



The Deflating Mortgage and Housing Bubble; Part III: What's Next?

AEI-PRIMA
March 12, 2008

Thomas Zimmerman
Managing Director
U.S. Securitized Products Strategy Group

Outstanding Mortgage Securities

Value of Residential 1-4 family real estate: \$ 22.2 Trillion

Year	GNMA	FHLMC	FNMA	Total Agency	Non-Agency	Total MBS	% of Total MBS		1-4 Mtg Outstanding	MBS as % of Total Mtg Outstanding
							% Agency	% Non-Agency		
1992	419,516	401,525	560,471	1,381,512	142,265	1,523,777	91%	9%	2,954,396	52%
1993	414,066	434,499	638,780	1,487,345	167,899	1,655,244	90%	10%	3,113,834	53%
1994	450,934	460,656	681,237	1,592,827	183,002	1,775,829	90%	10%	3,291,540	54%
1995	472,283	512,238	735,170	1,719,691	193,759	1,913,450	90%	10%	3,459,184	55%
1996	506,340	551,513	801,025	1,858,878	215,357	2,074,235	90%	10%	3,682,790	56%
1997	536,810	576,846	854,782	1,968,438	253,804	2,222,242	89%	11%	3,917,569	57%
1998	537,431	643,465	977,708	2,158,604	321,869	2,480,473	87%	13%	4,274,301	58%
1999	582,263	744,619	1,097,707	2,424,589	353,660	2,778,249	87%	13%	4,699,578	59%
2000	611,553	816,602	1,197,298	2,625,453	385,501	3,010,954	87%	13%	5,126,531	59%
2001	591,368	940,933	1,442,230	2,974,531	463,217	3,437,748	87%	13%	5,677,996	61%
2002	537,888	1,066,303	1,708,409	3,312,600	544,055	3,856,655	86%	14%	6,437,356	60%
2003	473,738	1,129,540	1,790,743	3,394,021	664,005	4,058,026	84%	16%	7,227,809	56%
2004	441,235	1,193,683	1,832,535	3,467,453	1,049,767	4,517,220	77%	23%	8,270,527	55%
2005	405,246	1,321,268	1,881,435	3,607,949	1,607,752	5,215,701	69%	31%	9,374,269	56%
2006	410,196	1,468,608	2,026,107	3,904,911	2,092,145	5,997,056	65%	35%	10,443,992	57%
2007	<i>443,844</i>	<i>1,703,947</i>	<i>2,312,809</i>	<i>4,460,600</i>	<i>2,116,601</i>	<i>6,577,201</i>	68%	32%	11,135,792	59%

Source: Inside MBS & ABS, LoanPerformance, UBS

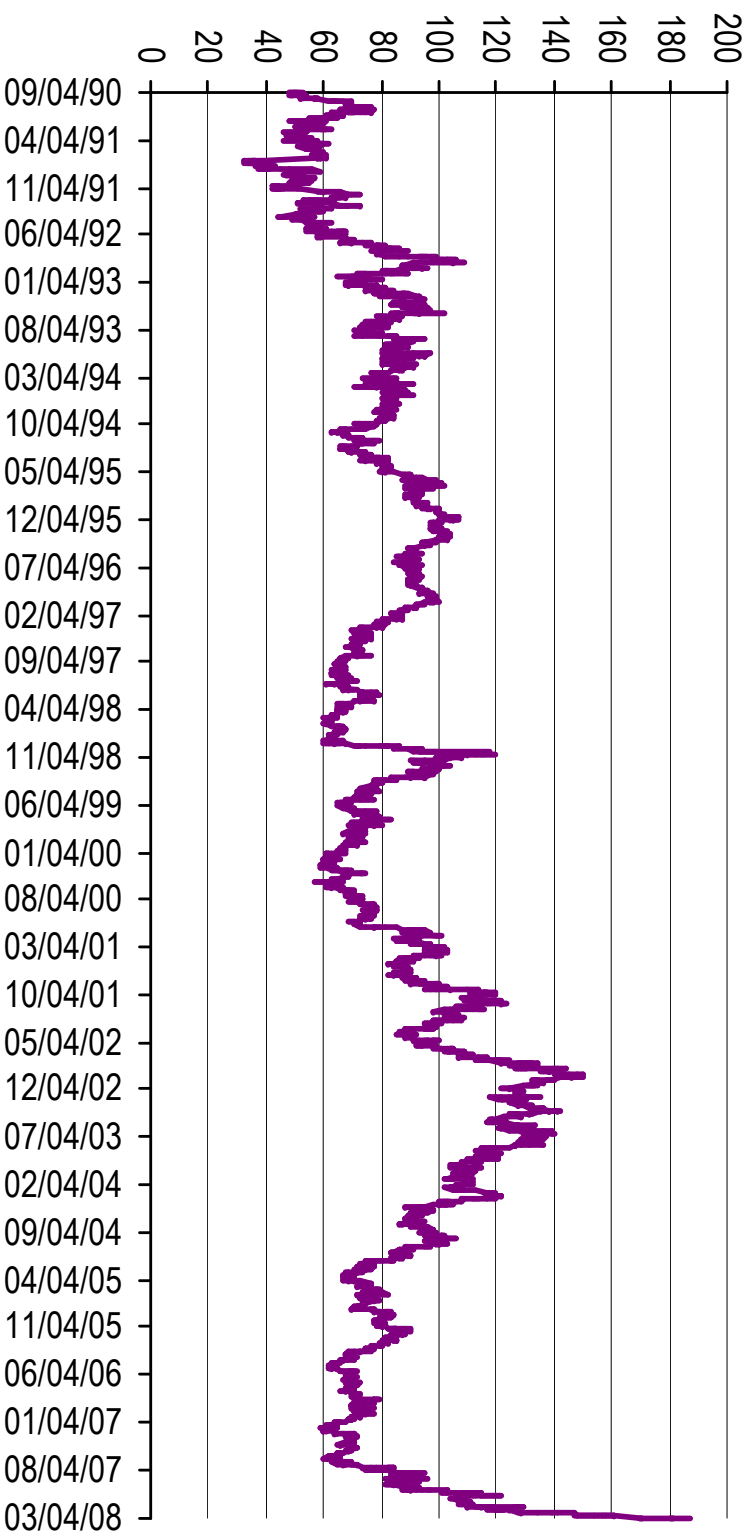
Estimates in italics. Totals may not add up due to rounding.

↓

Out of the 32% Non-Agency	
Alt-A	13%
Prime	8%
Subprime	10%

Agency MBS Market at Risk?

FNMA Current Coupon vs. 5/10 Year Swaps

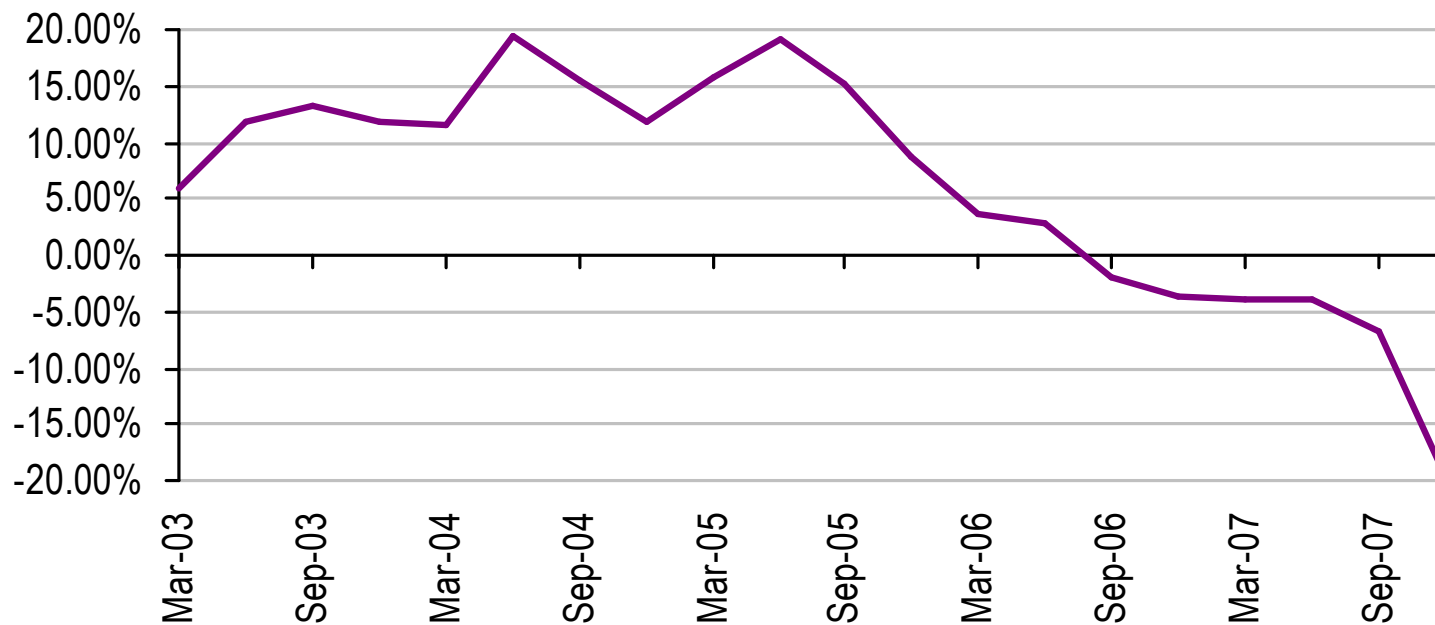


Source: UBS



Home Prices Are Collapsing

Case-Shiller Home Price Index - Quarterly Change Annualized



Phases in Housing Downturn

1. Bursting of biggest housing “bubble” in U.S. history
2. Shutdown of non-agency market
3. Tightening of lending standards by banks & GSEs
4. Impact of recession

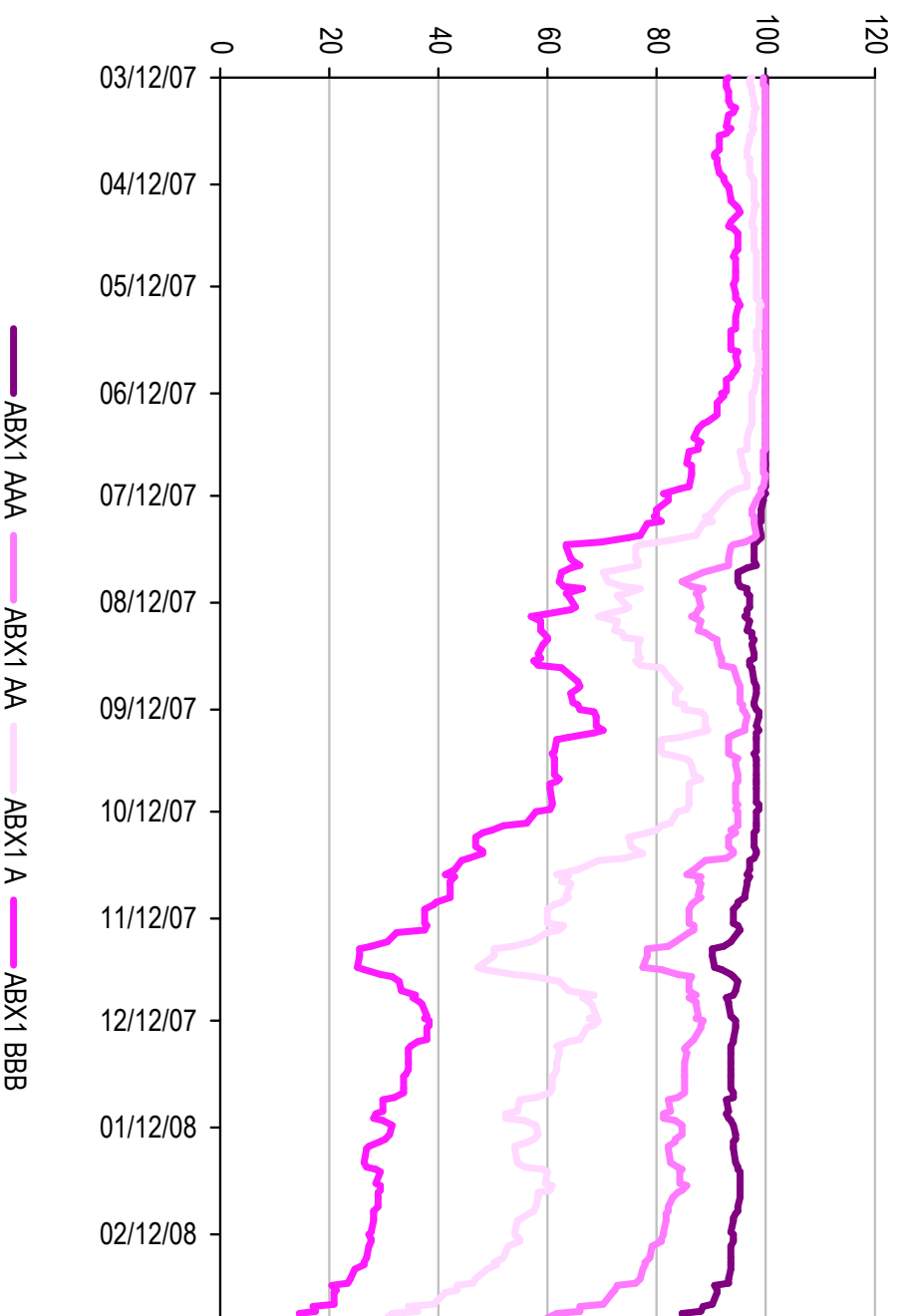
Default Multipliers and Loss Severities for Subprime As Function of HPI and Unemployment Rate

	Change in HPI							
	Annual:	-2.5	-1.25	0	1.25	3	5.5	7
	4 Yrs:	-10	-5	0	5	12	22	28
A) Default Multipliers								
Unemployment Rate	4.0	108	103	98	93	86	76	70
	4.5	118	113	108	103	96	86	80
	5.0	128	123	118	113	106	96	90
	5.5	138	133	128	123	116	106	100
	6.0	148	143	138	133	126	116	110
	6.5	158	153	148	143	136	126	120
	7.0	168	163	158	153	146	136	130
	7.5	178	173	168	163	156	146	140
8.0	188	183	178	173	166	156	150	
B) Loss Severities								
	Fixed	67	64	60	56	51	44	40
	ARM	57	54	50	46	41	34	30

Baseline Default Rate = 100 at 7% HPI/Yr and 5.5% Unemployment

Consensus = 3% HPI/Yr and 5.0% Unemployment

ABX Prices Have Fallen Sharply



Source: UBS



Writedowns: ABX 07-1 Projected Losses versus Break Evens

45% Severity

Name	Proj Cum Loss (% of Original Balance)	WALA	Baa2			A			Aa			Aaa		
			BE / Proj	Break?	BE / Proj	Break?	BE / Proj	Break?	BE / Proj	Break?	BE / Proj	Break?		
ABFC 2006-OPT2	21.62	18	15.24	0.70	100%	18.93	0.88	100%	21.52	1.00	10%	25.99		0%
ACE 2006-NC3	28.13	17	15.99	0.57	100%	19.41	0.69	100%	23.60	0.84	100%	27.98	0.99	40%
BSABS 2006-HE10	26.17	16	16.78	0.64	100%	20.45	0.78	100%	25.42	0.97	100%	28.79		0%
CARR 2006-NC4	20.48	19	16.50	0.81	100%	19.85	0.97	100%	22.57		0%	29.22		0%
CBASS 2006-CB6	14.23	23	15.97		0%	18.57		0%	21.76		0%	26.48		0%
CMLTI 2006-WFH3	15.08	18	15.02	1.00	40%	17.47		0%	21.21		0%	26.73		0%
CWL 2006-18	20.24	19	15.61	0.77	100%	18.96	0.94	100%	21.38		0%	25.81		0%
FFML 2006-FF13	21.18	19	15.39	0.73	100%	18.76	0.89	100%	21.13	1.00	0%	25.50		0%
FHLT 2006-3	31.65	18	16.44	0.52	100%	19.31	0.61	100%	24.22	0.77	100%	28.20	0.89	50%
GSAMP 2006-HE5	22.74	20	16.72	0.74	100%	20.30	0.89	100%	22.96		0%	27.85		0%
HEAT 2006-7	26.91	19	15.67	0.58	100%	18.92	0.70	100%	23.38	0.87	100%	26.61	0.99	20%
JPMAC 2006-CH2	12.02	20	13.88		0%	16.76		0%	20.22		0%	24.50		0%
LBMLT 2006-6	30.71	20	16.35	0.53	100%	19.73	0.64	100%	24.42	0.80	100%	30.53	0.99	50%
MABS 2006-NC3	25.67	17	17.82	0.69	100%	20.96	0.82	100%	25.42	0.99	70%	28.77		0%
MLMI 2006-HE5	24.69	20	18.21	0.74	100%	21.41	0.87	100%	24.54	0.99	30%	28.25		0%
MSAC 2006-HE6	28.69	20	17.88	0.62	100%	20.75	0.72	100%	25.64	0.89	100%	28.35	0.99	0%
RASC 2006-KS9	25.85	17	17.18	0.66	100%	20.76	0.80	100%	25.40	0.98	100%	27.85		0%
SABR 2006-HE2	21.54	21	16.04	0.74	100%	19.65	0.91	100%	21.26	0.99	20%	26.89		0%
SASC 2006-BC4	24.57	17	15.22	0.62	100%	18.02	0.73	100%	22.79	0.93	100%	25.41		0%
SVHE 2006-EQ1	16.63	19	16.63	1.00	70%	18.98		0%	22.61		0%	27.35		0%
Average	22.94	19	16.23	0.70	17.1	19.40	0.80	16.0	23.07	0.92	9.3	27.35	0.97	1.6
			Original Loss Timing	53.0		Original Loss Timing	59.0		Original Loss Timing	68.0		Original Loss Timing	72.0	
			Current Age	18.6		Current Age	18.6		Current Age	18.1		Current Age	18.5	
			Time To Loss	34.4		Time To Loss	40.4		Time To Loss	49.9		Time To Loss	53.5	
			# Bonds WD	17		# Bonds WD	16		# Bonds WD	9		# Bonds WD	2	
			Implied ABX Price	27.9		Implied ABX Price	30.0		Implied ABX Price	59.7		Implied ABX Price	93.4	

Source: Intex, UBS



Writedowns: ABX 07-1 Projected Losses versus Break Evens

60% Severity

Name	Proj Cum Loss (% of Original Balance)		Baa2			A			Aa			Aaa		
	WALA		BE / Proj	Break?		BE / Proj	Break?		BE / Proj	Break?		BE / Proj	Break?	
ABFC 2006-OPT2	28.48	18	15.24	0.54	100%	18.93	0.66	100%	23.11	0.81	100%	28.18	0.99	50%
ACE 2006-NC3	36.86	17	15.99	0.43	100%	19.41	0.53	100%	23.60	0.64	100%	29.33	0.80	50%
BSABS 2006-HE10	34.34	16	16.78	0.49	100%	20.45	0.60	100%	25.42	0.74	100%	33.16	0.97	80%
CARR 2006-NC4	27.08	19	16.50	0.61	100%	19.85	0.73	100%	25.56	0.94	100%	29.22		0%
CBASS 2006-CB6	18.18	23	16.62	0.91	100%	18.57		0%	21.76		0%	26.48		0%
CMLTI 2006-WFH3	19.76	18	15.56	0.79	100%	18.65	0.94	100%	21.21		0%	26.73		0%
CWL 2006-18	26.55	19	15.61	0.59	100%	18.96	0.71	100%	23.44	0.88	100%	26.52	1.00	20%
FFML 2006-FF13	27.81	19	15.39	0.55	100%	18.76	0.67	100%	23.17	0.83	100%	27.36	0.98	30%
FHLT 2006-3	40.71	18	16.44	0.40	100%	19.31	0.47	100%	24.22	0.59	100%	37.48	0.92	100%
GSAMP 2006-HE5	28.95	20	16.72	0.58	100%	20.30	0.70	100%	25.30	0.87	100%	28.93	1.00	40%
HEAT 2006-7	34.51	19	15.67	0.45	100%	18.92	0.55	100%	23.38	0.68	100%	31.76	0.92	100%
JPMAC 2006-CH2	15.85	20	14.61	0.92	100%	16.76		0%	20.22		0%	24.50		0%
LBMLT 2006-6	38.82	20	16.35	0.42	100%	19.73	0.51	100%	24.42	0.63	100%	33.44	0.86	70%
MABS 2006-NC3	33.68	17	17.82	0.53	100%	20.96	0.62	100%	26.35	0.78	100%	30.35	0.90	40%
MLMI 2006-HE5	31.57	20	18.21	0.58	100%	21.41	0.68	100%	25.90	0.82	100%	29.61	0.94	40%
MSAC 2006-HE6	37.00	20	17.88	0.48	100%	20.75	0.56	100%	25.64	0.69	100%	31.46	0.85	50%
RASC 2006-KS9	33.35	17	17.18	0.52	100%	20.76	0.62	100%	25.40	0.76	100%	32.67	0.98	60%
SABR 2006-HE2	27.91	21	16.04	0.57	100%	19.65	0.70	100%	23.54	0.84	100%	27.79	1.00	30%
SASC 2006-BC4	32.25	17	15.22	0.47	100%	18.02	0.56	100%	22.79	0.71	100%	30.08	0.93	100%
SVHE 2006-EQ1	21.70	19	16.82	0.78	100%	20.03	0.92	100%	22.61		0%	27.35		0%
Average	29.77	19	16.33	0.58	20.0	19.51	0.65	18.0	23.85	0.76	16.0	29.62	0.94	8.6
			<i>Original Loss Timing</i>		47.0	<i>Original Loss Timing</i>		51.0	<i>Original Loss Timing</i>		57.0	<i>Original Loss Timing</i>		69.0
			<i>Current Age</i>		18.9	<i>Current Age</i>		18.6	<i>Current Age</i>		18.6	<i>Current Age</i>		18.3
			<i>Time To Loss</i>		28.2	<i>Time To Loss</i>		32.4	<i>Time To Loss</i>		38.4	<i>Time To Loss</i>		50.7
			<i># Bonds WD</i>		20	<i># Bonds WD</i>		18	<i># Bonds WD</i>		16	<i># Bonds WD</i>		9
			<i>Implied ABX Price</i>		12.1	<i>Implied ABX Price</i>		18.9	<i>Implied ABX Price</i>		28.0	<i>Implied ABX Price</i>		62.6

Source: Intex, UBS



ABX Model vs. Market

Index	Mar-10 2008		Model @ 45% Severity			Model @ 60% Severity		
	Coupon	Mkt Price	Write Downs	Px	Model-Mkt	Write Downs	Price	Model-Mkt
ABX-HE-AAA 07-2	76	52.47	1.3	97.44	44.97	8.4	66.76	14.29
ABX-HE-AA 07-2	192	21.17	12.3	54.72	33.55	19	21.74	0.57
ABX-HE-A 07-2	369	16.17	18.7	30.12	13.95	19	23.32	7.15
ABX-HE-BBB 07-2	500	13.53	19	28.74	15.21	19	23.88	10.35
ABX-HE-BBB- 07-2	500	13.31	19	27.54	14.23	19.8	20.14	6.83
ABX-HE-AAA 07-1	9	53.46	1.6	93.41	39.95	8.6	62.65	9.19
ABX-HE-AA 07-1	15	20.49	9.3	59.72	39.23	16	28.03	7.54
ABX-HE-A 07-1	64	11.00	16	30.00	19.00	18	18.91	7.91
ABX-HE-BBB 07-1	224	9.03	17.1	27.93	18.90	20	12.09	3.06
ABX-HE-BBB- 07-1	389	8.88	18	27.84	18.96	20	14.73	5.85
ABX-HE-AAA 06-2	11	66.10	0.4	98.68	32.58	2.1	90.99	24.89
ABX-HE-AA 06-2	17	33.31	2.2	90.85	57.54	6.5	71.53	38.22
ABX-HE-A 06-2	44	15.44	5.1	78.55	63.11	17	23.75	8.31
ABX-HE-BBB 06-2	133	10.06	17	26.88	16.82	18.8	15.67	5.61
ABX-HE-BBB- 06-2	242	10.00	17	28.60	18.60	19.2	15.46	5.46
ABX-HE-AAA 06-1	18	84.17	0	100.68	16.51	0.4	98.93	14.76
ABX-HE-AA 06-1	32	59.17	0	101.20	42.03	2.3	90.74	31.57
ABX-HE-A 06-1	54	29.64	2.7	89.62	59.98	9.3	59.42	29.78
ABX-HE-BBB 06-1	154	15.11	9	63.68	48.57	17	24.16	9.05
ABX-HE-BBB- 06-1	267	14.65	15.4	37.60	22.95	18	21.12	6.47

Loss Summary	Cum Loss Proj	
	45% Sev	60% Sev
ABX 07-2	26.91	35.32
ABX 07-1	22.94	29.77
ABX 06-2	16.93	21.51
ABX 06-1	12.42	15.73

Assumptions:

Feb Remit

Use Age-Adjusted Shutdown Model

Use Partial Writedown-Given-Losses (same for both severities)

Use Slow Generic Prepay Curves



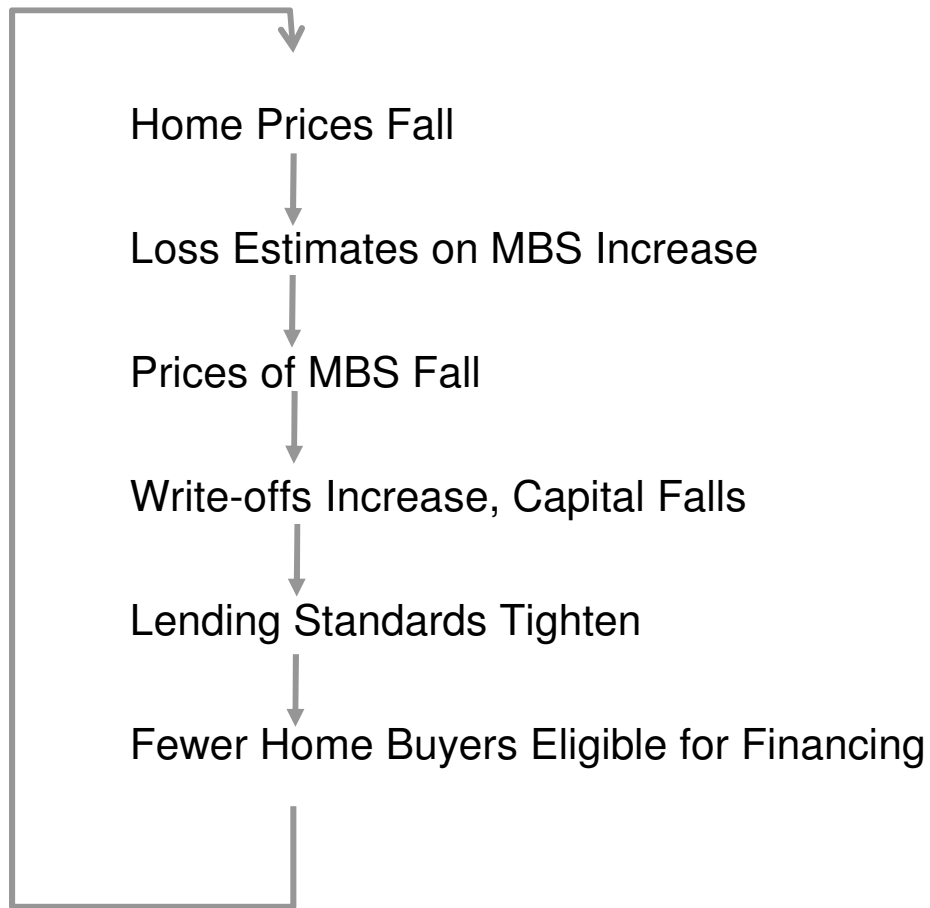
Outstanding Subprime and Alt-A MBS Securities

Current Balance (\$ 000,000,000)

SubPrime	2004	2005	2006	2007	Total	Pct
AAA	12.9	66.5	206.4	106.4	392.2	64.6%
AA	18.3	34.0	39.5	15.5	107.3	17.7%
A	11.6	18.7	20.7	7.5	58.6	9.6%
BBB	5.0	12.7	14.2	5.4	37.2	6.1%
BB	0.4	2.2	2.7	0.5	5.8	1.0%
NR	1.1	4.6	0.5	0.0	6.1	1.0%
Grand Total	49.3	138.7	284.0	135.3	607.2	100.0%

ALT A	2004	2005	2006	2007	Total	Pct
AAA	25.5	110.4	215.3	160.8	512.0	91.2%
AA	1.4	7.2	12.2	7.9	28.8	5.1%
A	0.9	3.5	4.4	2.4	11.2	2.0%
BBB	0.6	2.5	3.2	1.8	8.0	1.4%
BB	0.0	0.2	0.3	0.2	0.7	0.1%
NR	0.1	0.3	0.1	0.1	0.6	0.1%
Grand Total	28.6	124.0	235.4	173.3	561.3	100.0%

“ Vicious” Housing / Mortgage / Credit Cycle



Government Rescue Attempts

- ◆ Treasury / “Hope Now” Modification Program
- ◆ FHA Secure
- ◆ Freddie/Fannie – Tighter Standards / Higher Fees
- ◆ Stimulus Package – Higher Freddie/Fannie LoanLimits
– Higher FHA Loan Limits
- ◆ 2nd Stimulus Package + Bankruptcy Bill
- ◆ “Bailout” Proposals
 - * Dodd Committee – Homeowners Loan Corporation
 - * Frank Committee – New FHA program
 - * OTS – Negative Equity warrants

Why We Need a “Katrina-Style” Bailout

We cannot be too particular who gets helped.

Categories of Defaulting Subprime and Alt-A borrowers.

a) Fraud

b) Investor / Speculator

Loan Performance: Subprime 5%

Alt-A 15%

c) Ex-Renters who cannot afford a home

Homeownership rate: 66%-69%= +3%

3% x 110 million = 3.3 million

d) Overextended

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

This report has been prepared by UBS Financial Services Inc. or an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances or otherwise constitute a personal recommendation. It is published solely for informational purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report.

United Kingdom and the rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. UBS Limited is authorised and regulated by the Financial Services Authority. France: Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. Germany: Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Spain: Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). Turkey: Prepared by UBS Menkul Değerler AS on behalf of and distributed by UBS Limited. Russia: Prepared and distributed by the Moscow Representative Office of UBS Cyprus Moscow Limited. Switzerland: Distributed by UBS AG to persons who are institutional investors only. Italy: Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A.. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A.. South Africa: UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at <http://www.ubs.co.za>. United States: Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. Canada: Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. Hong Kong: Distributed by UBS Securities Asia Limited. Singapore: Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. Japan: Distributed by UBS Securities Japan Ltd to institutional investors only. Australia: Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. New Zealand: Distributed by UBS New Zealand Ltd. China: Distributed by UBS Securities Co. Limited.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. © UBS 2007. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

