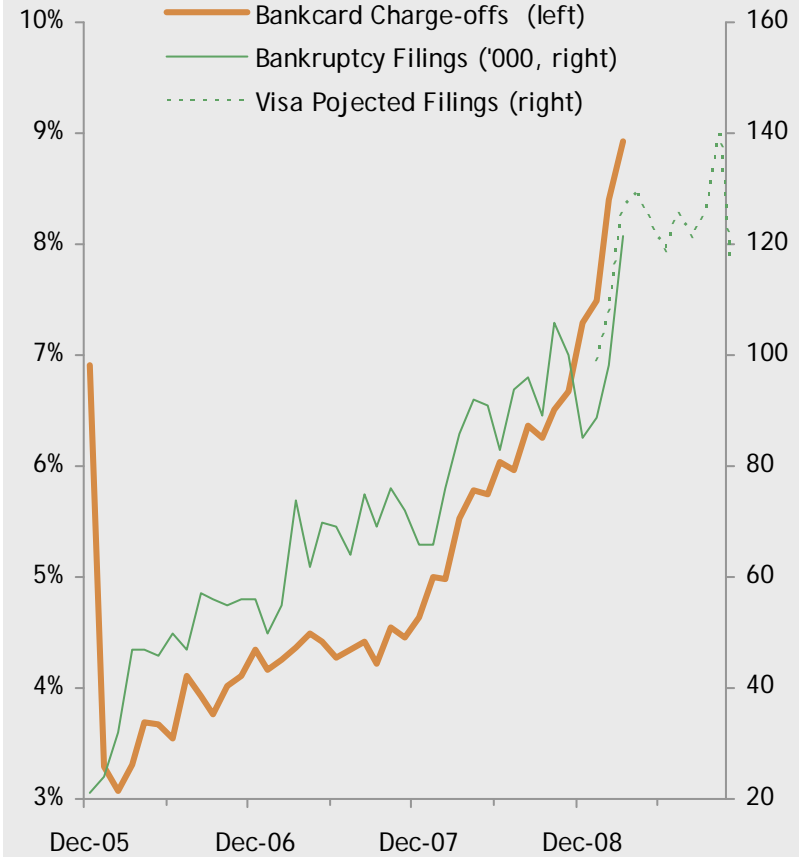
Credit card charge-offs could head to 13-15% second half of 2010 on higher unemployment

Credit Card MT charge-offs versus unemployment rate



As of April 2009 distribution date
 Source: J.P. Morgan, Moody's, Bureau of Labor Statistics, VISA

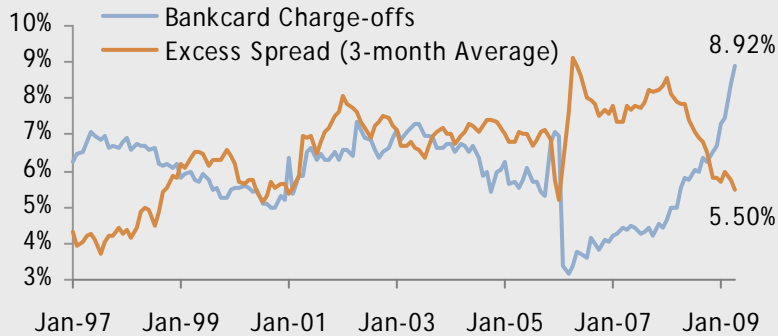
Credit Card MT charge-offs versus bankruptcy filings



Credit Card ABS performance feeling the pressure

- Excess spread cushion still protecting against losses, but losses going to new highs

Charge-offs and 3-month excess spread



- Delinquencies reach new highs, no sign of slowing

Total delinquencies

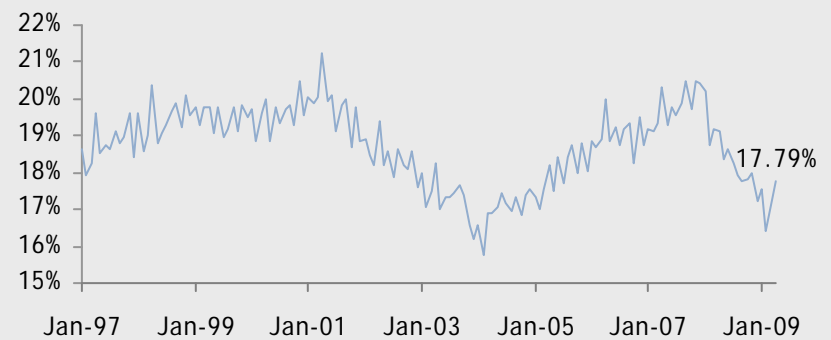


As of April 2009 distribution date
Source: J.P. Morgan, Moody's

- Deteriorating credit necessitates seller support of credit card ABS: BofA, Citi

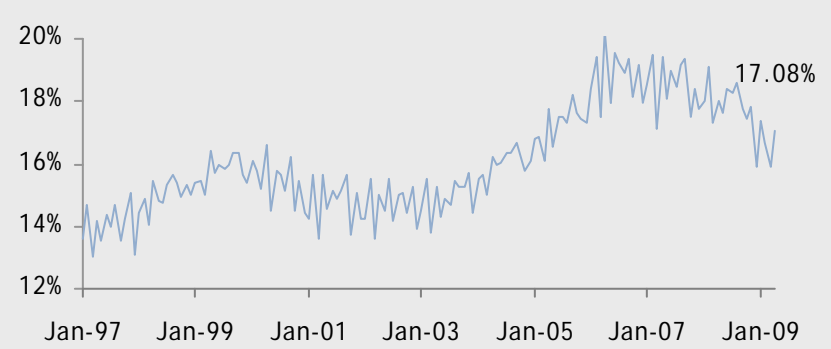
- Yield being squeezed by rate cuts, but can be managed by lenders

Portfolio yield



- Payment rate slows as home equity withdrawal declines and charge-offs increase – likely to drop to 10-12%

Payment rate



Credit enhancement by issuer: going higher

Credit Card ABS credit enhancement			
Issuer	AAA CE	Charge-offs	Excess Spread
Advanta	17.00%	16.50%	1.58%
Amex-Charge	7.00%	3.54%	27.24%
Amex-Credit	12.00%	9.31%	6.67%
Bank of America	14.00%	9.10%	4.76%
Cabela	13.50%	4.29%	10.06%
Capital One	17.00%	6.89%	6.40%
Chase-CHAIT	11.50%	6.35%	5.09%
Citibank-CCCIT	12.25%	9.33%	4.54%
Discover	12.50%	6.56%	5.53%
GE	18.75%	9.33%	9.51%
HSBC Private Label	24.00%	9.03%	16.23%
National City	12.50%	7.33%	7.03%
Nordstrom	16.50%	8.26%	16.07%
WaMu	27.00%	13.0%	4.44%
WFN	25.00%	9.42%	14.93%

AAA CE from subordination (as of Dec 2008). Performance as of March 16, 2009 reporting (1-month excess spread and charge-offs).
Source: J.P. Morgan, Deal Documents

■ Bank of America recent developments

- Added 8% subordination (March 2, 2009)
- Designated 6% of principal under Discount Option (to boost yield) from March 1 through Sept 30, 2009

■ Citibank

- Added 3.75% subordination
- Dynamic Discount Option (through end of this year)
 - Initial 1%
 - If 3-month excess <3.5%, discount increase by another 1%, up to max 3%
 - If 3-month excess >7.0% for 3 consecutive month, then discount goes down by 1% for each month until discount is 0%

Fitch breakeven scenarios for Credit Card ABS

Fitch credit card breakeven stress analysis: base case*

Change In	AAA	A	BBB	Timing
Yield	-35.00%	-25.00%	-20.00%	Down One-Month
Monthly Payment Rate	-45.00%	-35.00%	-30.00%	Down One-Month
Charge-offs	4.50x	3.00x	2.25x	Six-Month Ramp
Purchase Rate	-30.00%	-20.00%	-15.00%	—

Source: FitchRatings

Fitch credit card breakeven stress analysis

	Three-Month Break-Even Chargeoff Stress Multiples (x)			Three-Month Averages as of 12/31/08 (%)		
	AAA	A	BBB	Yield	Gross Charge-offs	Monthly Payment Rate
BofA (BACCT)	3.4	2.3	1.7	17.8	8.2	13.9
Cap One (COMET)	5.7	3.8	2.5	20.5	8.1	16.9
Chase (CHAIT) *	6.1	4.3	2.4	15.1	5.6	19.2
Citi (CCCIT) *	4.9	3.7	1.9	15.5	7.7	18.8
WaMu (WMMNT) *	3.0	2.4	2.0	21.6	12.6	9.9
Discover(DCENT)	6.3	5.4	3.9	18.8	6.8	18.4

* Gross charge-offs for these issuers are calculated using an assumption for recoveries added to net charge-offs.

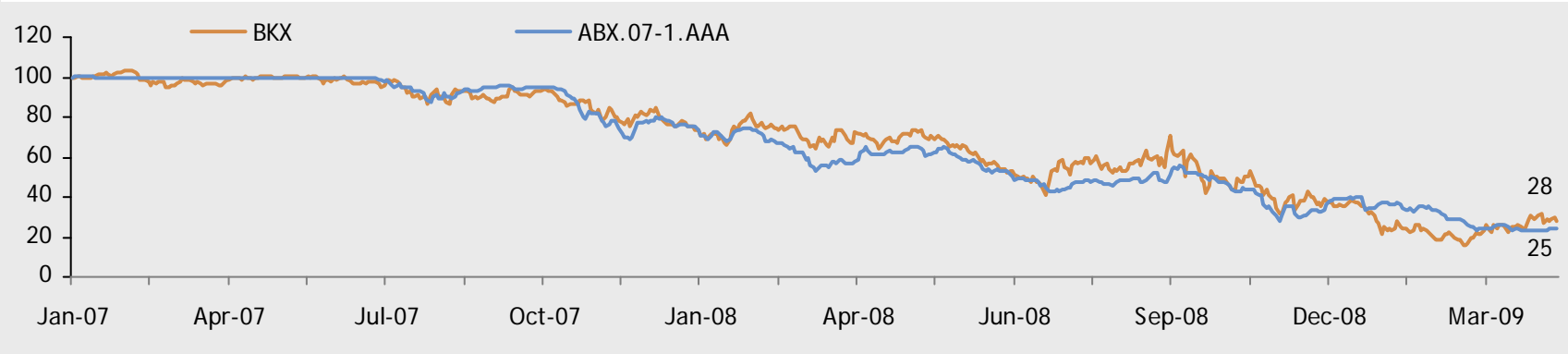
Source: FitchRatings

Agenda

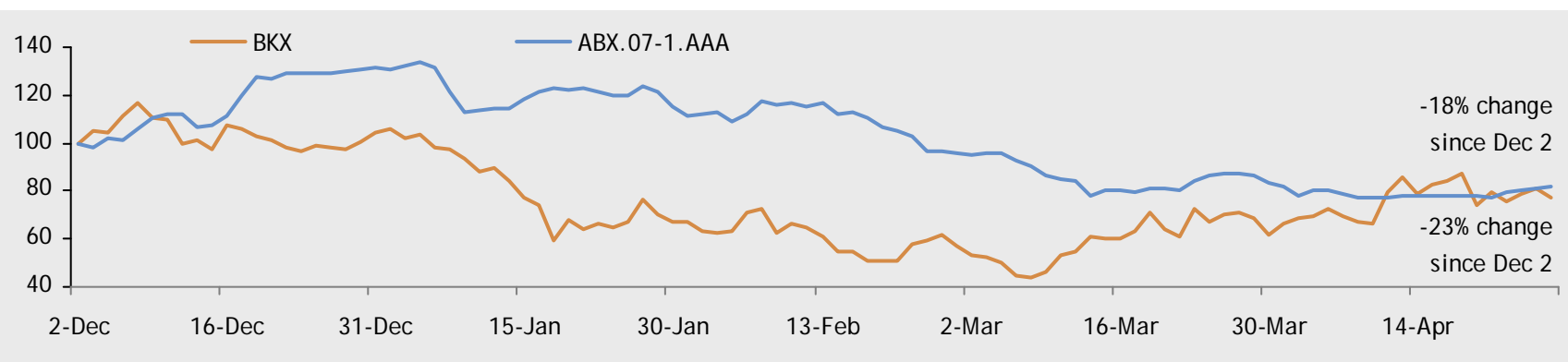
	Page
Simple ABS worldview: long consumer, short government	3
Bleak fundamentals	8
Consumer ABS	16
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■ Muddy waters, modification blues	
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ABX versus BKX: ABX left out of the recent bank party due to modifications

ABX vs. BKX



ABX vs. BKX



As of April 27, 2009
 Source: J.P. Morgan, Bloomberg, Markit

ABX, SUBPRIME RMBS

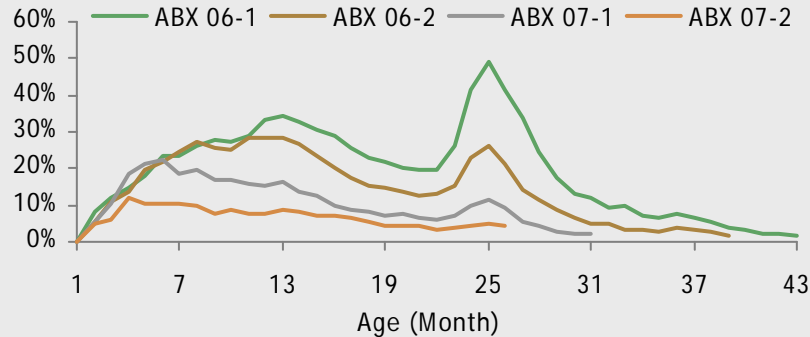
Cash subprime prices also under pressure

AAA indicatives by vintage						
AAA Tranche Subprime Detail	27-Apr-09			7-Jan-09		
	2005	2006	2007	2005	2006	2007
Current Pay	\$90 - \$95	\$75 - \$94	\$40 - \$80	\$94 - \$98	\$80 - \$94	\$70 - \$87
2nd Pay	\$70 - \$85	\$25 - \$50	\$20 - \$50	\$80 - \$90	\$60 - \$80	\$45 - \$65
Pen	\$55 - \$75	\$20 - \$35	\$20 - \$30	\$70 - \$80	\$35 - \$55	\$30 - \$50
LCF	\$40 - \$65	\$10 - \$25	\$10 - \$25	\$55 - \$75	\$20 - \$35	\$15 - \$35

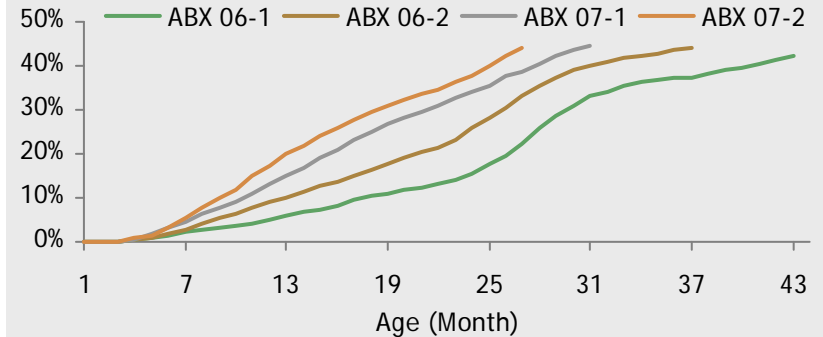
Source: J.P. Morgan

ABX collateral performance: prepays at a crawl

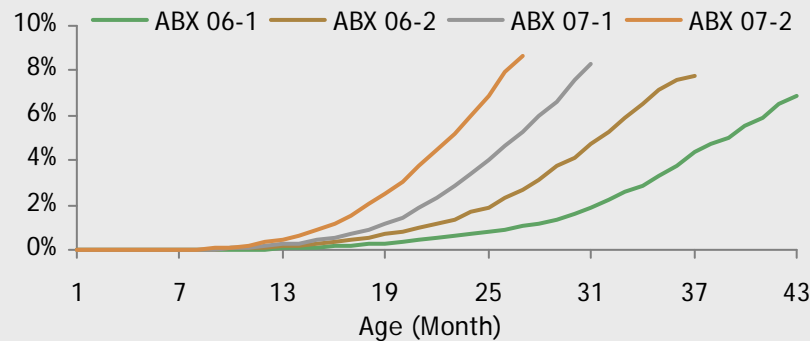
Prepayments (1 Month voluntary CPR)



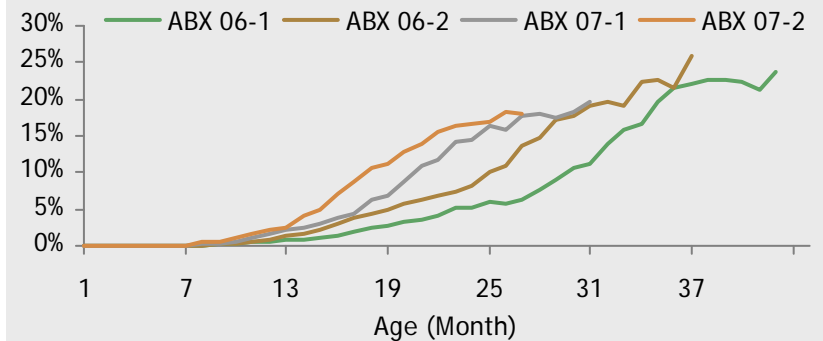
60+ delinquencies



Cumulative Losses



Defaults (1 Month CDR)

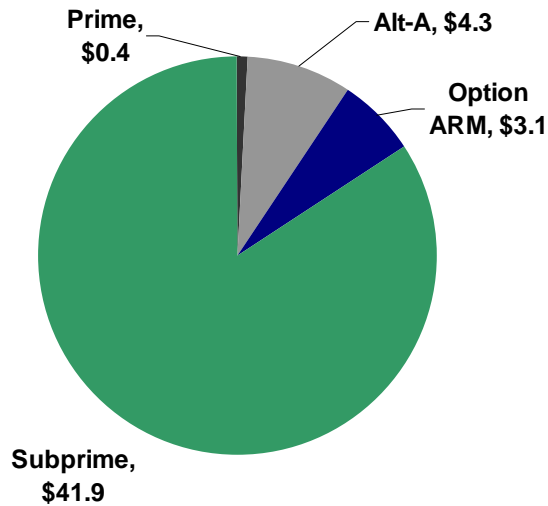


As of April 2009 remits
Source: J.P. Morgan, Intex

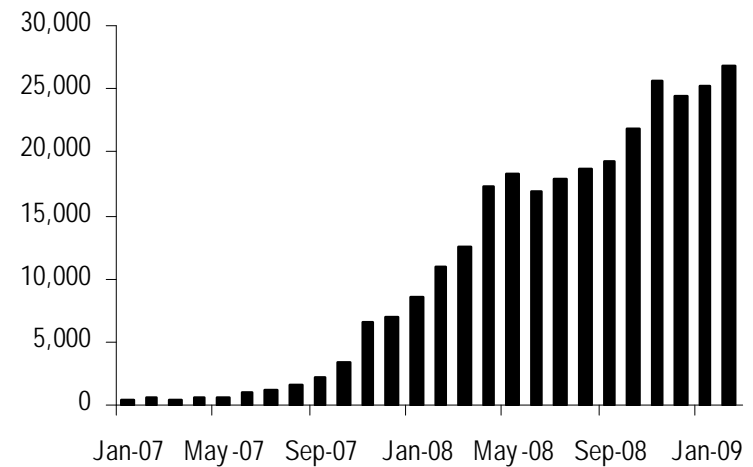
- Modifications should lower CDRs, CPRs, and losses
- Collateral cash flows could extend dramatically

Most modifications have been in subprime and redefault rates vary greatly with the pre-mod delinquency status

\$ (in billions) modified

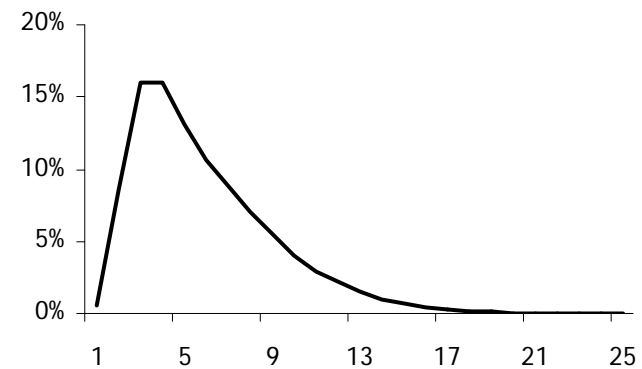


loans modified



Timing of re-defaults

months after modification



Pre-mod delinquency	Success	Failed	Total	Percent	Re-default rate
Current	64,197	18,608	82,805	44%	22%
30 delinq	12,348	6,268	18,616	10%	34%
60 delinq	10,321	6,501	16,822	9%	39%
90+ delinq	24,990	22,530	47,520	25%	47%
Fclr	10,742	10,746	21,488	11%	50%
Aggregate	122,598	64,653	187,251		35%

Source: J.P. Morgan, LoanPerformance

Modifications introduce massive cash flow and price uncertainty into an already complicated picture

ABX loan modifications analysis

Index	Rating	Closing Price 4/27	Loan Modification Scenario*	Model Price	Cum Loss (%OB)	Duration	Write-down	Return	Price @ 10% return	Price @ 15% return	Price @ 20% return
2006-1	PENAAA	85.15	70% CDR @ 4% WAC drop	97.39	18.19%	2.51	3.43%	5.50%	76.68	68.59	61.65
			70% CDR, no WAC change	100.28	18.19%	1.73	0.26%	9.91%	85.02	78.73	73.13
			Original	97.56	20.40%	1.29	3.01%	11.08%	86.24	81.41	77.05
	AAA	66.10	70% CDR @ 4% WAC drop	99.48	18.19%	5.69	1.73%	7.45%	57.86	44.94	35.28
			70% CDR, no WAC change	100.64	18.19%	3.74	0.24%	11.90%	70.48	59.69	50.91
			Original	98.52	20.40%	2.62	2.20%	16.42%	76.72	68.27	61.05
2006-2	PENAAA	55.70	70% CDR @ 4% WAC drop	93.49	26.09%	5.17	9.46%	10.54%	57.13	45.40	36.44
			70% CDR, no WAC change	98.17	26.09%	3.17	2.60%	19.60%	72.59	63.06	55.11
			Original	94.96	29.13%	2.34	6.14%	25.58%	75.96	68.45	61.96
	AAA	31.08	70% CDR @ 4% WAC drop	88.94	26.09%	11.10	15.26%	9.94%	30.89	18.86	11.76
			70% CDR, no WAC change	96.82	26.09%	7.94	5.63%	15.39%	45.43	31.92	22.77
			Original	89.37	29.13%	5.21	12.59%	22.46%	54.37	43.13	34.55
2007-1	PENAAA	30.60	70% CDR @ 4% WAC drop	83.82	33.24%	9.48	20.37%	11.21%	33.96	22.28	14.88
			70% CDR, no WAC change	99.99	33.24%	6.75	2.74%	19.17%	52.53	38.91	29.19
			Original	81.79	38.30%	4.39	21.09%	25.12%	53.84	44.30	36.75
	AAA	24.63	70% CDR @ 4% WAC drop	76.39	33.24%	10.33	28.73%	11.58%	28.54	18.03	11.62
			70% CDR, no WAC change	99.64	33.24%	11.87	6.27%	12.50%	32.15	18.97	11.45
			Original	70.70	38.30%	5.99	33.31%	19.26%	39.96	30.62	23.73
2007-2	PENAAA	26.45	70% CDR @ 4% WAC drop	84.85	38.24%	10.04	27.31%	12.31%	32.60	20.86	13.61
			70% CDR, no WAC change	104.91	38.24%	9.00	3.66%	16.54%	44.48	29.81	20.32
			Original	75.37	44.99%	5.17	32.58%	22.46%	46.06	36.60	29.38
	AAA	24.35	70% CDR @ 4% WAC drop	77.79	38.24%	9.60	34.90%	12.86%	31.15	20.32	13.50
			70% CDR, no WAC change	107.64	38.24%	13.31	4.68%	11.81%	30.27	16.75	9.51
			Original	66.65	44.99%	5.71	43.23%	19.28%	38.67	30.00	23.53

- Tranche impact will vary: could be beneficial for IO tranches
- Long 07-1 PENAAA, short on LCF AAAs

*Assumptions in loan modification models:

1. Home price path assumption is -15% 1yr, -3% 1yr, 0% 2 yrs, +3% rest
2. Voluntary prepayments are ramped down to 1-2 CPR
3. Approximately 50% of loans (that were expected to default in original model) will get modified, and 40% of them would begin to re-default after 6 months.
4. WAC deterioration captures the impact of large scale rate reduction modifications.

Source: J.P. Morgan, Intex, LoanPerformance

J.P.Morgan

Agenda

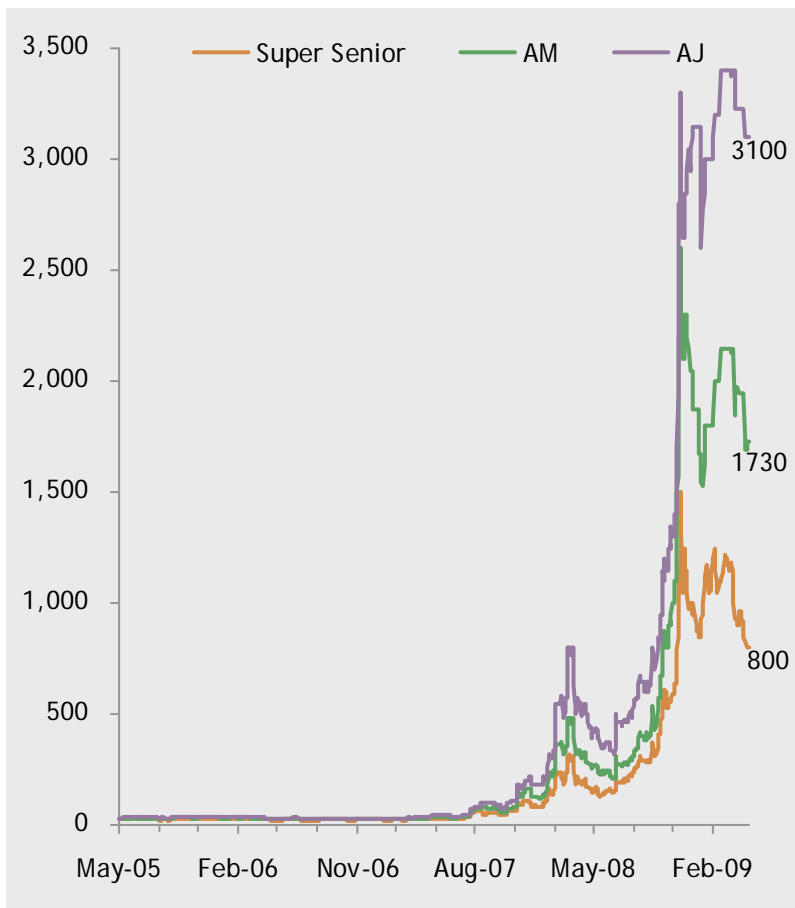
	Page
Simple ABS worldview: long consumer, short government	3
Bleak fundamentals	8
Consumer ABS	16
ABX, subprime RMBS	24
CMBS: good value in AAs	30
TALF 1.0, 2.0; PPIP	35

Key CMBS themes for 2009

- The bad news:
 - Aggressive peak-of-the-market underwriting assumptions will make the effect of a deep recession even more pronounced.
 - Commercial real estate values expected to decrease roughly 40-45% peak-to-trough given tighter underwriting standards, less available liquidity and higher cost of capital.
 - Fixed-rate CMBS from '06-'07 expected to realize about a 10% cumulative loss rate.
 - Rating agency downgrades will continue to affect bonds issued in 2005-2007
- The good news:
 - Significant governmental intervention: re-introduce leverage into the system.
 - TALF 1.0 directed at the consumer. TALF expansion addresses CMBS, private-label (prime) RMBS and legacy loans and securities.
 - Limited CMBS refinance risk in 2009.
 - Many CMBS cash bonds currently trade at dollar prices that over-estimate likely cumulative loss experience and may offer good value to certain investors.
- Trading recommendations:
 - Despite fundamental weakness, overweight at the top of the capital structure.
 - Look for super-senior AAA spreads to rally in to S+500-600 over the coming months in the wake of TALF expansion.
 - Position for steeper AAA/AJ credit curve, although we favor outright long-risk AAA trades. Sell protection on CMBX.4.AAA with a medium-term spread target of 325.
 - Look for opportunities to tactically add short-risk exposure via the CMBX.2.AJ.
 - Shorten duration and consider second- or third-pay tranches from 2005-2007 fixed-rate deals at wider spreads than the commensurate last cash flow super-senior triple-A.

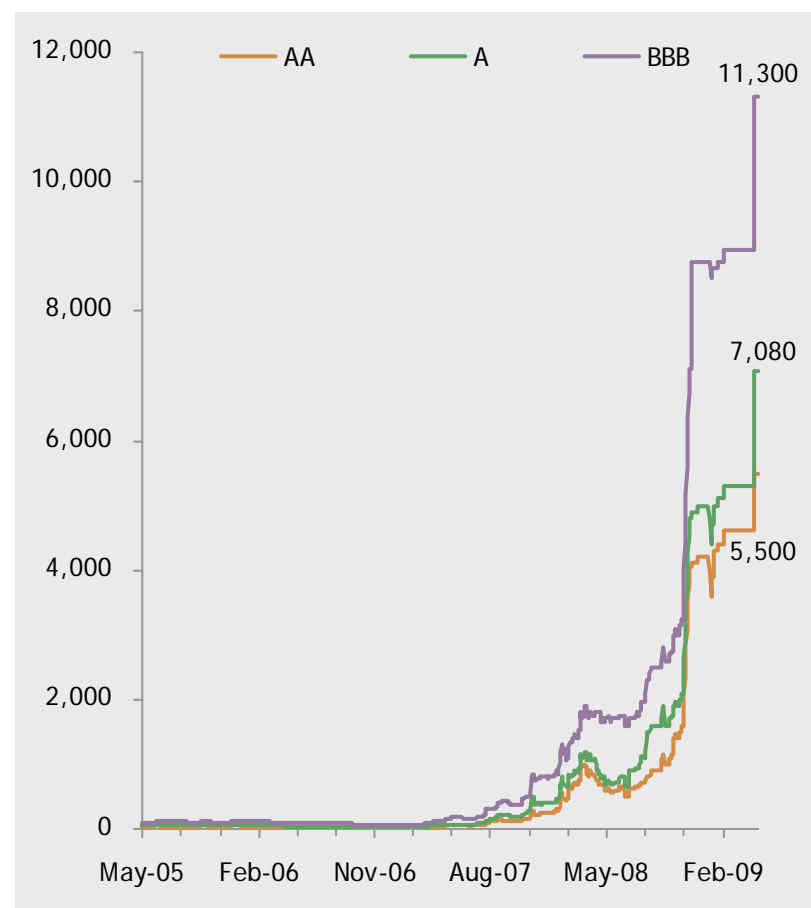
CMBS AAA spreads still wide despite recent tightening: look for super seniors to rally to +500-600bp over the coming months

Super Senior, 'AM' and 'AJ' CMBS spreads to swap



Source: J.P. Morgan

'AA', 'A' and 'BBB' CMBS spreads to swap



Outlook: senior AAAs remain AAA; very high downgrade & loss potential for fixed-rate 2006-2007 mezzanine bonds

Potential ratings transition matrix for 2006/2007 vintage CMBS

	Base Case	Additional Stress # 1	Additional Stress # 2	Extreme Stress
		Ending Loss-Adjusted Rating		
AAA (10yr 30%)	AAA	→ AAA		
AAA (AM)	AAA	→ AAA - BBB		
AAA (AJ)	AA - BBB-	→ BBB - NR		
AA	BBB+ - NR	→ BB+ - Liqd		
A	BBB- - Liqd	→ Liqd		
BBB	Liqd	→ Liqd		
BBB-	Liqd	→ Liqd		

Source: JPMorgan

Scenario assumptions

Scenario Assumptions

	Base Case	Additional Stress # 1	Additional Stress # 2	Extreme Stress
Loss given default	75%	85%	85%	95%
Loss severity	55%	55%	65%	70%
Loss dist. percentile	80%	80%	80%	93%

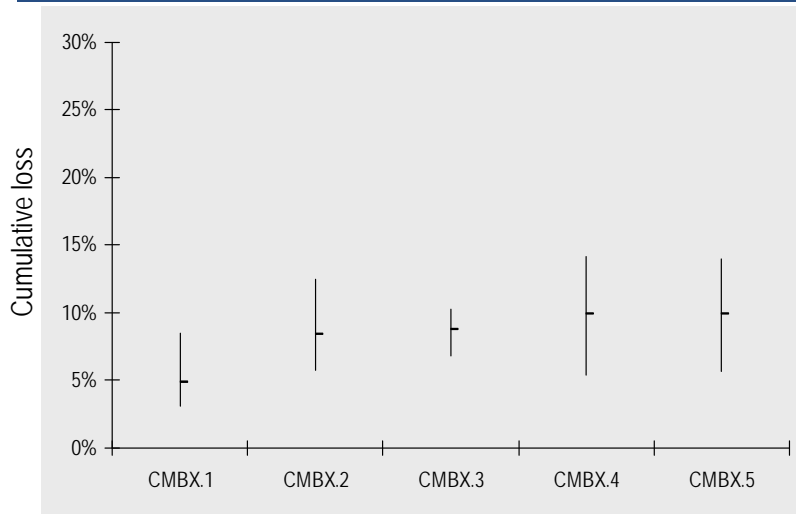
Source: JPMorgan

- Assumes underlying GDP of -2.1% for 18 months, after which growth rates revert to the trailing 10-year average

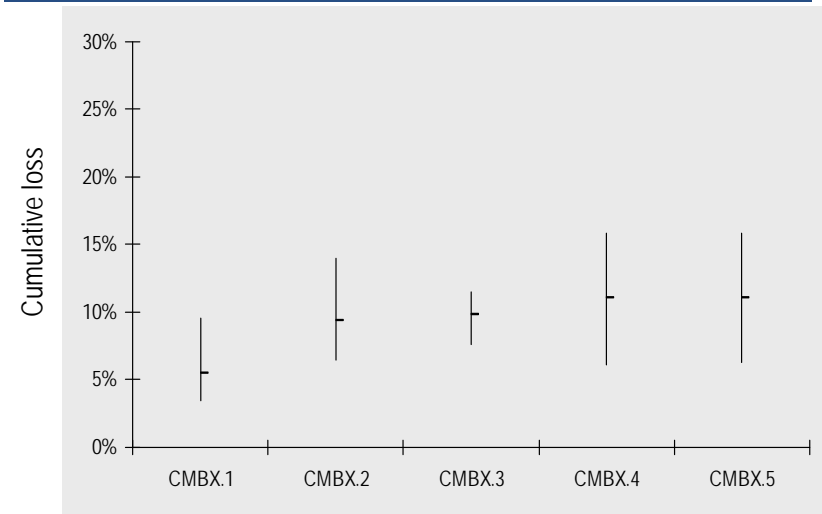
- Potential downgrade analysis needs to be considered in conjunction with the dollar prices at which bonds currently trade.
- AJ, AA, etc. bonds trading at \$15-25 potentially represent good value for investors that are insensitive to ratings or mark-to-market constraints.

Max, min and average loss expectation by CMBX series and stress scenario

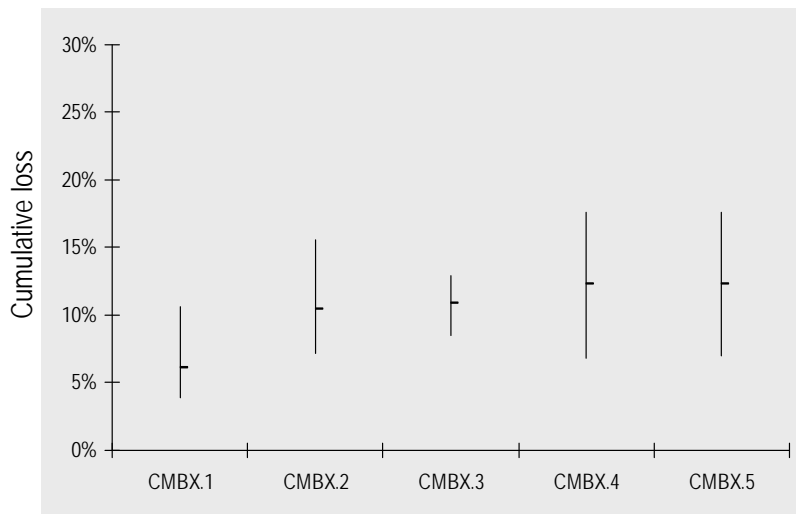
Base case scenario (current environment)



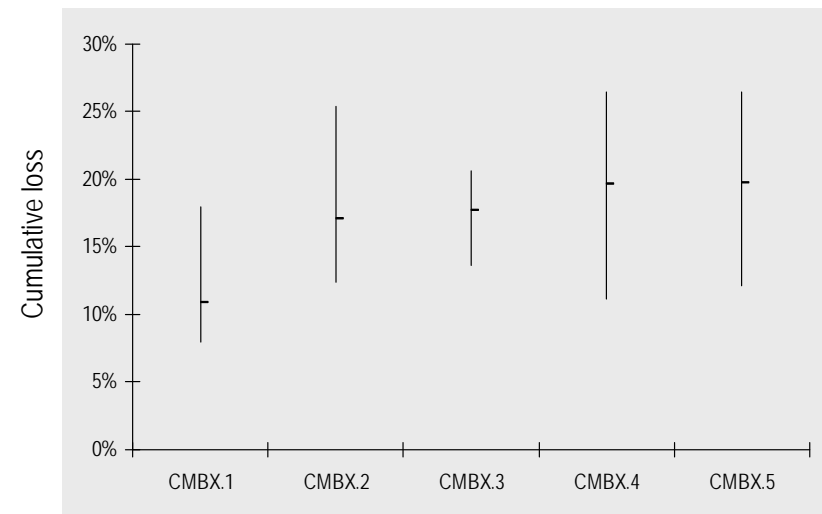
Additional stress scenario #1



Additional stress scenario #2



Extreme stress scenario



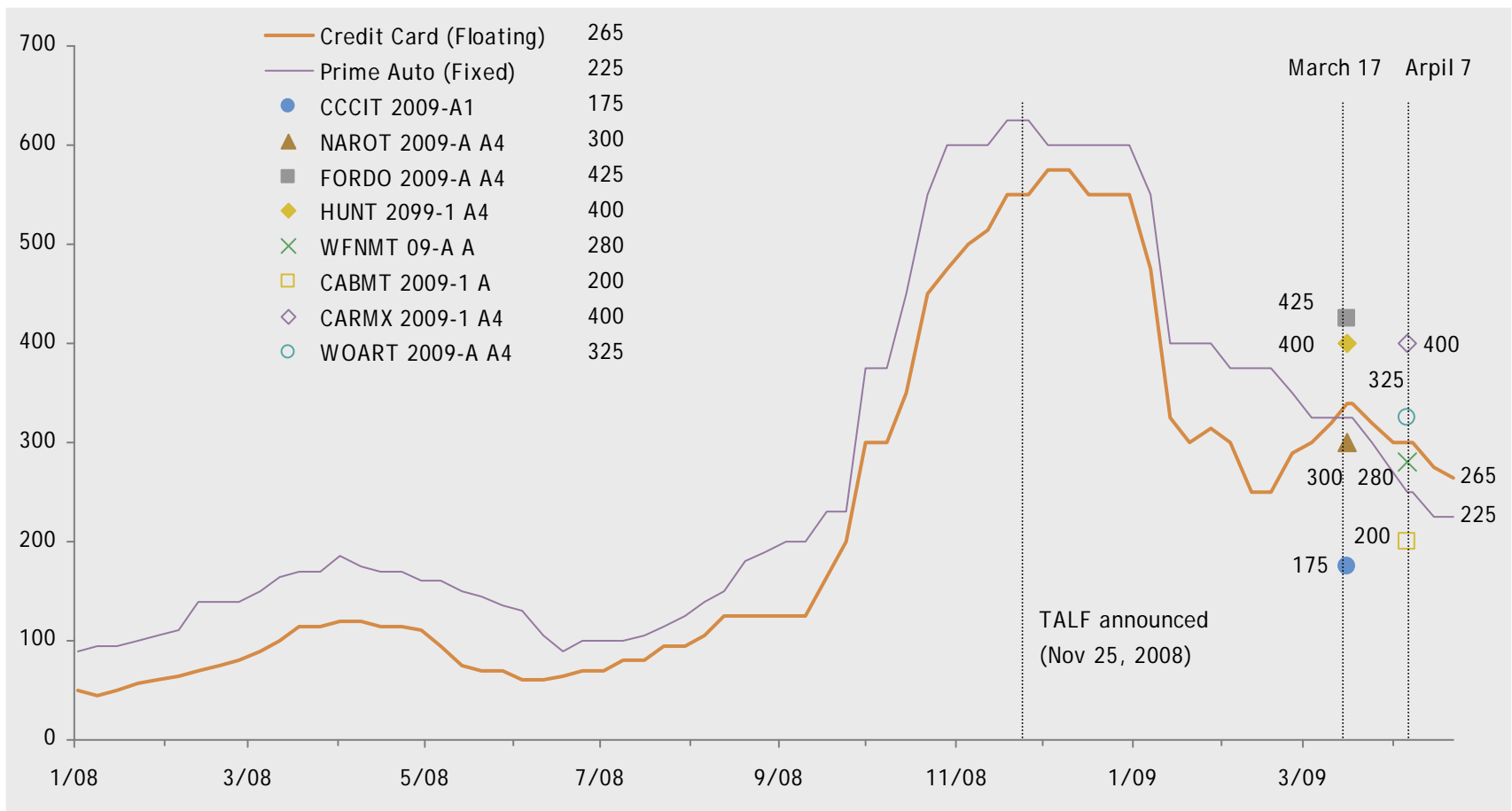
Source: JPMorgan, Trepp

Agenda

	Page
Simple ABS worldview: long consumer, short government	3
Bleak fundamentals	8
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TALF 1.0 already a success: announcement resulted in sharp narrowing of ABS spreads

3 year AAA spreads spread to LIBOR (bp)



As of April 27, 2009
Source: J.P. Morgan

- Lower cost of fund for ABS issuers can be passed on as lower interest rates to consumers

TALF costs: loan haircuts, rates and fees

TALF haircuts (April 7 th subscription)		ABS Average Life (years)							
Sector	Sub-sector	0-1	1-2	2-3	3-4	4-5	5-6	6-7	
Auto									
	Prime retail lease	10%	11%	12%	13%	14%			
	Prime retail loan	6%	7%	8%	9%	10%			
	Subprime retail loan	9%	10%	11%	12%	13%			
	Floorplan	12%	13%	14%	15%	16%			
	RV/ motorcycle	7%	8%	9%	10%	11%			
	Commercial/Gov't Fleet	9%	10%	11%	12%	13%			
	Rental Fleet	12%	13%	14%	15%	16%			
Credit Card									
	Prime	5%	5%	6%	7%	8%			
	Subprime	6%	7%	8%	9%	10%			
Student Loan									
	Private	8%	9%	10%	11%	12%	13%	14%	
	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%	
Small Business									
	Equipment	5%	6%	7%	8%	9%			
Floorplan									
	Auto	12%	13%	14%	15%	16%			
	Non-Auto	11%	12%	13%	14%	15%			
	Mortgage Servicing Advances	12%	13%	14%	15%	16%			

Source: Federal Reserve Bank of New York

- TALF interest rates
 - Investors have a choice of
 - Fixed 1, 2, or 3-year swaps +100bp
 - Floating 1-month LIBOR +100bp
 - Except FFELP at LIBOR +50bp, SBA 7(a) at Fed Funds Target +75bp, and SBAP 504 at 3-year Swaps +50bp
 - Rates will be set on the subscription date
- Haircuts by asset class and loan term
 - Haircuts will increase by 1 percentage point for each additional year of average life beyond 7 years
- Haircuts and rates will be periodically reviewed by the Fed and adjusted as appropriate
- A fee of 5bp of the loan amount to be paid to the Fed upfront at settlement

PPIP/TALF 2.0

- The Treasury's Public-Private Investment Program (PPIP) and TALF 2.0 introduces up to \$1 trillion of leverage into a financial system that remains under intense deleveraging pressure. This should be positive for valuations of the targeted assets
- Should be viewed in conjunction with Fed's Treasury/MBS purchase activities and the administration's Homeowner Affordability and Stability Plan (HASP)
- The PPIP and TALF 2.0 establishes a framework that builds on the success of TALF 1.0, which has driven ABS spreads 300-400 basis points tighter since its announcement in late November.
- The program addresses and responds to key political realities. The government-private equity co-investment feature of the program effectively addresses the issue of whether private investors would disproportionately benefit at the expense of the taxpayer.
- A major question related to the potential success of the program is whether asset owners will sell. The key constraint is whether bids will be high enough relative to marks for owners and whether the sale would induce a significant loss. Regulators likely will "encourage" the sale of assets by reluctant owners.

PPIP/TALF 2.0 (continued)

- On the loan side, the seeds of growth for PPIP will come from acquired bank residential mortgage portfolios, which, by virtue of recent acquisitions, are owned at levels potentially reasonably close to market clearing levels. With up to 6:1 leverage available, we estimate that as much as \$200 billion of loans could be sold at attractive prices.
- On the securities side, CMBS and ABS currently rated AAA and RMBS originally rated AAA are eligible for leverage through the expanded TALF for Legacy Securities component of the program.
- Many details of the program still need to be ironed out. But that was the case with TALF for ABS. Policy proved to be responsive and ADAPTIVE and many details were ultimately addressed to do what was necessary in order to make the program a success.
- Political risk at a broad level remains. But this plan, a centerpiece of the Obama administration's response to the crisis, fills the policy vacuum that has existed over the past two months and that allowed the recent escalation of rhetoric and political risk. Filling the vacuum may well diffuse the political risks. The equity market's strong embrace of the plan certainly helps that process.