Why We Are Still in the Early Innings of the Bursting of the Housing and Credit Bubbles – And the Implications for MBIA and Ambac

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March 10, 2008

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

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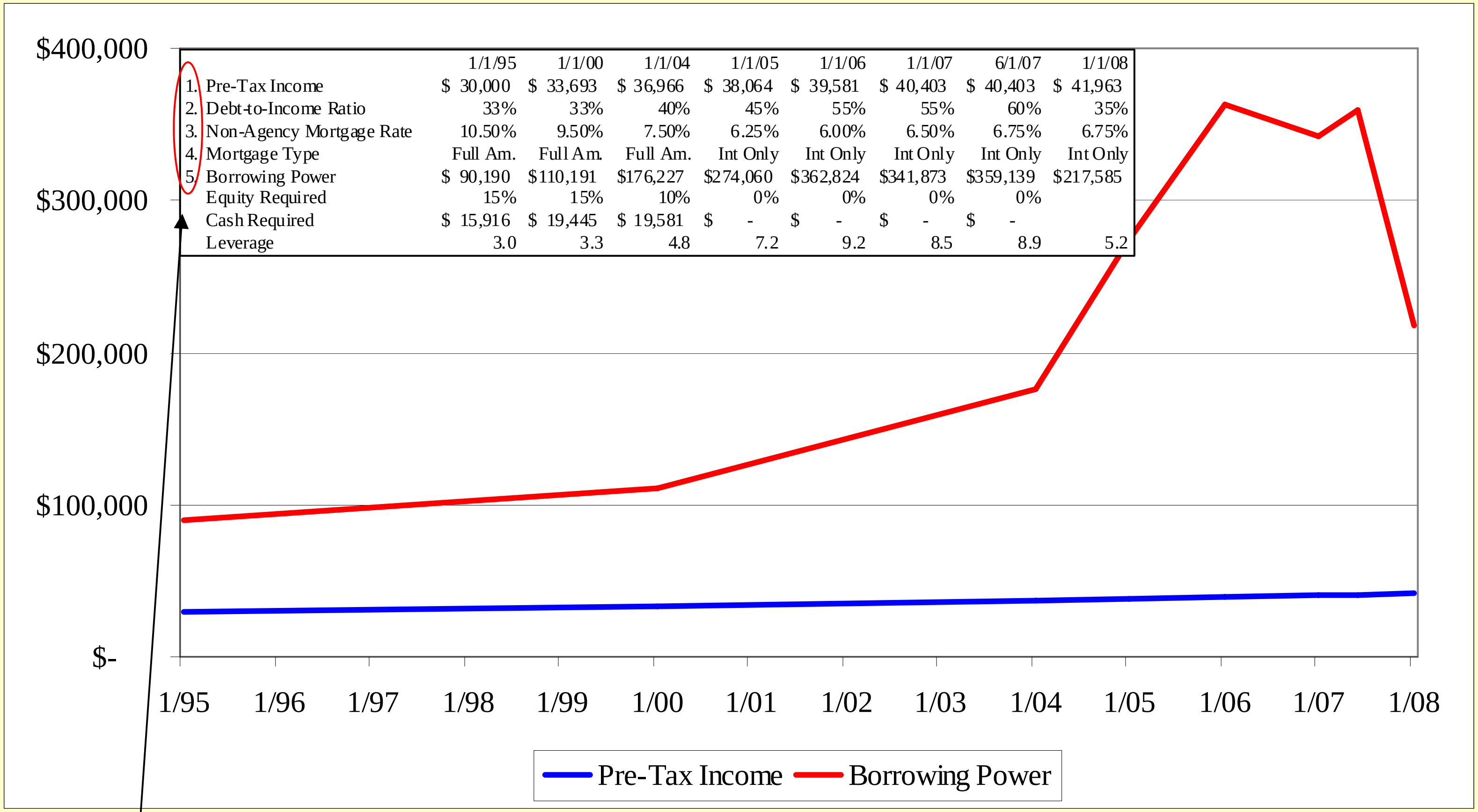
From 2000-2006, the Borrowing Power of a Typical Home Purchaser More Than Tripled



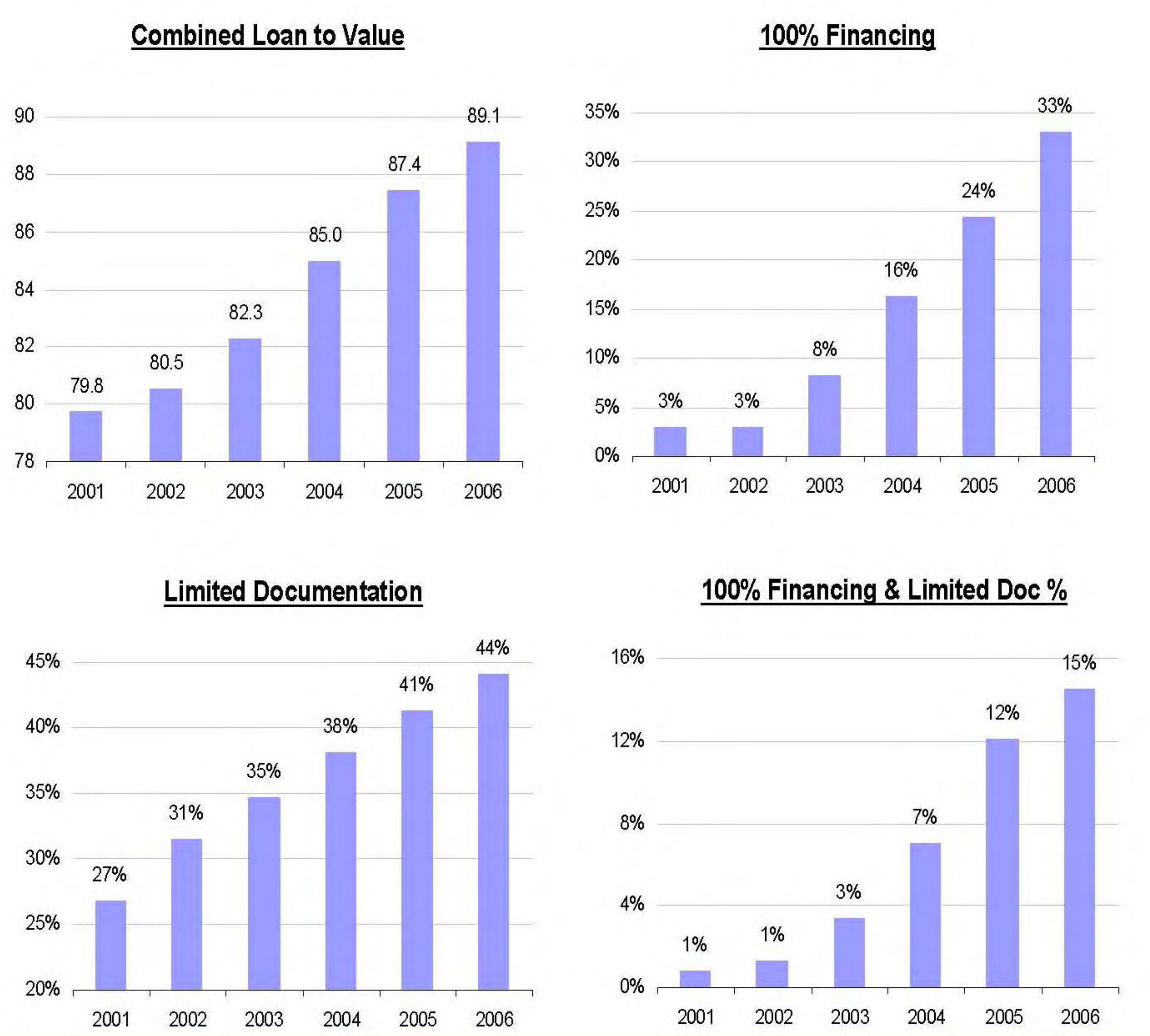
	1/1/95	1/1/00	1/1/04	1/1/05	1/1/06	1/1/07	6/1/07	1/1/08
1. Pre-Tax Income	$ 30,000	$ 33,693	$ 36,966	$ 38,064	$ 39,581	$ 40,403	$ 40,403	$ 41,963
2. Debt-to-Income Ratio	33%	33%	40%	45%	55%	55%	60%	35%
3. Non-Agency Mortgage Rate	10.50%	9.50%	7.50%	6.25%	6.00%	6.50%	6.75%	6.75%
4. Mortgage Type	Full Am.	Full Am.	Full Am.	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
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	5.2

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

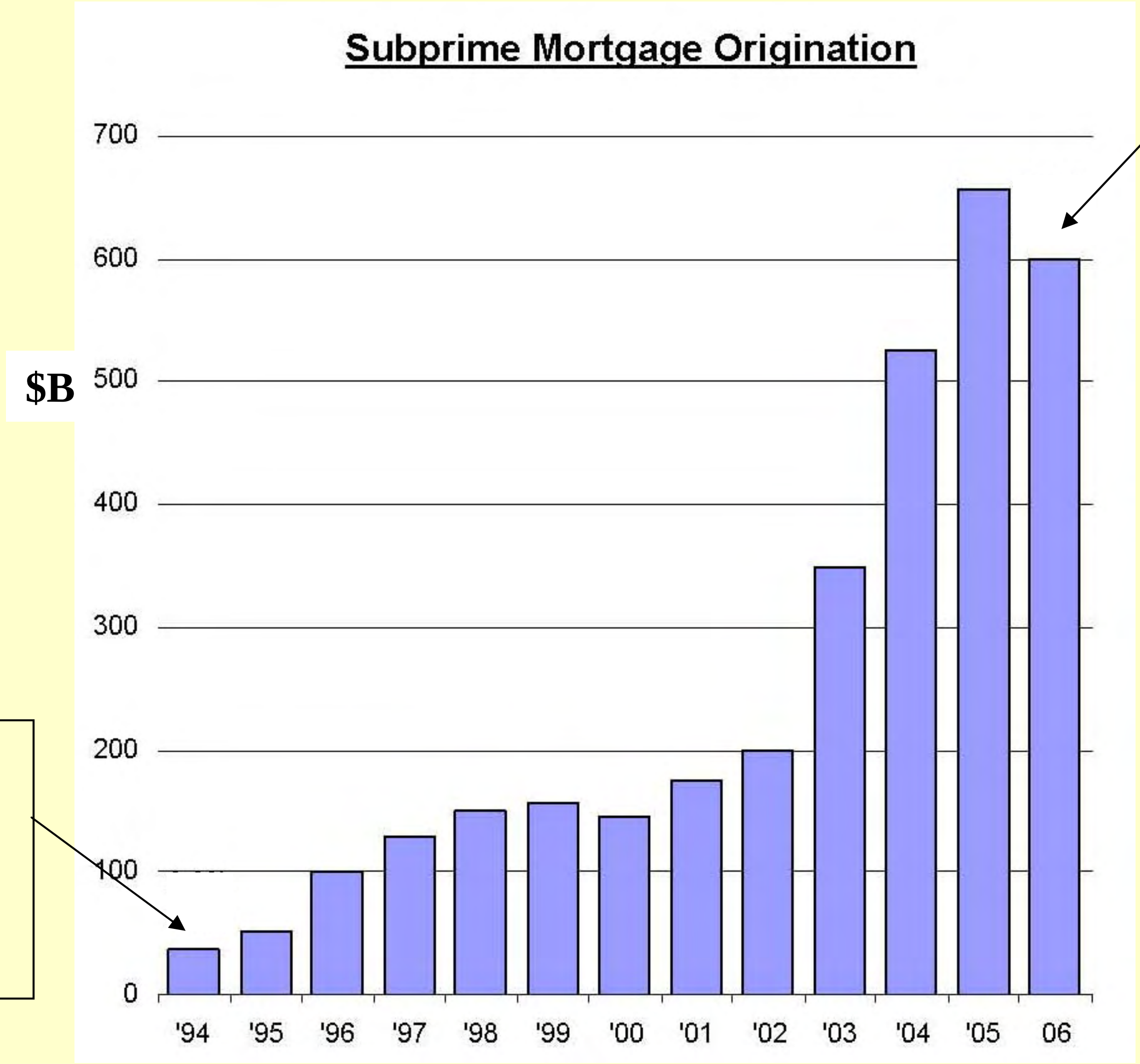
1. Slowly rising income
2. Lenders being willing to allow much higher Debt-to-Income Ratios
3. Falling interest rates
4. Interest-only mortgages (vs. full amortizing)
5. No money down

Source: Amherst Securities Group, L.P.

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



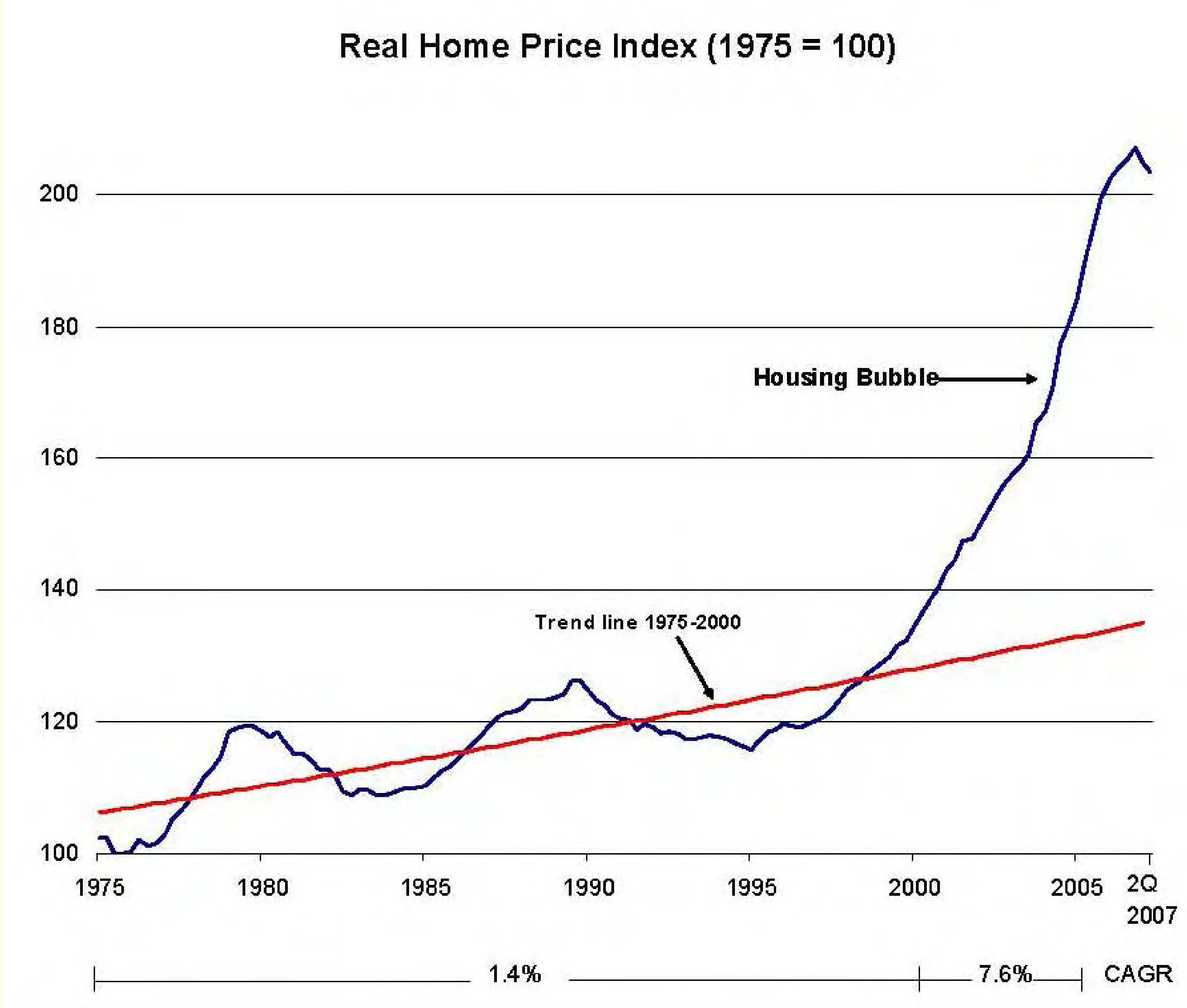
The Decline in Lending Standards Led to a Surge in Subprime Mortgage Origination



0.9% of all mortgages originated during the year

13.6% of all mortgages originated during the year

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.

Causes of The Great Mortgage Bubble

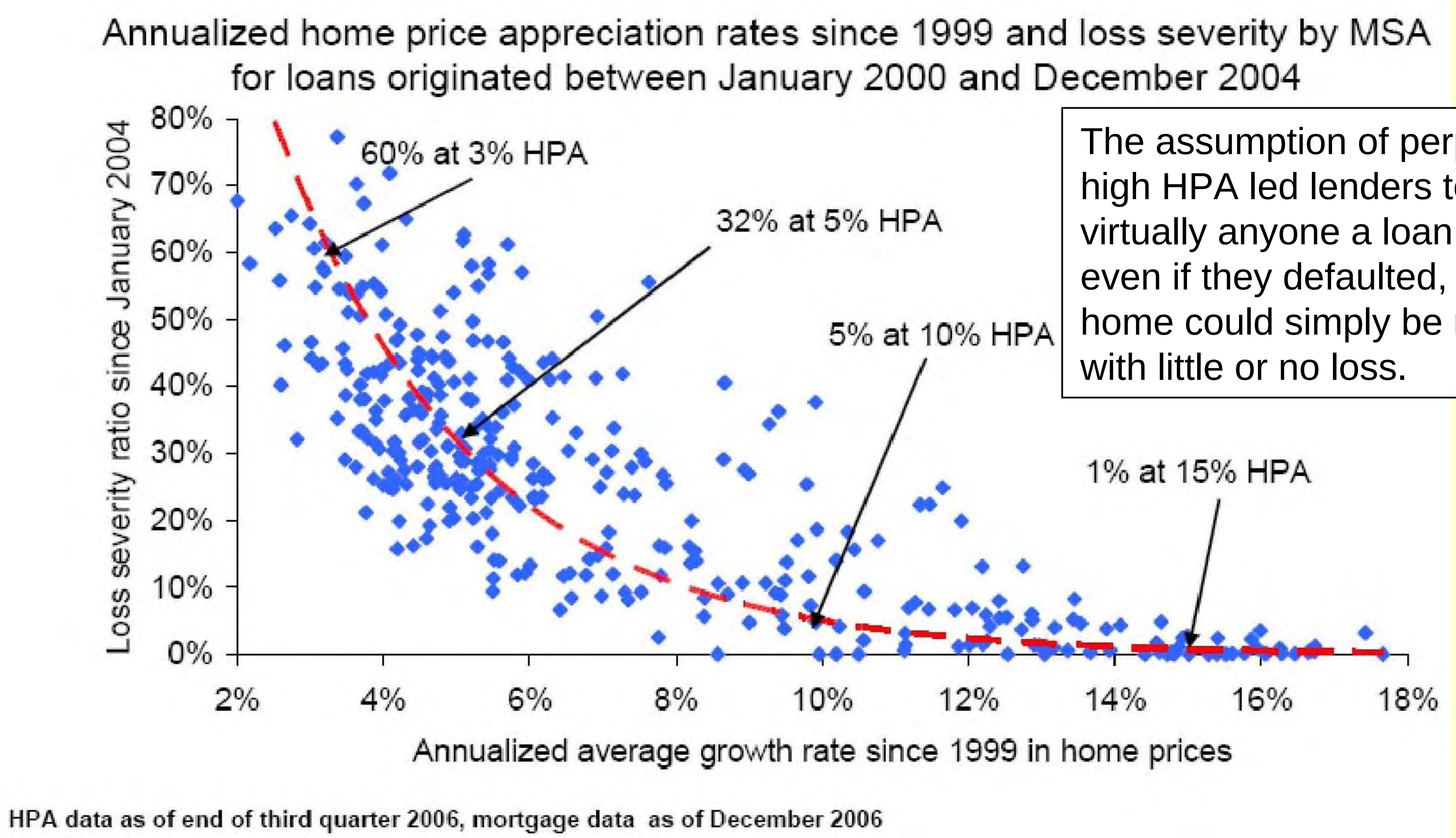
Wall Street's Demand for Loan "Product" Was a Major Driver of the Decline in Lending Standards

- As discussed later in this presentation, the Asset-Backed Securities (ABSs) and Collateralized Debt Obligation (CDO) businesses were enormously profitable for Wall Street firms
- 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!

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* 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.

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

Consequences of The Great Mortgage Bubble

The Sobering Implications of Reduced Borrowing Power

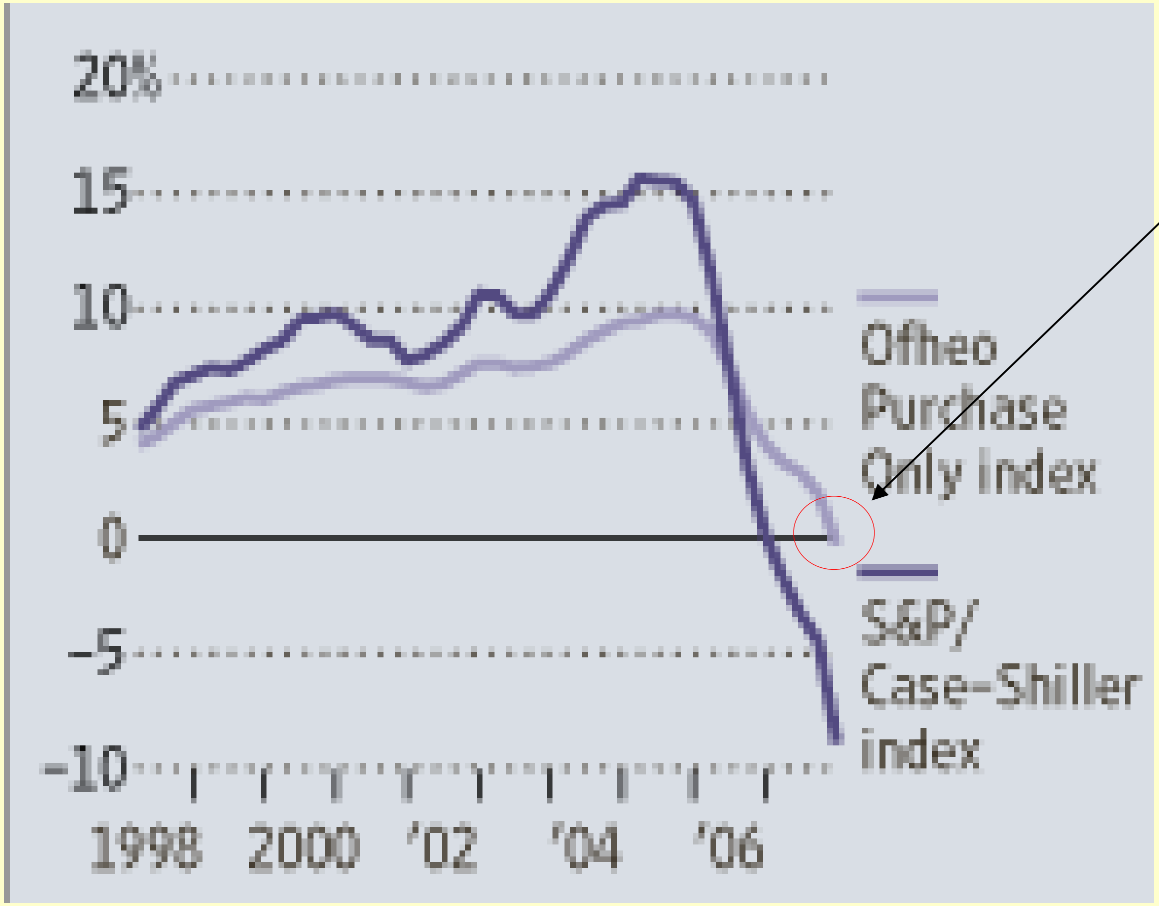
	Today	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Pre-Tax Income	$ 41,963	$ 41,963	$ 41,963	$ 41,963	$ 41,963
Debt-to-Income Ratio	35%	35%	35%	35%	35%
Non-Agency Mortgage Rate	6.75%	5.75%	5.75%	1.41%	4.09%
Mortgage Type	Int Only	Int Only	Full Am.	Full Am.	Int Only
Borrowing Power	$217,585	$ 255,426	$ 209,728	$ 359,283	$ 359,164
Change from 6/1/07	**-39.4%**	**-28.9%**	**-41.6%**	**0.0%**	**0.0%**
Leverage	5.2	6.1	5.0	8.6	8.6

- Current: Assuming constant interest rates, borrowing power today has declined 39.4% vs. only *nine months ago*
- Scenario 1: If interest rates drop 100 basis points, then the decline is “only” 28.9%
- Scenario 2: If interest rates drop 100 basis points and mortgages become fully amortizing, then the decline is 41.6%
- Scenarios 3 & 4: To maintain borrowing (0% decline) power the interest rate on fully amortizing mortgages would have to drop to 1.41% or, on interest only mortgages, 4.09%

Sources: Amherst Securities Group, L.P.

Home Prices Are in an Unprecedented Freefall

Year-Over-Year Change in House-Price Indexes



Even the best loans, guaranteed by Fannie & Freddie, are now impacted by declining home prices for the first time ever

Sources: WSJ, 2/27/08, OFHEO, S&P; Mortgage Bankers Association.

Things Are Terrible – And There's No Sign of a Bottom

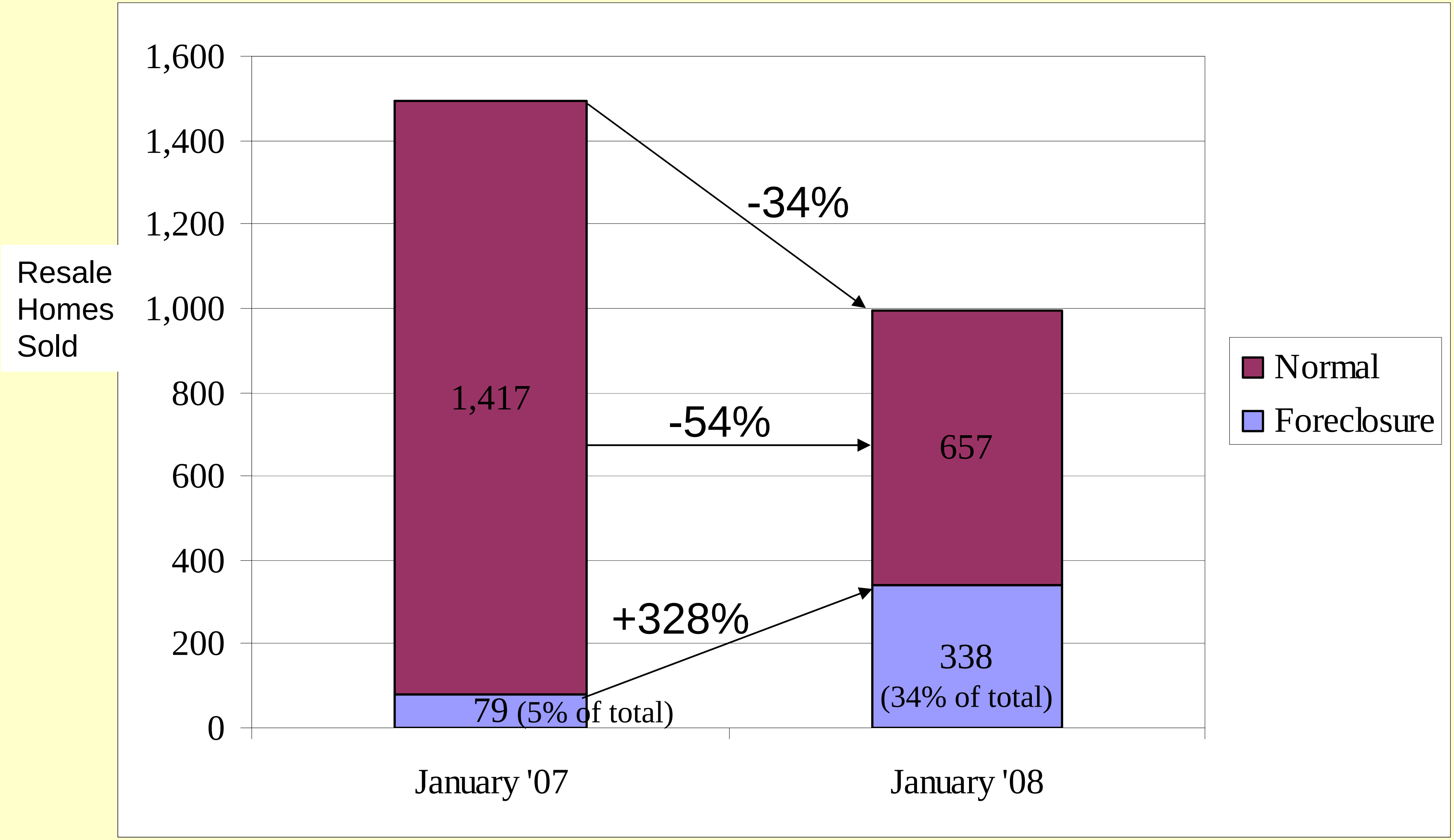
- The S&P/Case-Shiller home-price index dropped 9.1% YOY in December
- Foreclosures rose 57% and repossessions rose 90% YOY in January
- 30% of subprime loans written in 2005 and 2006 are already underwater
- In Q4 07, 5.82% of all mortgages were delinquent (30 days past due), the highest level in 23 years; 0.83% were in foreclosure, an all-time high
- Among subprime adjustable-rate mortgages in Q4 07, 20.02% were delinquent and 5.82% were in foreclosure
- Americans' percentage of equity in their homes has fallen below 50 percent for the first time on record since 1945

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

Source: National Association of Realtors.

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

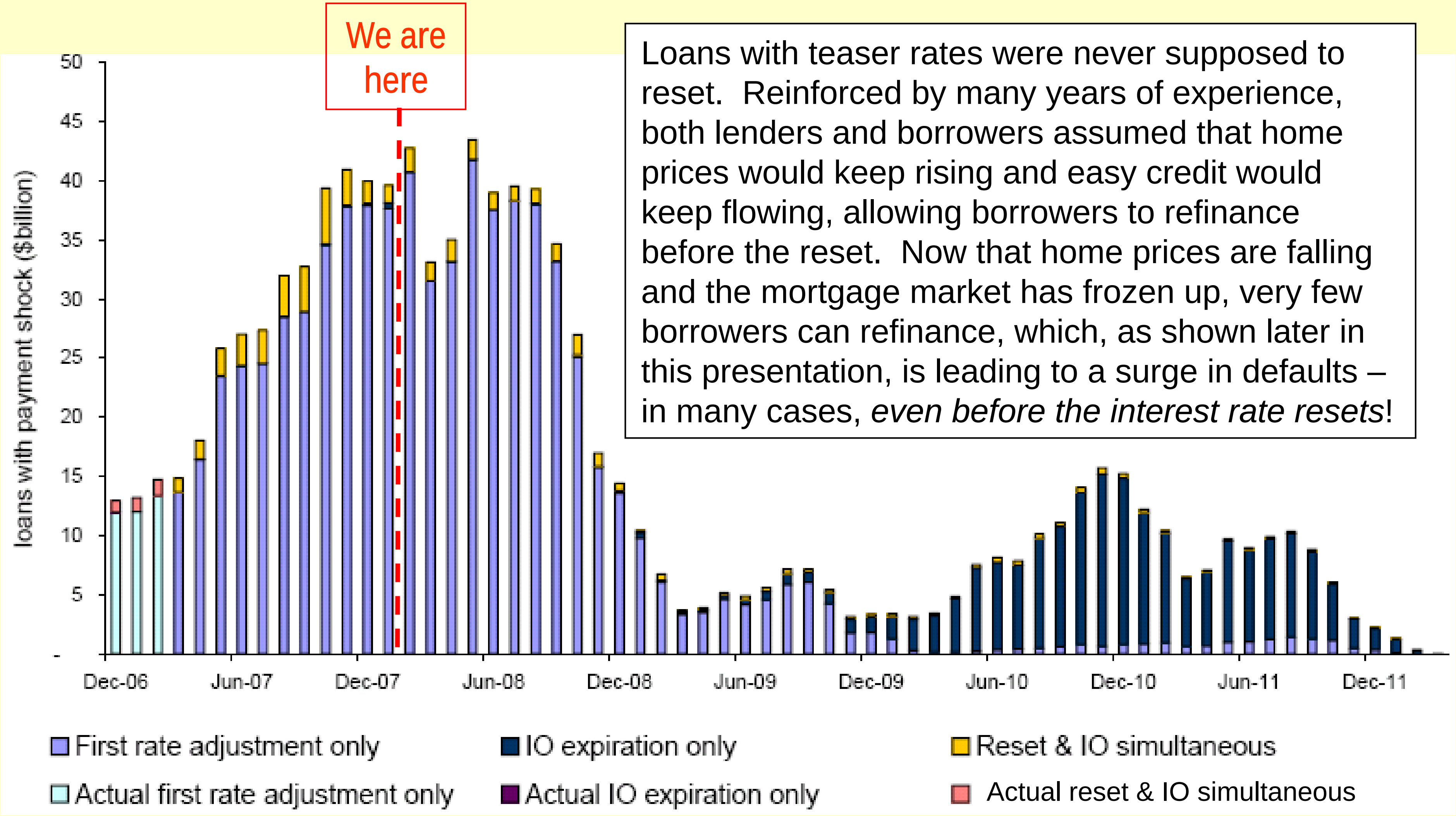


The median resale home price fell 16.4% from 1/07 to 1/08

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

What Does the Future Hold?

About $440 Billion of Adjustable Mortgages Are Scheduled to Reset This Year

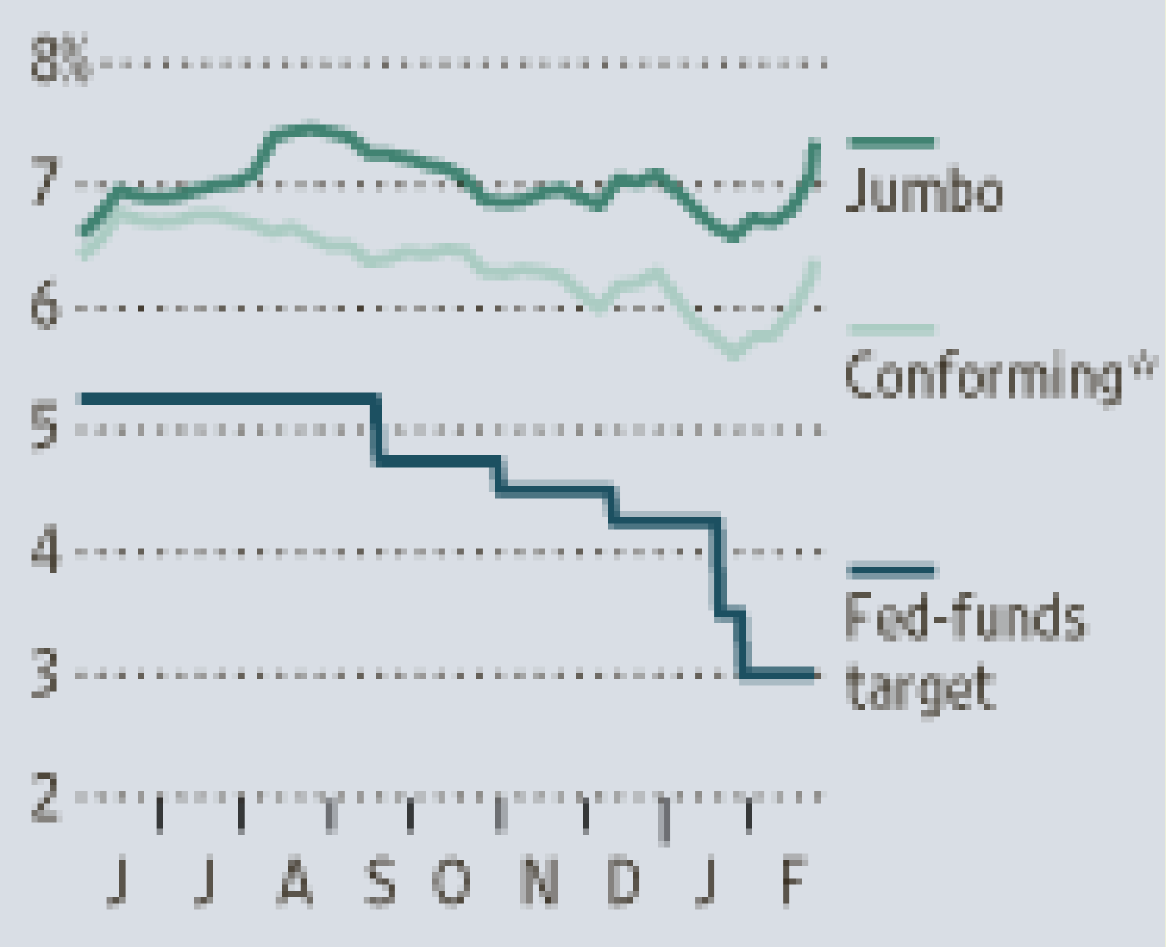


Loans with teaser rates were never supposed to reset. Reinforced by many years of experience, both lenders and borrowers assumed that home prices would keep rising and easy credit would keep flowing, allowing borrowers to refinance before the reset. Now that home prices are falling and the mortgage market 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.

Big Fed Rate Cuts Are Not Leading to a Meaningful Decline in Mortgage Rates

Fixed Rates on 30-Year Mortgages and the Federal-Funds Rate Target



Sources: WSJ, 2/27/08, HSHAssociates.com, WSJ Market Data Group.

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

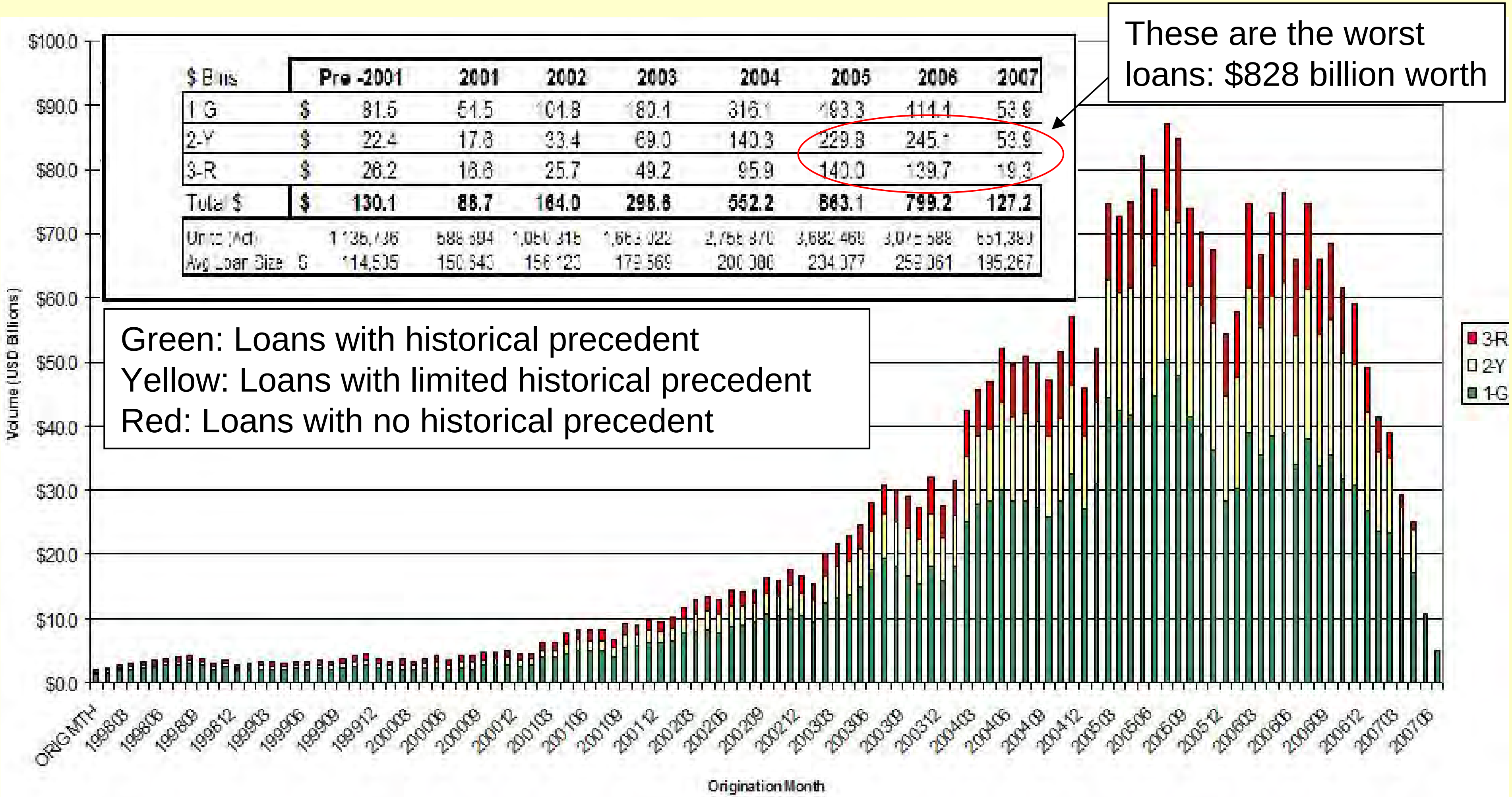
- Mortgage lending standards became progressively worse starting in 2000, but really went off a cliff beginning in early 2005
- The worst loans are those with two-year teaser rates. As the subsequent pages show, they are defaulting at unprecedented rates, especially once the interest rates reset
- Such 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 are leading 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 2008 and 2009, which promise to drive home prices down dramatically

In summary, today we are only seeing the tip of the iceberg: an enormous wave of defaults, foreclosures and auctions is just beginning to hit the United States. We believe it will get so bad that large-scale federal government intervention is likely.

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



$ Blns		Pre -2001	2001	2002	2003	2004	2005	2006	2007
1-G	$	81.5	51.5	101.8	180.4	316.1	493.3	414.4	53.9
2-Y	$	22.4	17.8	33.4	69.0	140.3	229.8	245.1	53.9
3-R	$	26.2	18.8	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)		1,136,736	588,594	1,050,316	1,663,022	2,756,370	3,682,469	3,075,588	651,389
Avg Loan Size	$	114,535	150,643	156,123	179,569	200,380	234,377	259,861	195,267

Source: Amherst Securities Group, L.P.

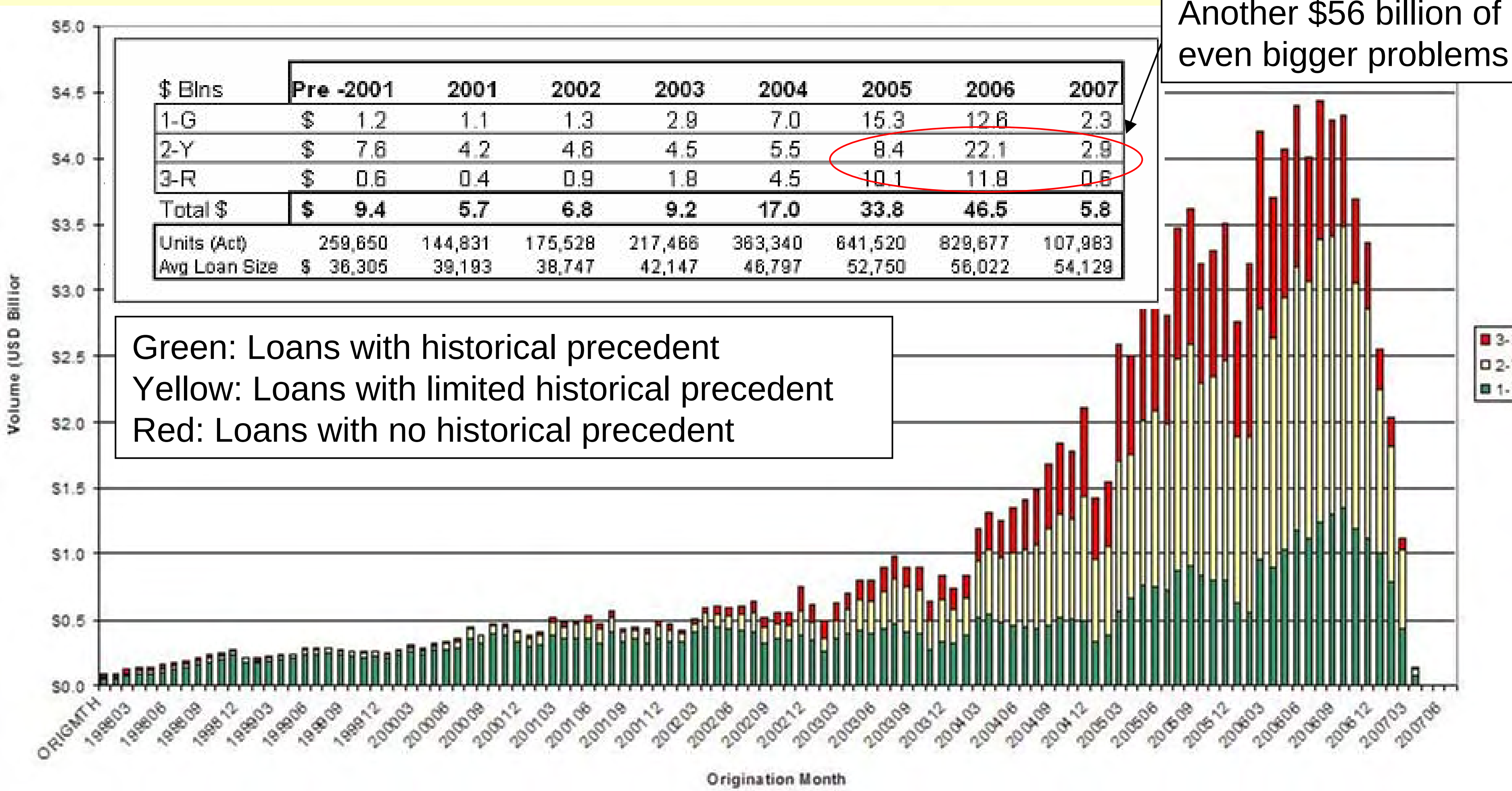
Tens of Billions of Dollars of 2nd Lien Mortgages Were Also Securitized, Many On Terms With No Historical Precedent

Securitized Second Liens – Origination Volume

Another $56 billion of even bigger problems

$ 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

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



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: $ 8,365,569,612

Green: 70.0%; Yellow: 9.3%; Red: 5.4%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100	1.4%			0.6%			0.7%	1.8%
760-780								2.0%
740-760	0.8%			0.6%	1.2%	0.6%	0.8%	2.2%
720-740	0.8%		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%	2.4%
680-700	0.8%		0.6%	0.8%	1.6%	1.0%	1.1%	2.7%
660-680	1.0%		0.6%	0.8%	1.5%	0.9%	1.2%	2.8%
640-660	1.0%		0.7%	1.2%	1.9%	1.2%	1.4%	2.7%
620-640	1.2%	0.5%	0.7%	1.1%	1.8%	1.1%	1.4%	2.6%
600-620	1.0%	0.5%	0.6%	0.8%	1.5%	0.9%	1.0%	1.9%
580-600	0.8%		0.5%	0.6%	1.1%	0.7%	0.7%	1.4%
560-580	0.8%			0.6%	0.8%	0.5%	0.7%	0.4%
540-560	0.6%				0.6%	0.5%	0.5%	
520-540								
500-520								
480-500								
460-480								
000-460								

2/28 Full Doc – June 2005 Production

Total Volume: $16,009,922,143

Green: 39.9%; Yellow: 25.2%; Red: 26.1%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								
760-780								0.6%
740-760								0.9%
720-740								1.1%
700-720								1.7%
680-700					0.7%		0.5%	2.9%
660-680					1.2%	0.5%	0.8%	4.2%
640-660					1.8%	0.8%	1.4%	6.0%
620-640				0.6%	2.1%	1.2%	2.0%	7.2%
600-620	0.5%		0.5%	0.8%	2.5%	1.3%	2.2%	7.6%
580-600	0.6%		0.5%	0.8%	2.2%	1.3%	2.1%	5.8%
560-580	0.7%		0.5%	0.8%	1.4%	1.3%	2.2%	1.8%
540-560	0.7%		0.6%	0.8%	1.3%	1.3%	1.6%	0.7%
520-540	0.7%		0.5%	0.8%	1.2%	1.1%	0.7%	
500-520	0.6%		0.5%	0.7%	1.0%	0.6%		
480-500								
460-480								
000-460								

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: $ 8,406,137,755

Green: 49.2%; Yellow: 25.8%; Red: 8.0%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100			0.5%	0.7%			0.7%	1.2%
760-780				0.8%	1.3%	0.4%	1.0%	1.6%
740-760	1.8%	0.5%		0.8%	1.3%	0.4%	1.1%	2.2%
720-740	2.0%	0.7%	0.7%	1.0%	1.6%	0.6%	1.3%	2.6%
700-720	2.2%	0.8%	0.8%	1.1%	1.8%	0.8%	1.4%	3.3%
680-700	2.3%	0.8%	0.9%	1.3%	2.1%	0.8%	1.7%	3.3%
660-680	1.9%	0.7%	0.8%	1.1%	2.0%	0.6%	1.3%	2.9%
640-660	1.4%	0.5%	0.6%	0.9%	1.5%	0.6%	1.2%	2.8%
620-640	1.2%		0.5%	0.8%	1.3%	0.7%	1.0%	2.2%
600-620	0.5%				0.7%			0.8%
580-600								
560-580								
540-560								
520-540								
500-520								
480-500								
460-480								
000-460								

2/28 Low Doc – June 2005 Production

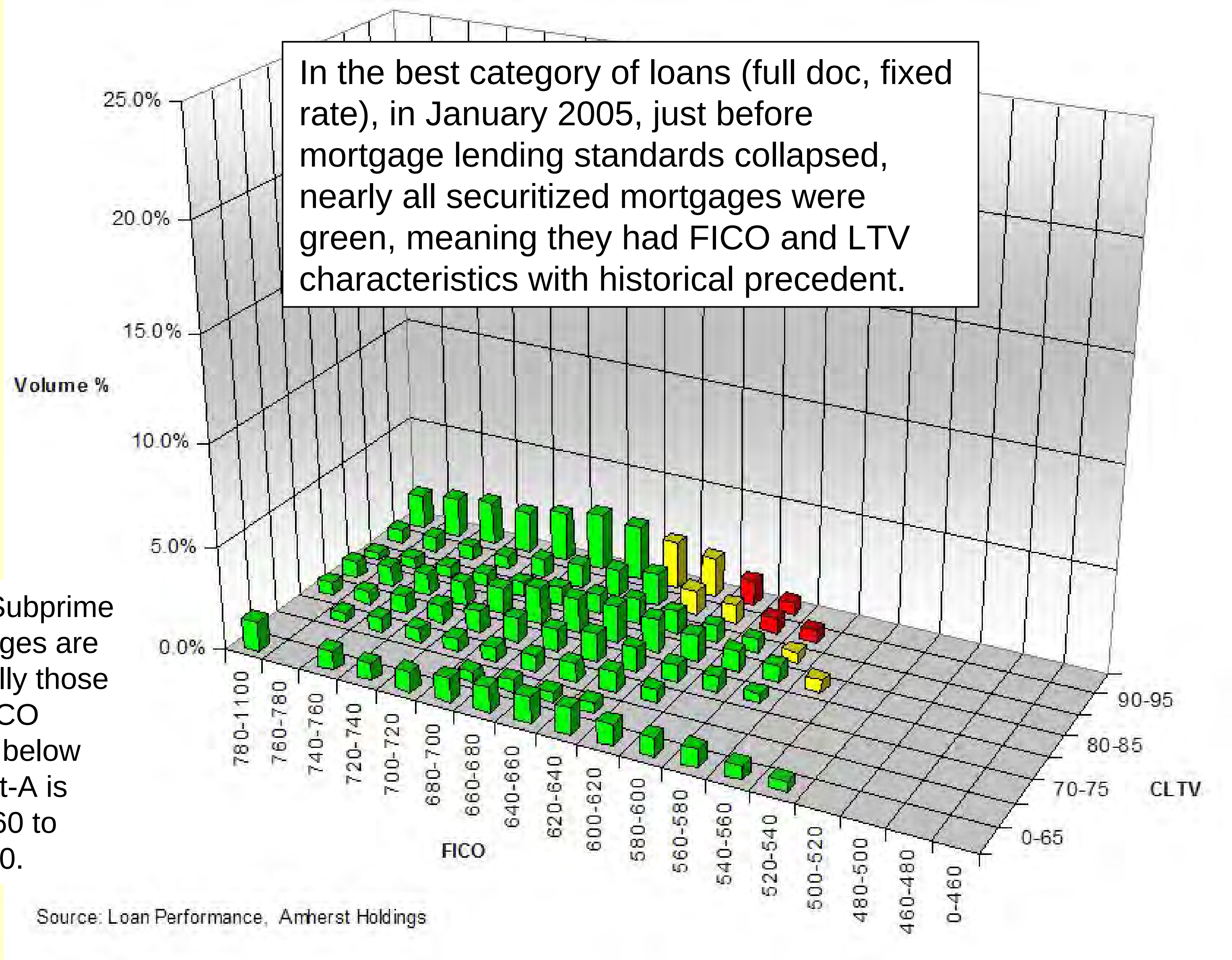
Total Volume: $13,461,130,572

Green: 17.0%; Yellow: 33.4%; Red: 31.1%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								0.7%
760-780								1.3%
740-760								2.1%
720-740								3.4%
700-720							0.7%	4.9%
680-700							1.1%	6.9%
660-680					2.3%	0.7%	1.5%	8.0%
640-660				0.5%	2.6%	0.9%	1.8%	8.7%
620-640				0.6%	2.4%	1.1%	2.2%	6.8%
600-620	0.5%			0.6%	1.5%	1.1%	1.8%	2.6%
580-600	0.6%			0.7%	1.2%	0.9%	1.2%	0.8%
560-580	0.6%			0.6%	1.0%	0.7%	0.6%	
540-560	0.5%			0.6%	0.8%	0.5%		
520-540	0.5%				0.7%			
500-520								
480-500								
460-480								
0-460								

Source: Amherst Securities Group, L.P.

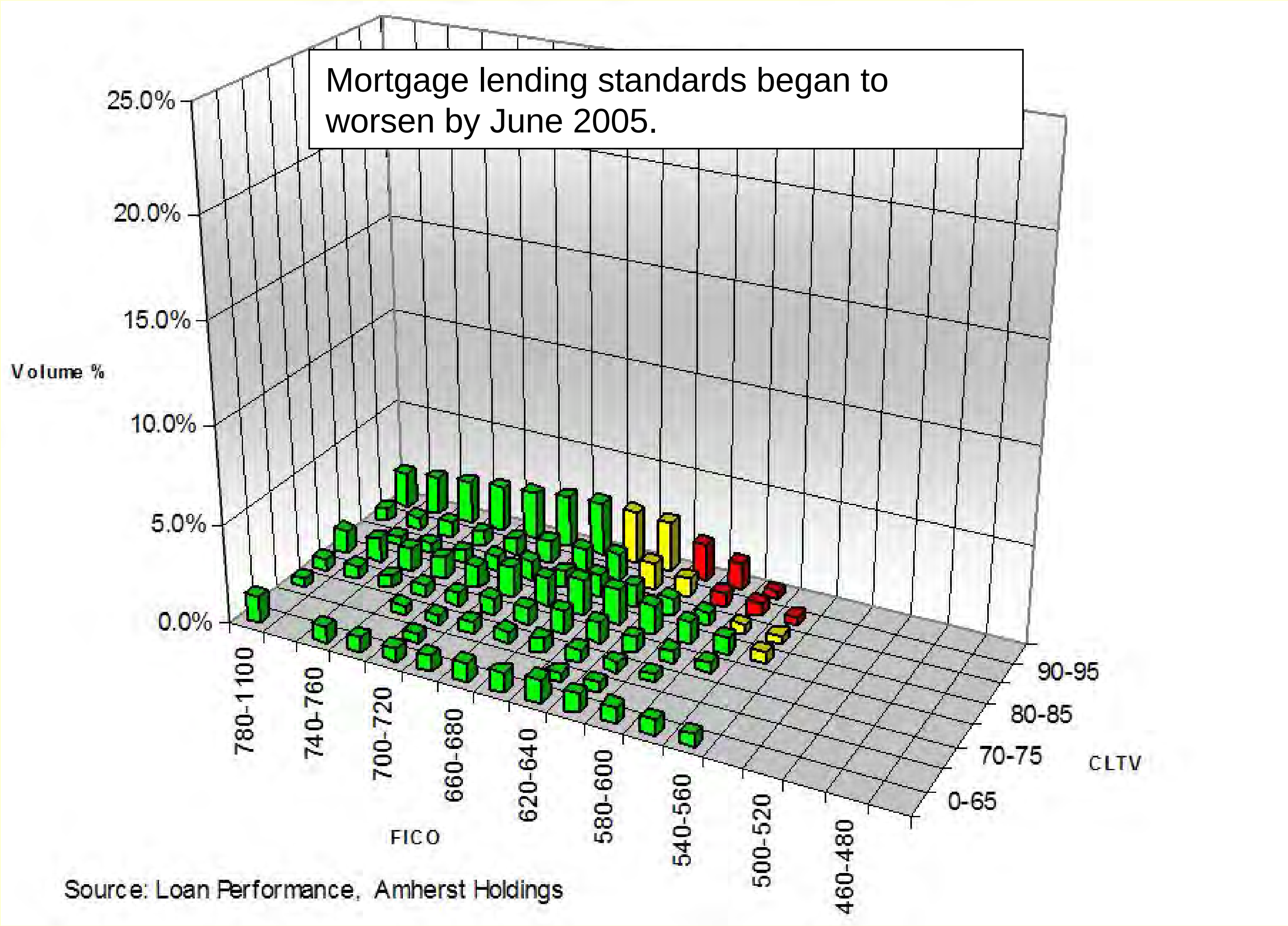
Origination Volume of Fixed Rate, Full Doc Securitized Mortgage Loans, January 2005



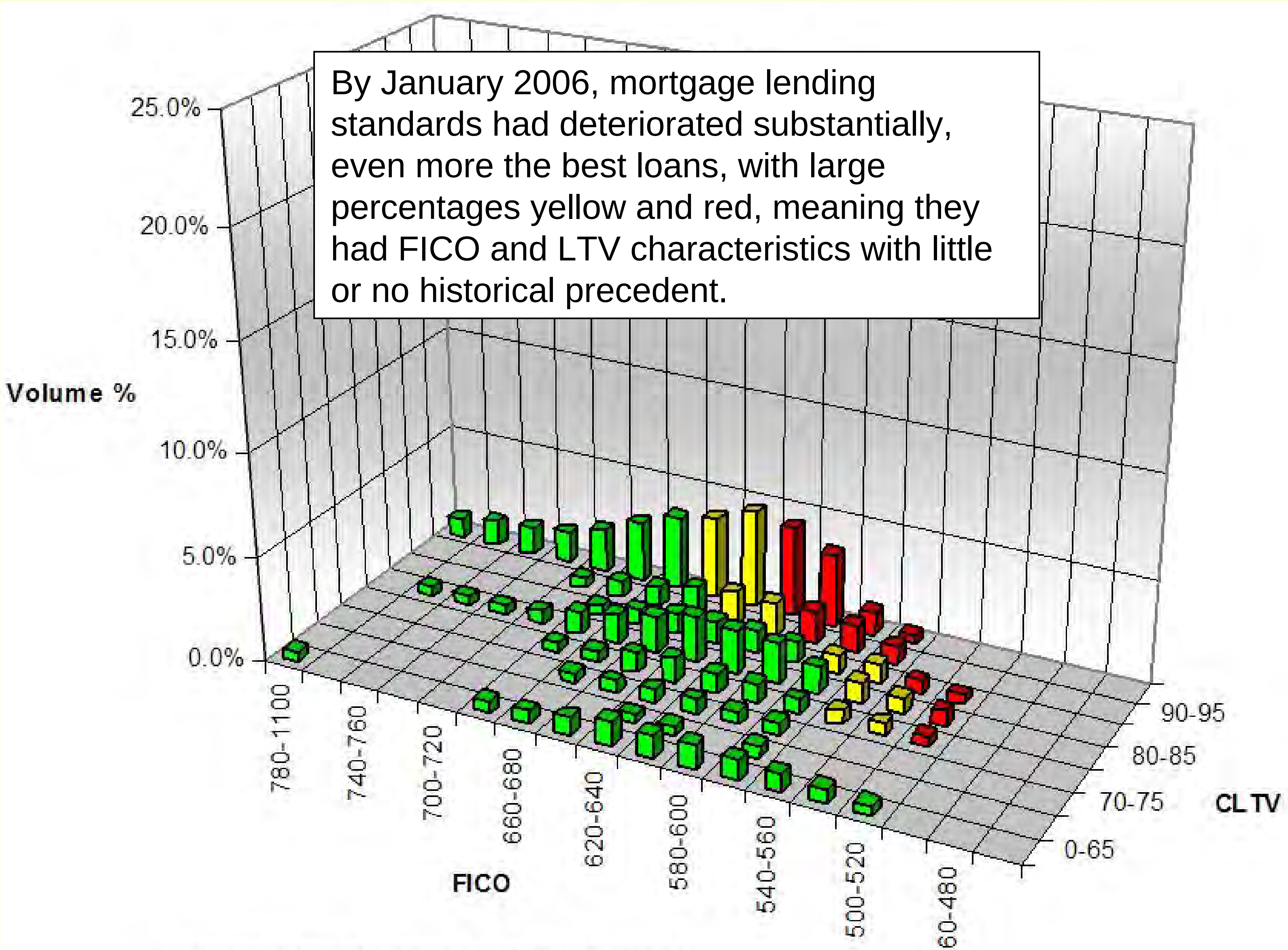
In the best category of loans (full doc, fixed rate), in January 2005, just before mortgage lending standards collapsed, nearly all securitized mortgages were green, meaning they had FICO and LTV characteristics with historical precedent.

Note: Subprime mortgages are generally those with FICO scores below 660; Alt-A is from 660 to 720-740.

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



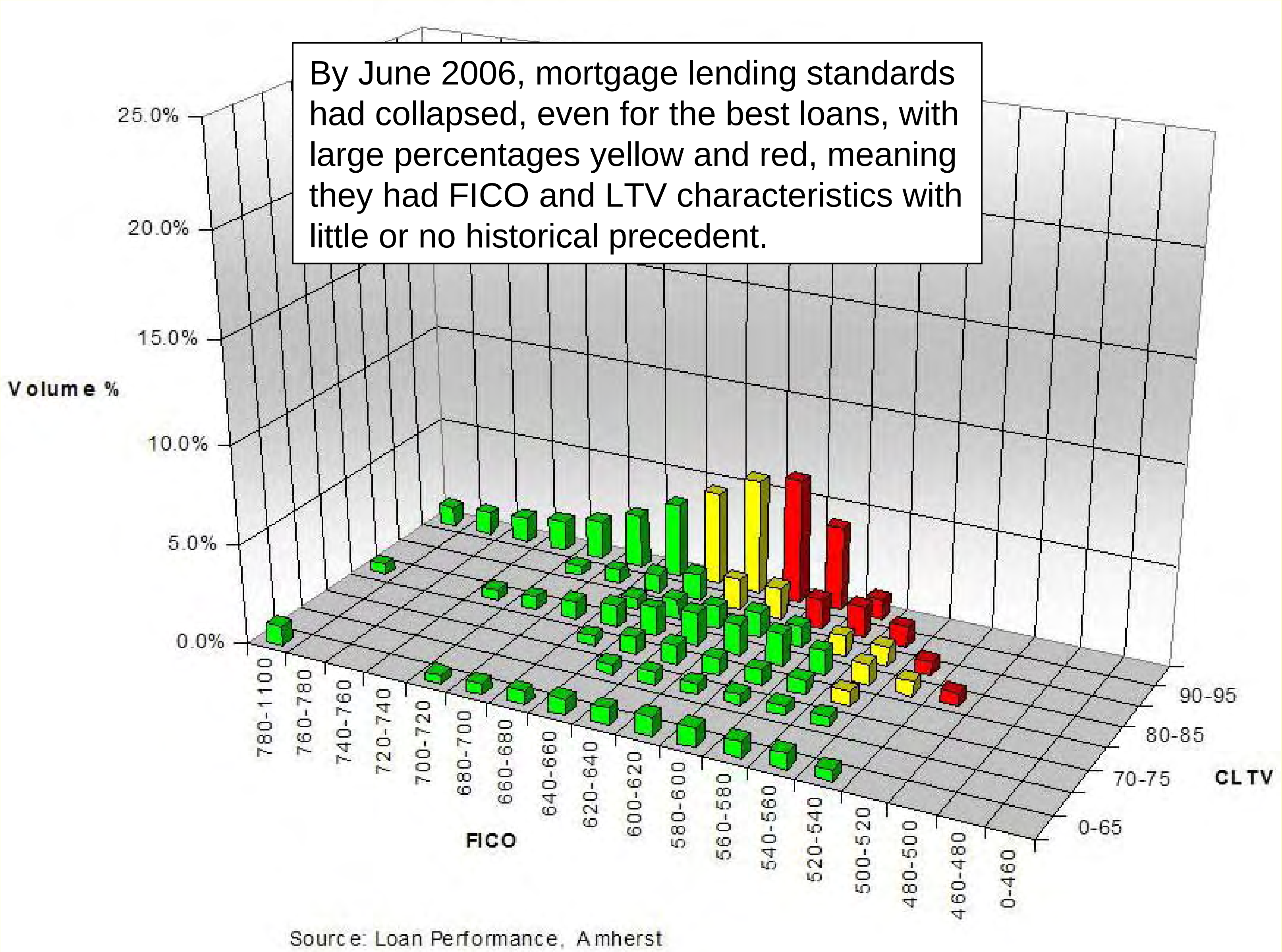
Origination Volume of Fixed Rate, Full Doc Securitized Mortgage Loans, January 2006



By January 2006, mortgage lending standards had deteriorated substantially, even more the best loans, with large percentages yellow and red, meaning they had FICO and LTV characteristics with little or no historical precedent.

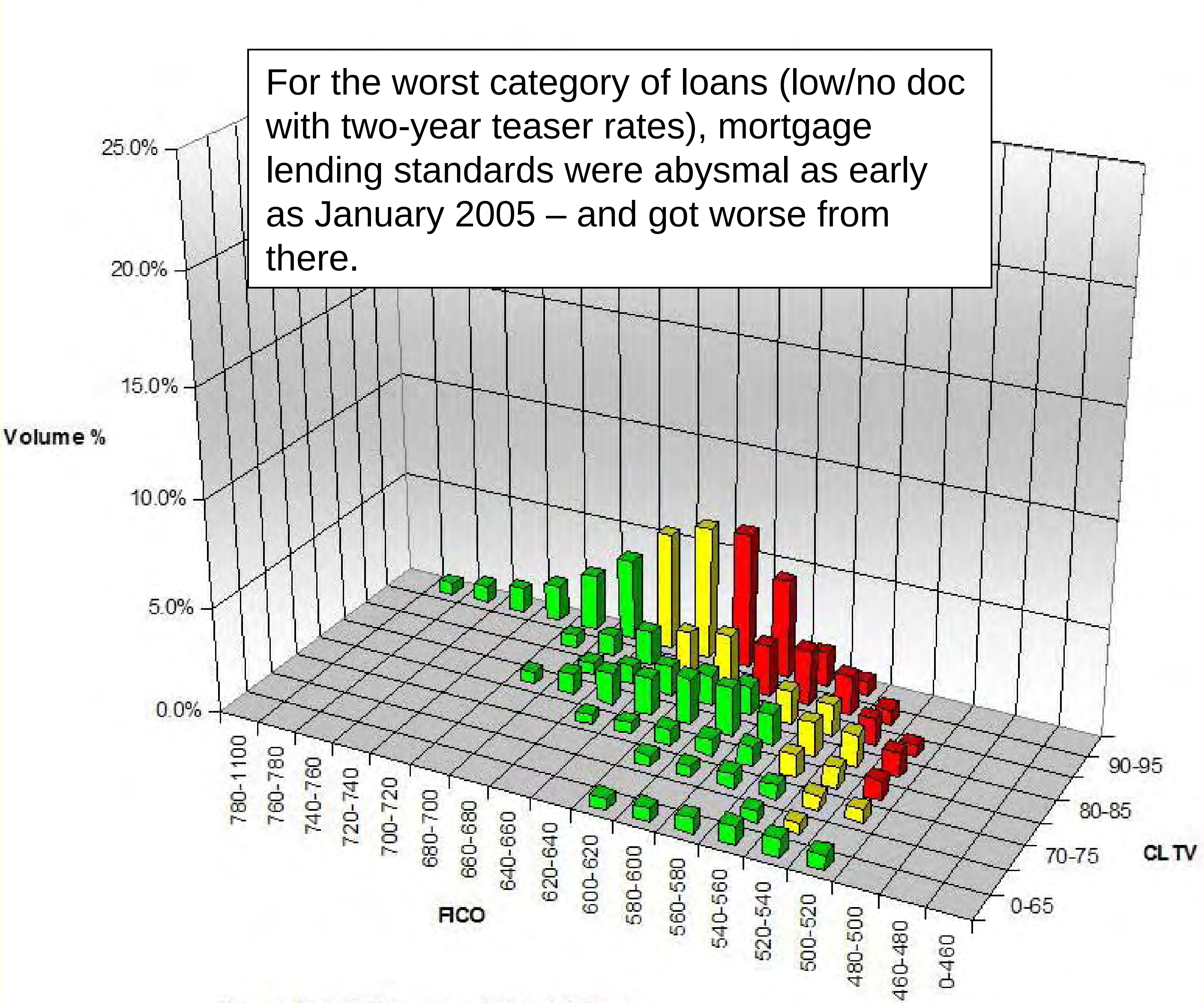
Source: Loan Performance, Amherst Holdings

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



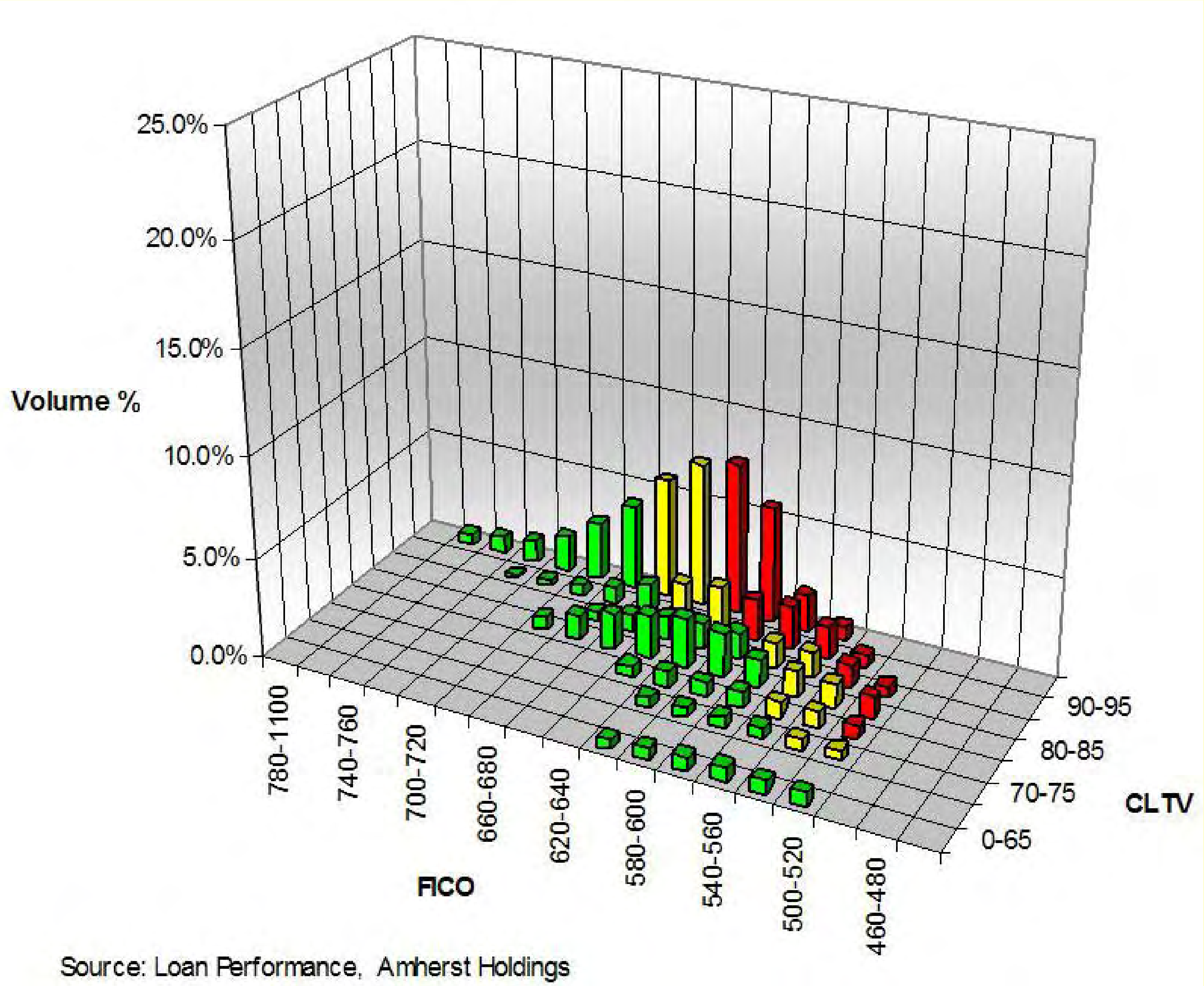
Origination Volume of 2/28, Low Doc Securitized Mortgage Loans, January 2005

For the worst category of loans (low/no doc with two-year teaser rates), mortgage lending standards were abysmal as early as January 2005 – and got worse from there.

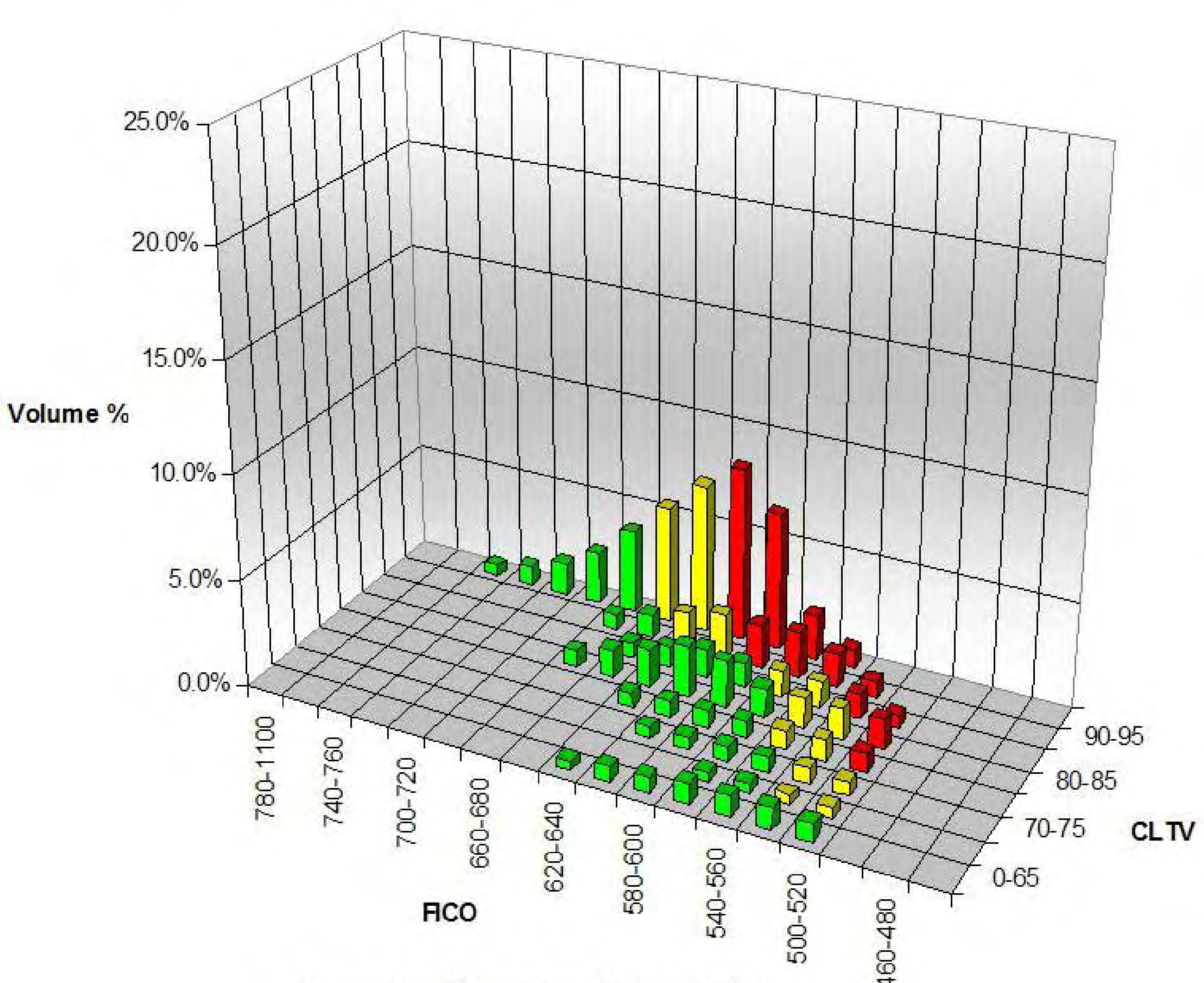


Source: Loan Performance, Amherst Holdings

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

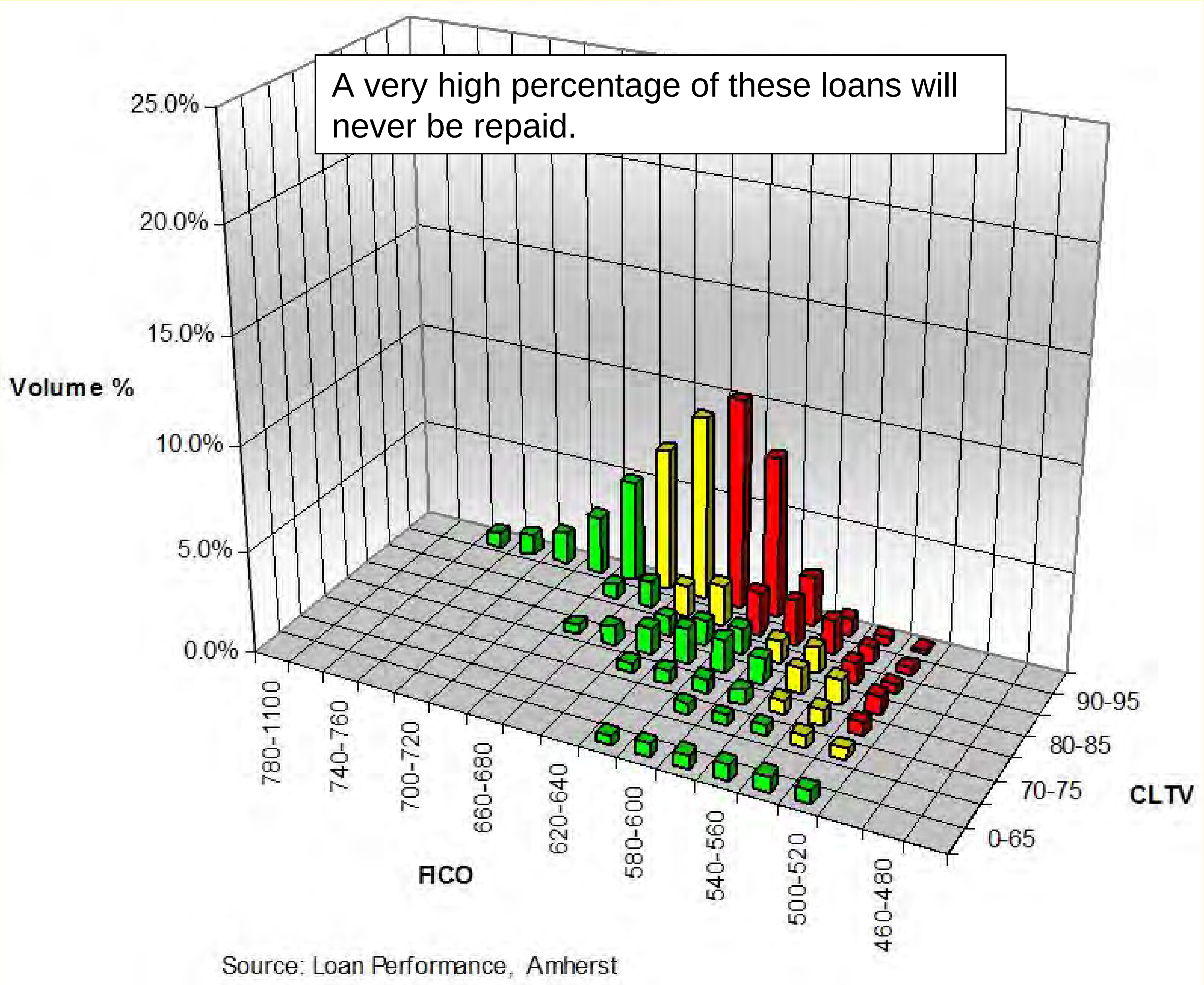


Origination Volume of 2/28, Low Doc Securitized Mortgage Loans, January 2006



Source: Loan Performance, Amherst Holdings

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: $ 8,365,569,612

Green: 70.0%; Yellow: 9.3%; Red: 5.4%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100	1.1%			1.2%			0.7%	0.5%
760-780								0.4%
740-760	1.4%			0.7%	0.3%	1.0%	1.3%	1.3%
720-740	1.4%		2.4%	0.5%	0.7%	0.5%	1.8%	2.8%
700-720	0.8%	0.6%	0.4%	1.1%	2.0%	2.6%	2.8%	4.0%
680-700	0.6%		3.0%	1.1%	2.3%	1.3%	2.6%	4.3%
660-680	1.7%		2.2%	1.1%	2.8%	4.5%	3.8%	6.9%
640-660	0.7%		4.0%	1.2%	4.5%	4.3%	4.4%	9.3%
620-640	1.5%	3.9%	3.4%	5.7%	4.7%	6.4%	8.3%	11.5%
600-620	1.9%	4.0%	6.3%	4.4%	7.4%	8.3%	12.1%	19.7%
580-600	2.9%		6.9%	6.5%	8.5%	8.9%	13.9%	25.5%
560-580	4.5%			8.2%	10.1%	12.5%	17.9%	22.0%
540-560	7.1%				6.7%	14.6%	16.5%	
520-540								
500-520								
480-500								
460-480								
000-460								

2/28 Full Doc – June 2005 Production

Total Volume: $16,009,922,143

Green: 39.9%; Yellow: 25.2%; Red: 26.1%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								
760-780								7.0%
740-760								11.1%
720-740								13.1%
700-720								11.0%
680-700					9.6%		10.2%	15.7%
660-680					11.5%	7.9%	12.5%	16.6%
640-660					13.2%	10.5%	12.6%	19.5%
620-640				8.5%	17.4%	9.3%	12.9%	22.9%
600-620	4.8%		5.7%	10.3%	16.3%	11.5%	15.3%	25.3%
580-600	3.8%		8.8%	10.6%	17.4%	15.8%	20.6%	28.6%
560-580	4.4%		6.5%	9.2%	15.9%	17.6%	21.6%	28.7%
540-560	6.7%		10.8%	12.9%	16.4%	20.7%	24.5%	28.3%
520-540	8.9%		13.2%	14.0%	16.2%	18.1%	28.2%	
500-520	10.5%		11.8%	16.5%	17.7%	20.4%		
480-500								
460-480								
000-460								

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

Fixed Low Doc – June 2005 Production

Total Volume: $ 8,406,137,755

Green: 49.2%; Yellow: 25.8%; Red: 8.0%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100			0.9%	1.0%			1.6%	3.6%
760-780				0.6%	2.5%	1.5%	1.7%	5.0%
740-760	0.4%	0.9%		0.6%	1.8%	1.4%	2.1%	7.1%
720-740	0.1%	0.7%	0.8%	1.5%	1.7%	2.6%	2.6%	8.2%
700-720	0.4%	0.5%	2.6%	2.2%	3.6%	3.5%	4.3%	8.4%
680-700	1.1%	1.2%	1.4%	3.7%	3.2%	3.6%	5.6%	13.5%
660-680	0.9%	2.6%	3.3%	4.5%	4.7%	3.2%	8.3%	14.7%
640-660	1.5%	1.9%	3.1%	7.6%	5.6%	12.1%	10.4%	24.0%
620-640	1.7%		6.0%	6.5%	9.5%	12.2%	14.2%	23.9%
600-620	1.8%				13.0%			32.0%
580-600								
560-580								
540-560								
520-540								
500-520								
480-500								
460-480								
000-460								

2/28 Low Doc – June 2005 Production

Total Volume: $13,461,130,572

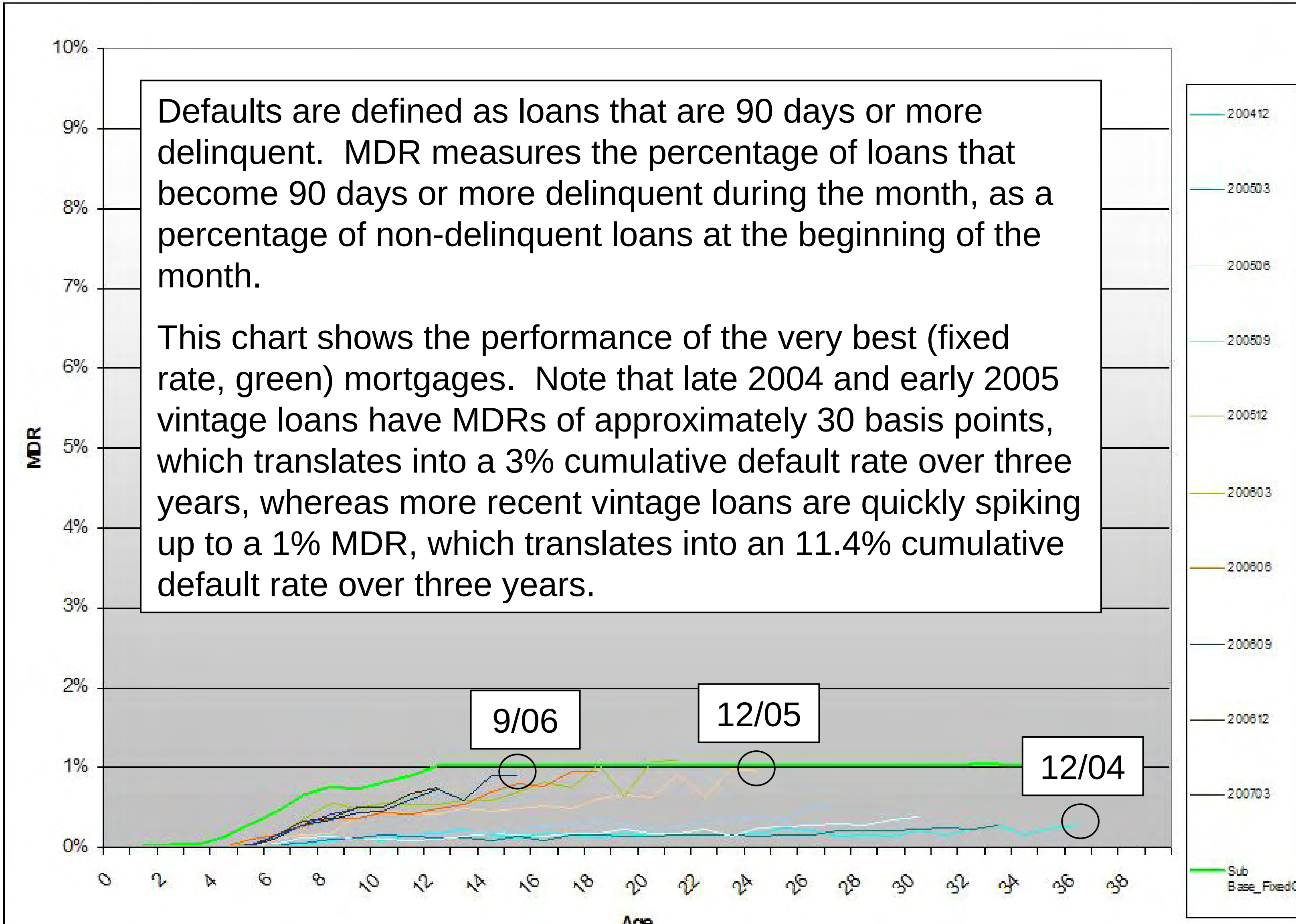
Green: 17.0%; Yellow: 33.4%; Red: 31.1%

FICO	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
780-1100								17.2%
760-780								18.2%
740-760								17.1%
720-740								20.0%
700-720							12.4%	21.5%
680-700							13.2%	23.6%
660-680					20.2%	10.1%	15.7%	25.5%
640-660				6.8%	22.8%	12.7%	17.4%	28.9%
620-640				10.4%	21.9%	20.4%	20.3%	33.4%
600-620	5.6%			9.6%	16.3%	19.0%	20.0%	33.5%
580-600	6.1%			10.6%	14.5%	21.2%	22.5%	32.9%
560-580	5.4%			14.5%	17.9%	29.9%	21.8%	
540-560	9.6%			18.7%	19.2%	25.0%		
520-540	12.2%				19.9%			
500-520								
480-500								
460-480								
0-460								

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

Source: Amherst Securities Group, L.P.

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

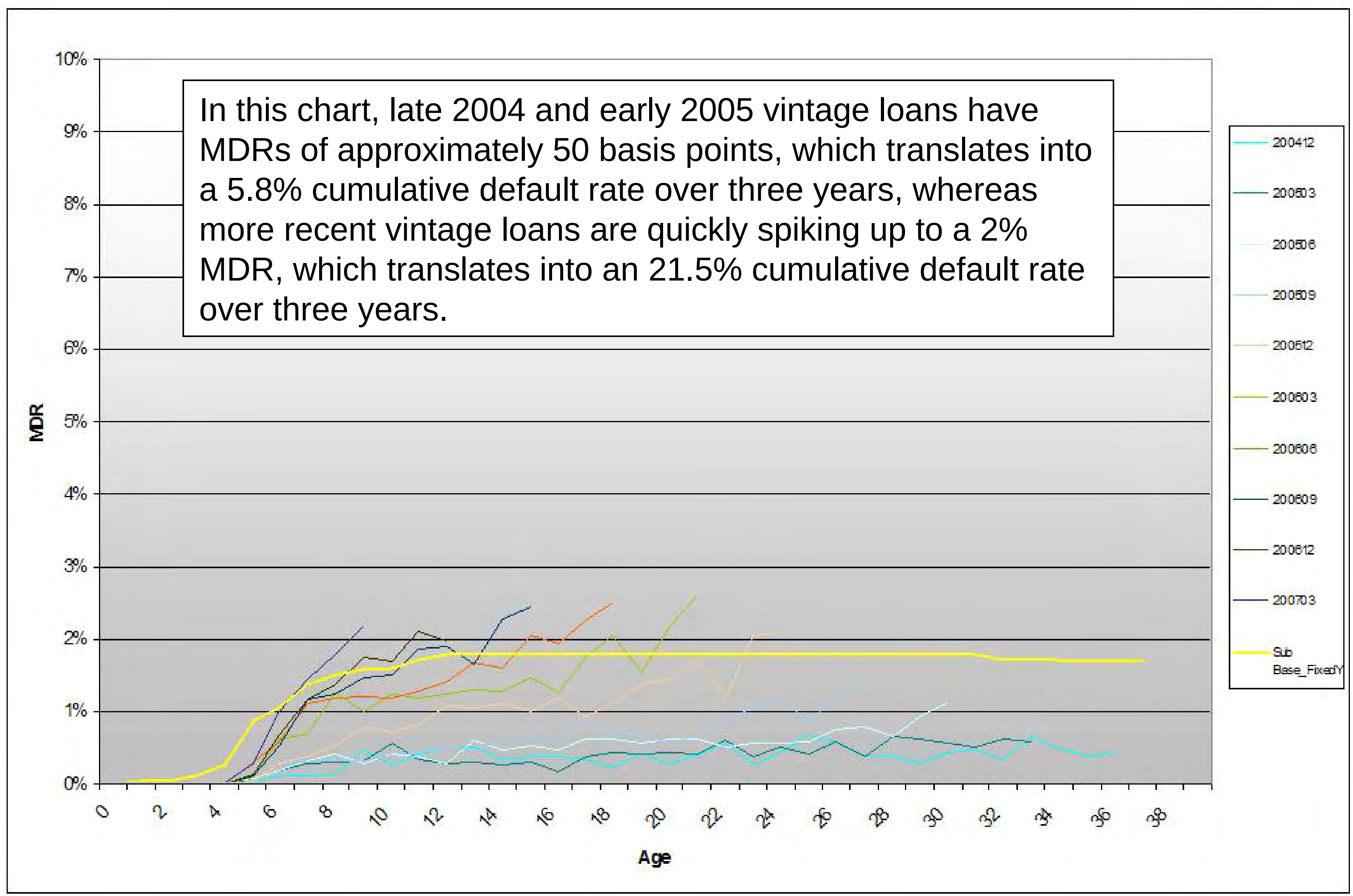


Defaults are defined as loans that are 90 days or more delinquent. MDR measures the percentage of loans that become 90 days or more delinquent during the month, as a percentage of non-delinquent loans at the beginning of the month.

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 over three years.

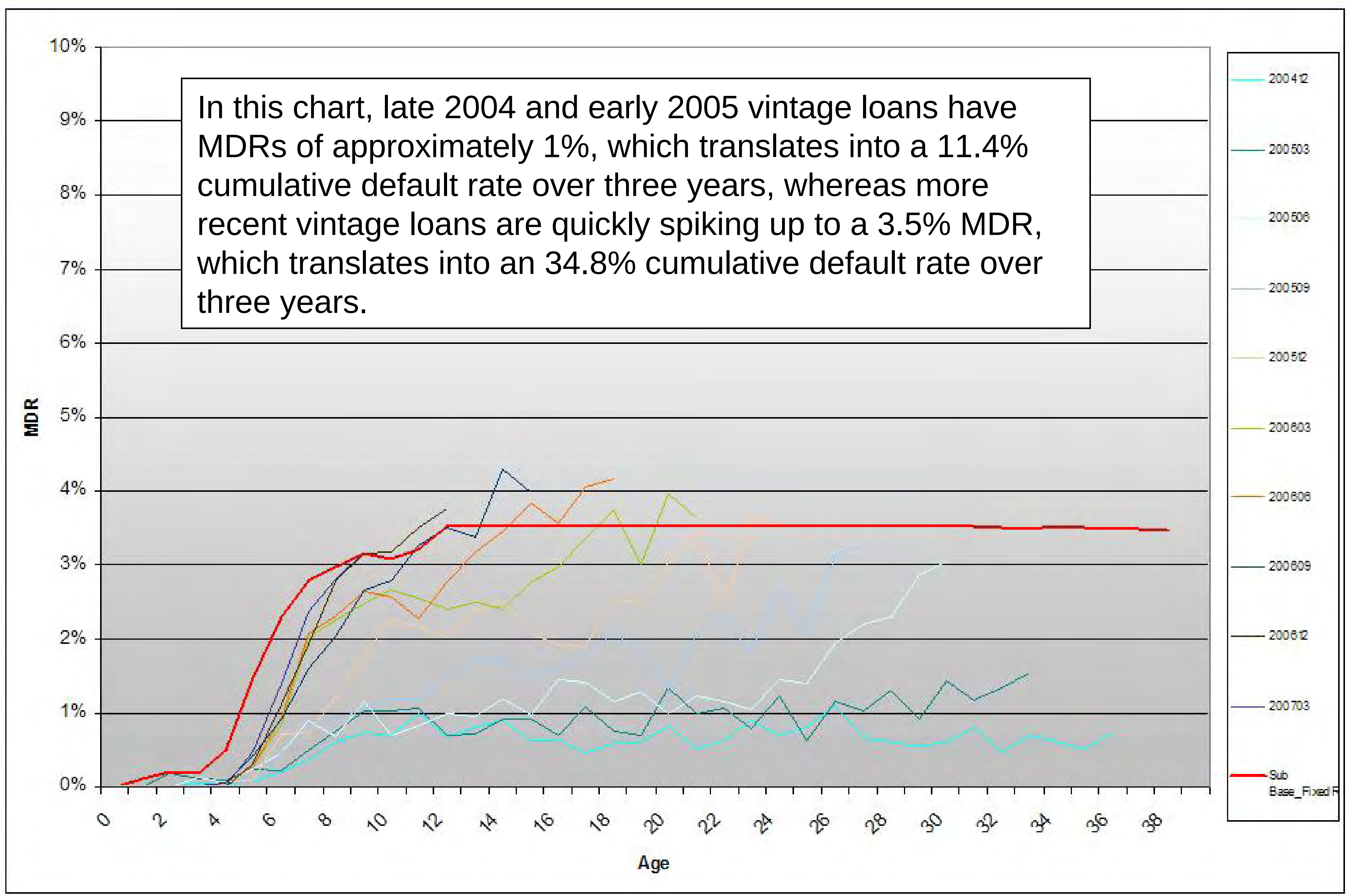
Source: Amherst Securities Group, L.P.

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



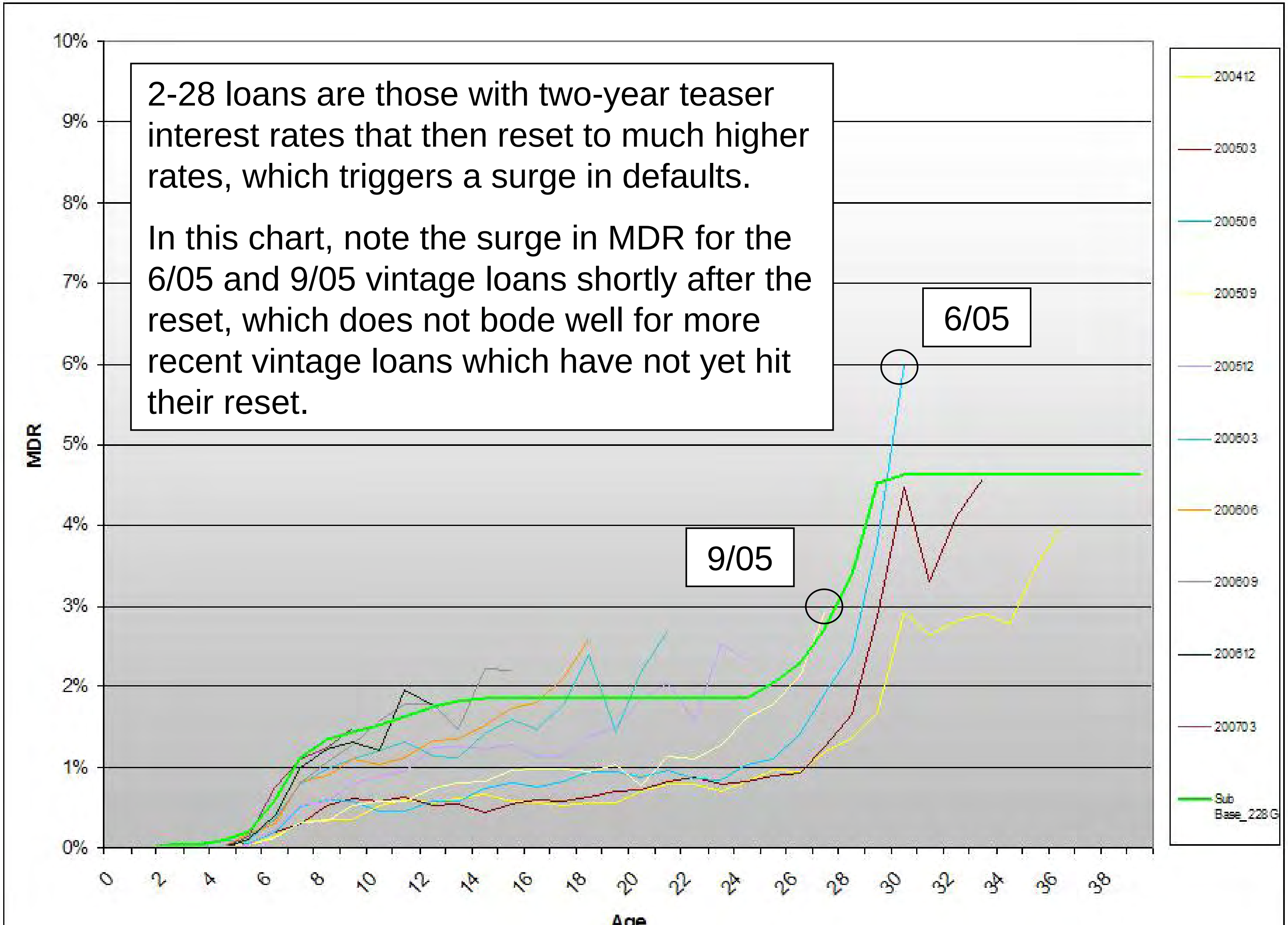
Source: Amherst Securities Group, L.P.

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



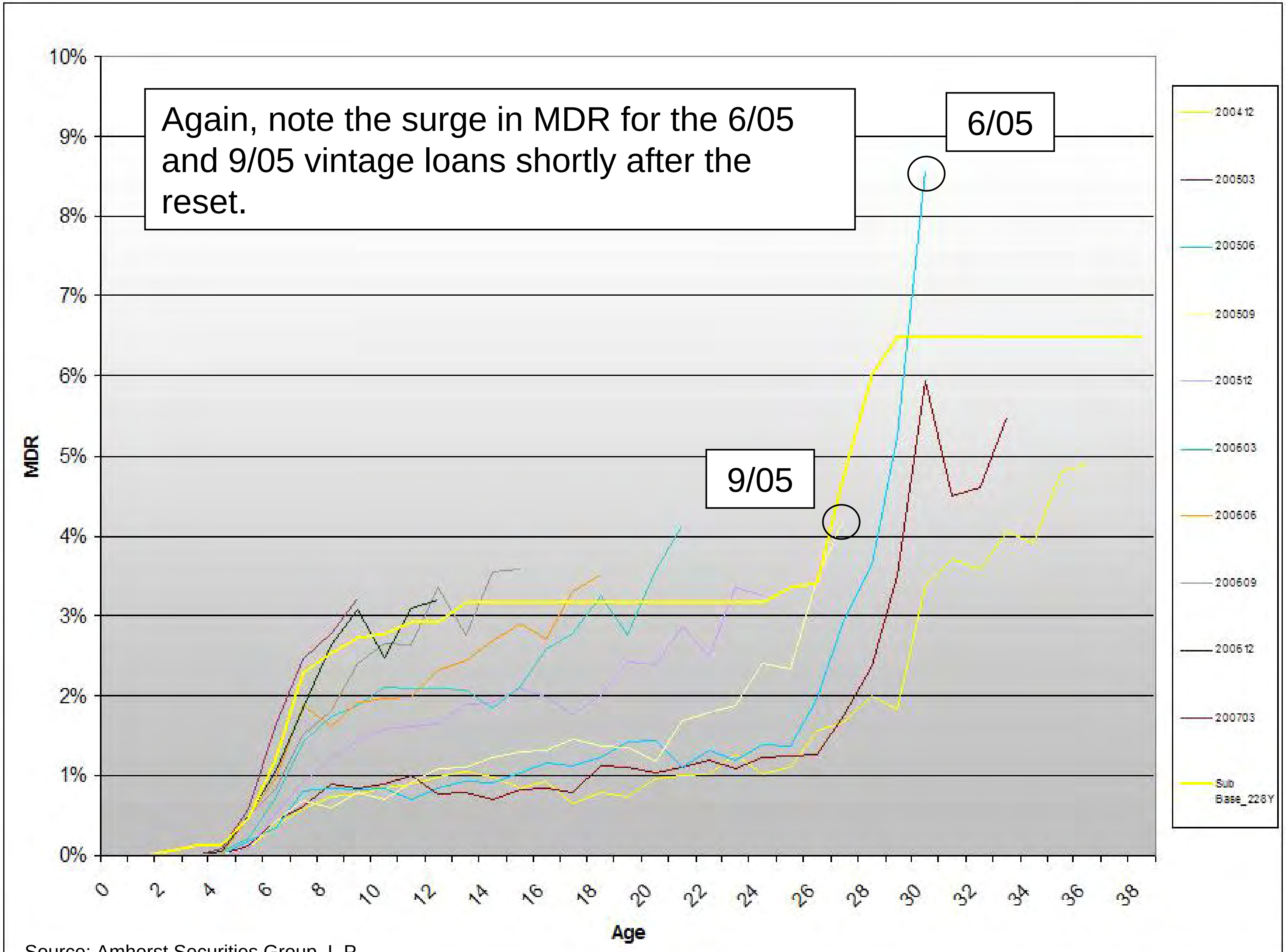
Source: Amherst Securities Group, L.P.

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



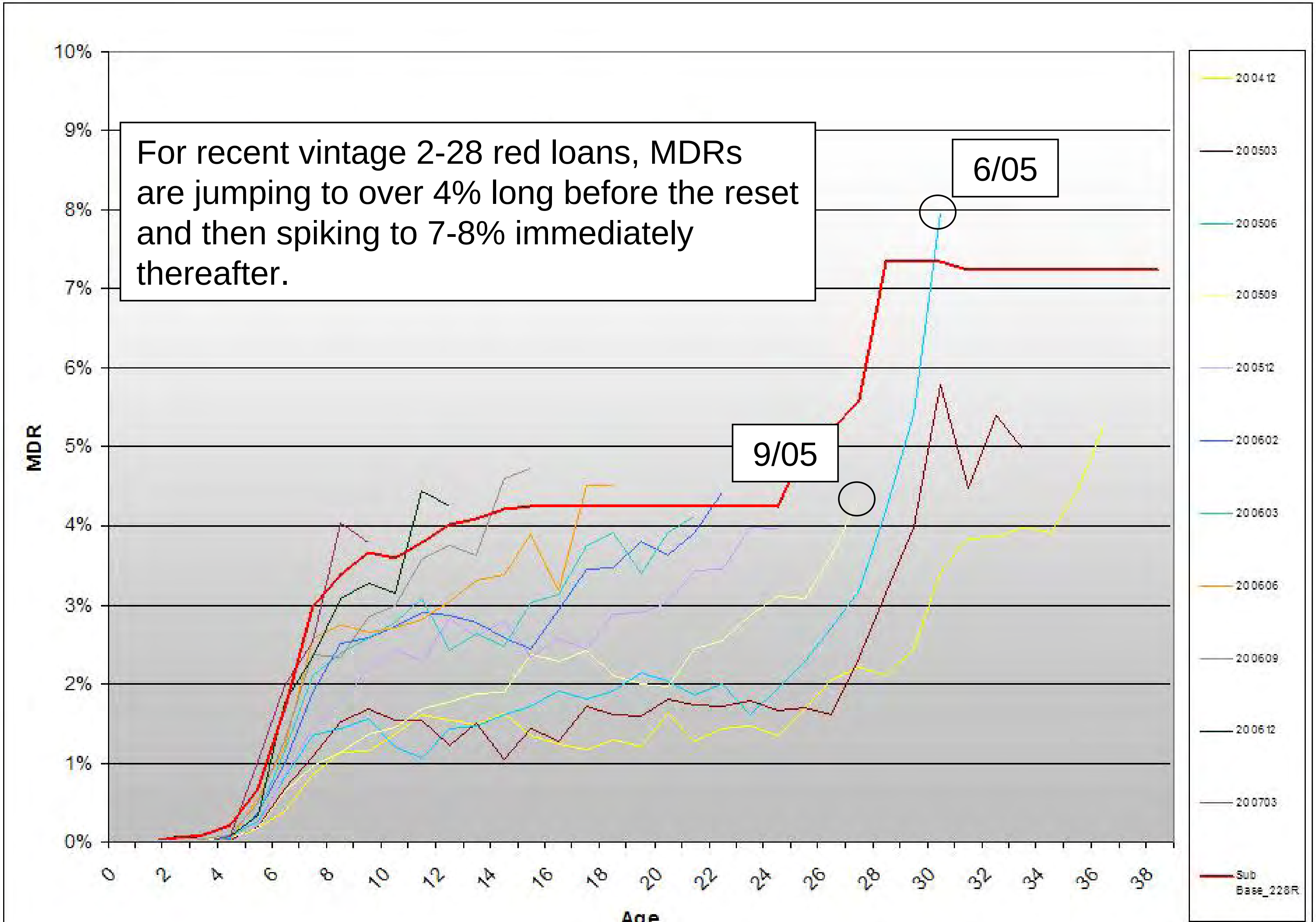
Source: Amherst Securities Group, L.P.

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



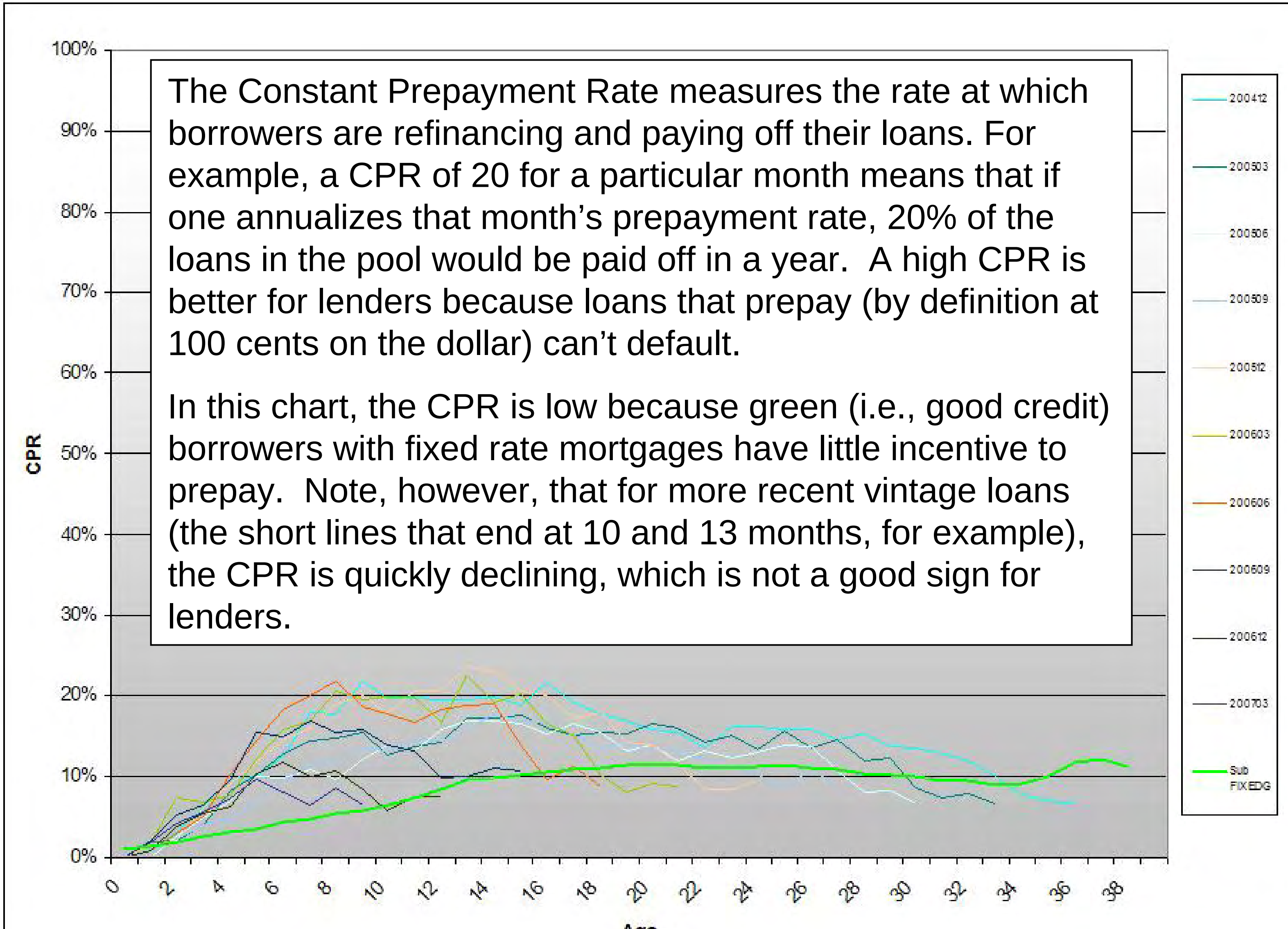
Source: Amherst Securities Group, L.P.

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



Source: Amherst Securities Group, L.P.

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



The Constant Prepayment Rate measures the rate at which borrowers are refinancing and paying off their loans. For example, a CPR 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 a year. A high CPR is better for lenders because loans that prepay (by definition at 100 cents on the dollar) can't default.

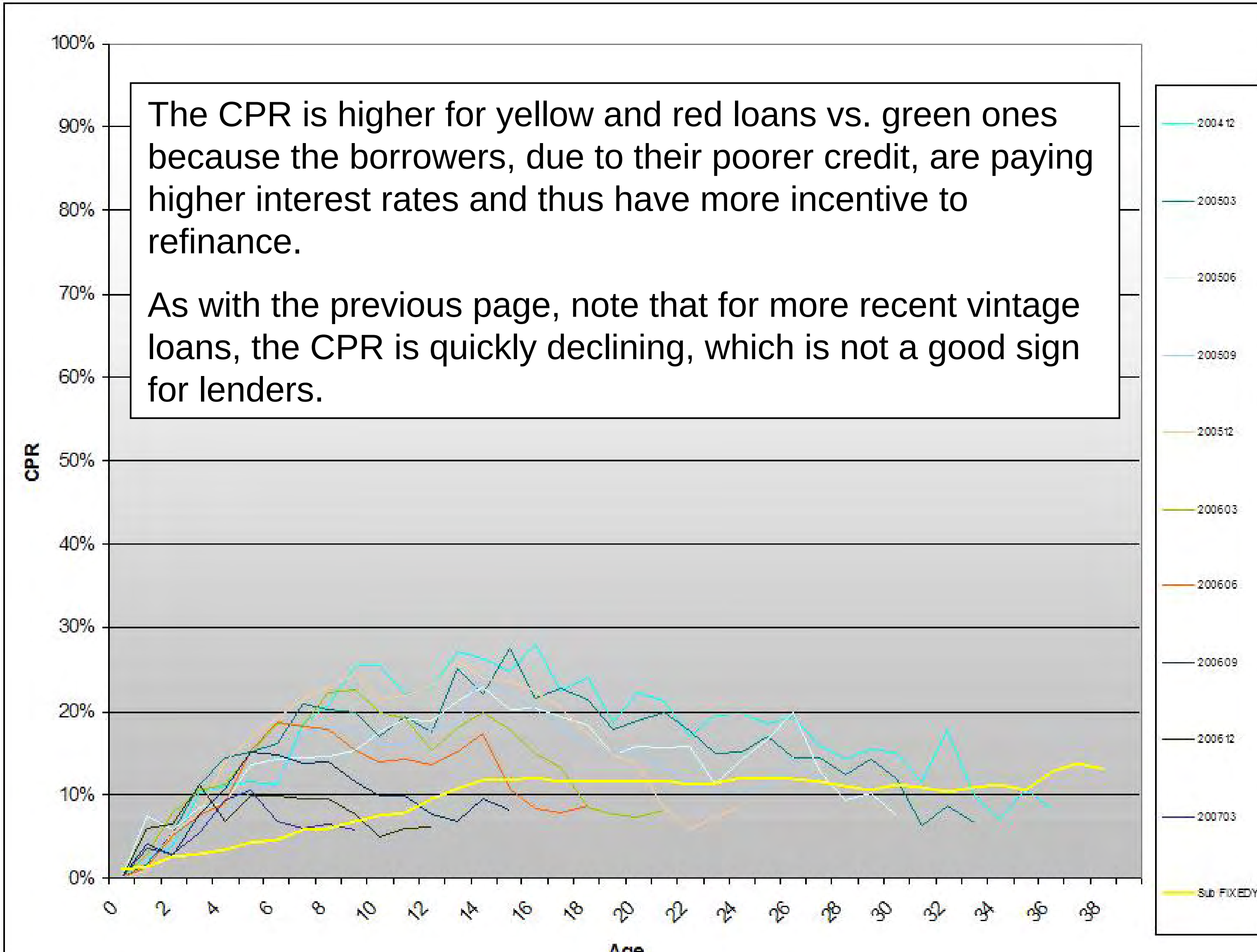
In this chart, the CPR is low because green (i.e., good credit) borrowers with fixed rate mortgages have little incentive to prepay. Note, however, that for more recent vintage loans (the short lines that end at 10 and 13 months, for example), the CPR is quickly declining, which is not a good sign for lenders.

Source: Amherst Securities Group, L.P.

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

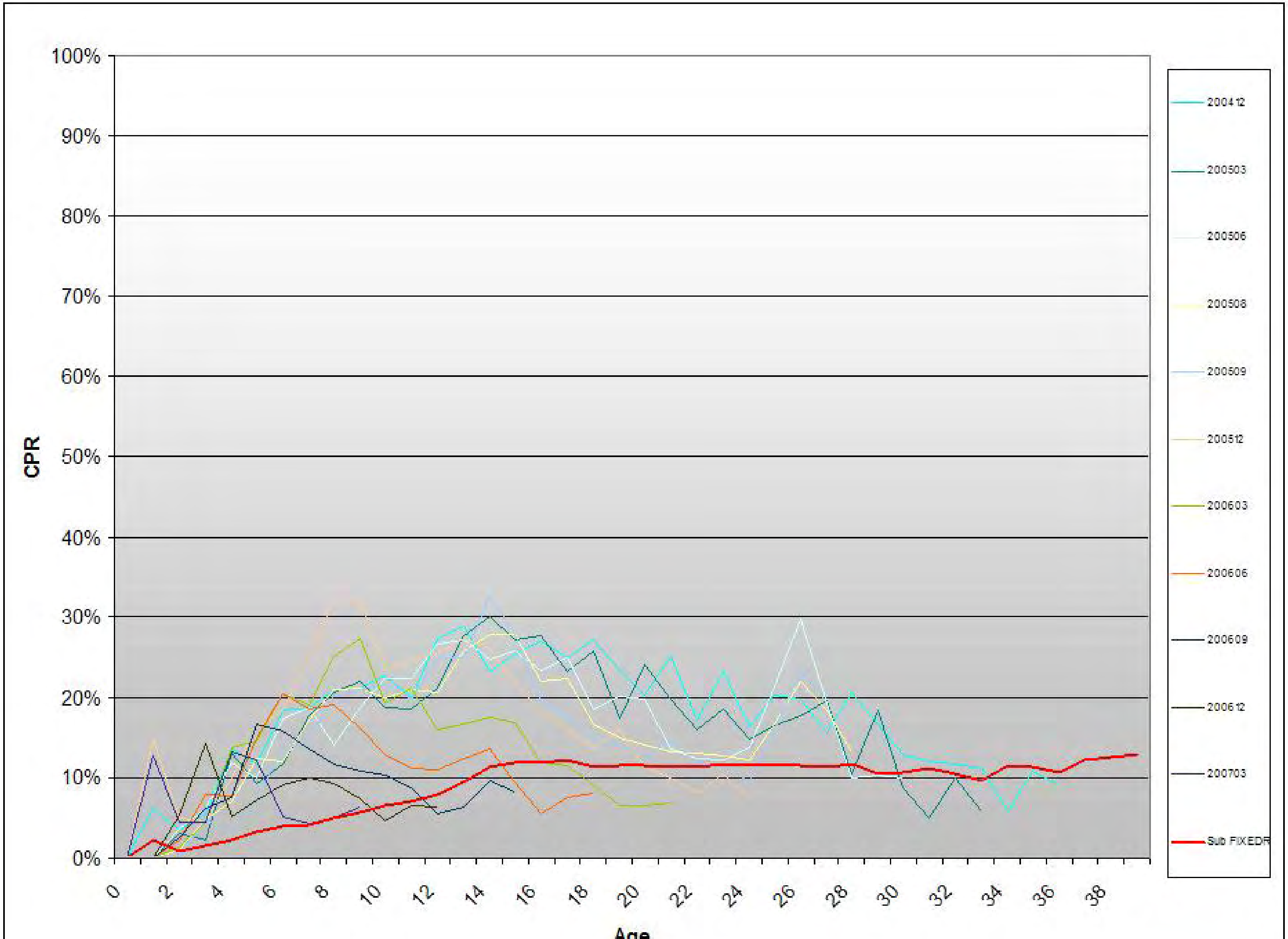
The CPR is higher for yellow and red loans vs. green ones because the borrowers, due to their poorer credit, are paying higher interest rates and thus have more incentive to refinance.

As with the previous page, note that for more recent vintage loans, the CPR is quickly declining, which is not a good sign for lenders.



Source: Amherst Securities Group, L.P.

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



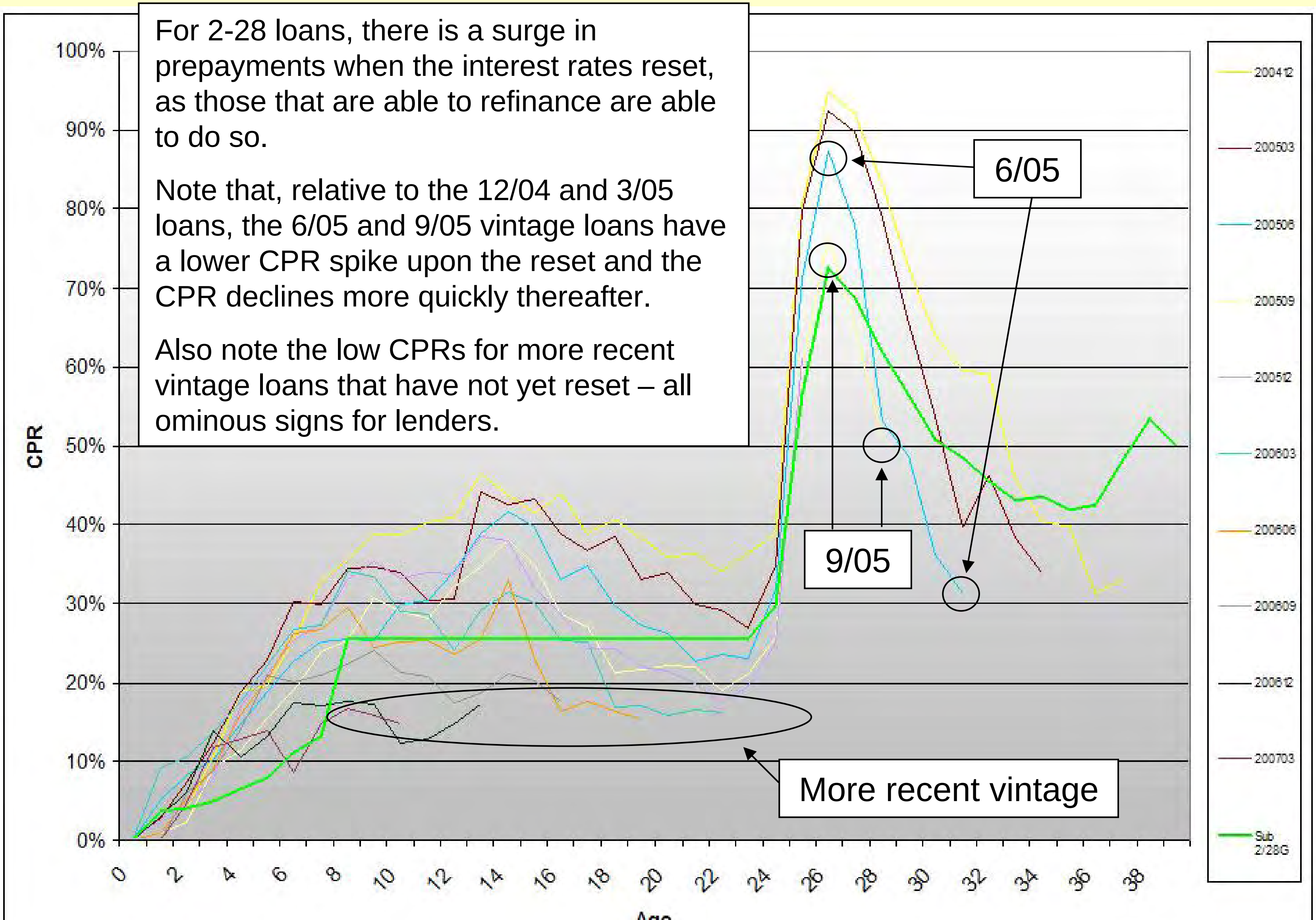
Source: Amherst Securities Group, L.P.

Constant 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 are able to do so.

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

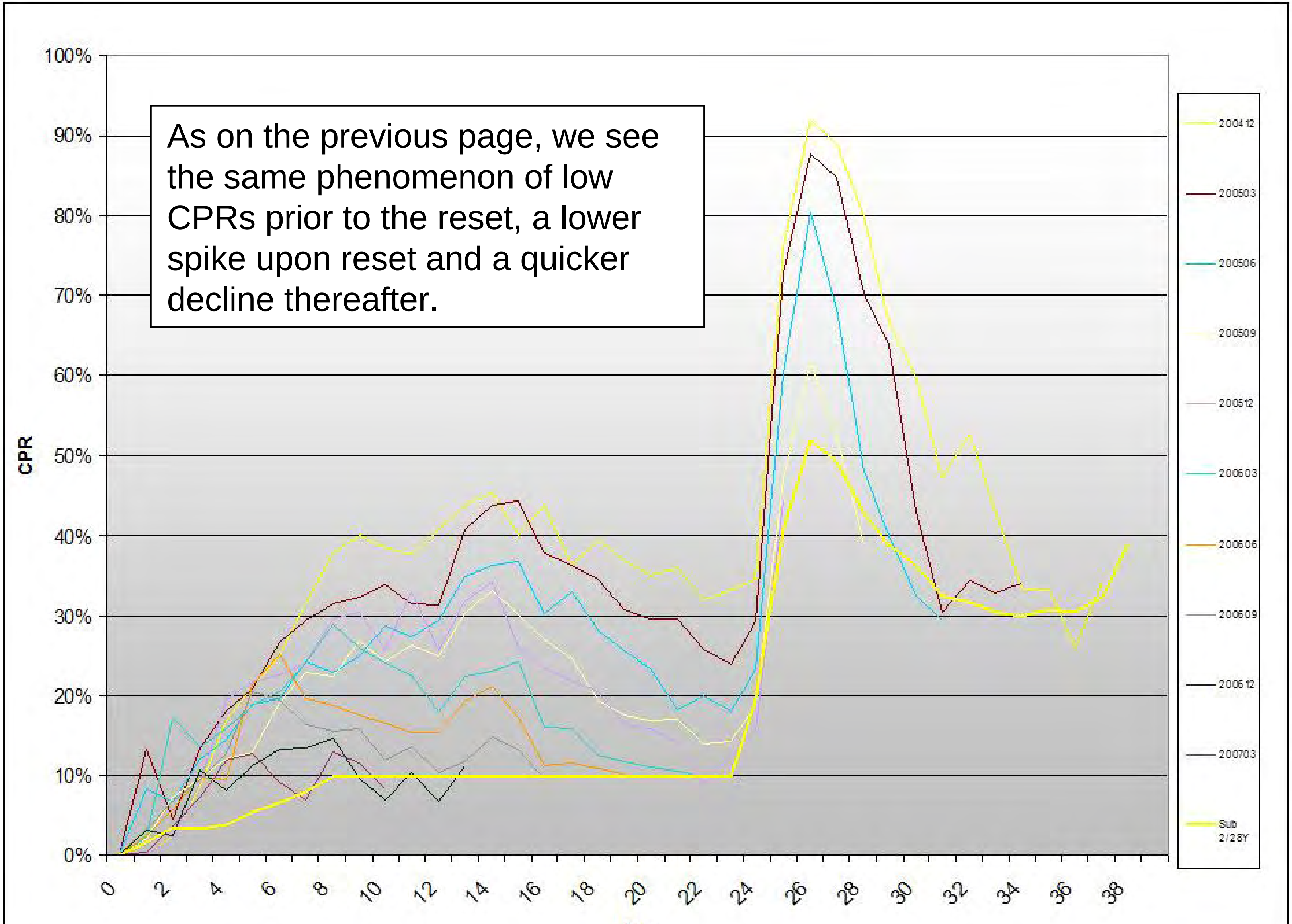
Also note the low CPRs for more recent vintage loans that have not yet reset – all ominous signs for lenders.



Source: Amherst Securities Group, L.P.

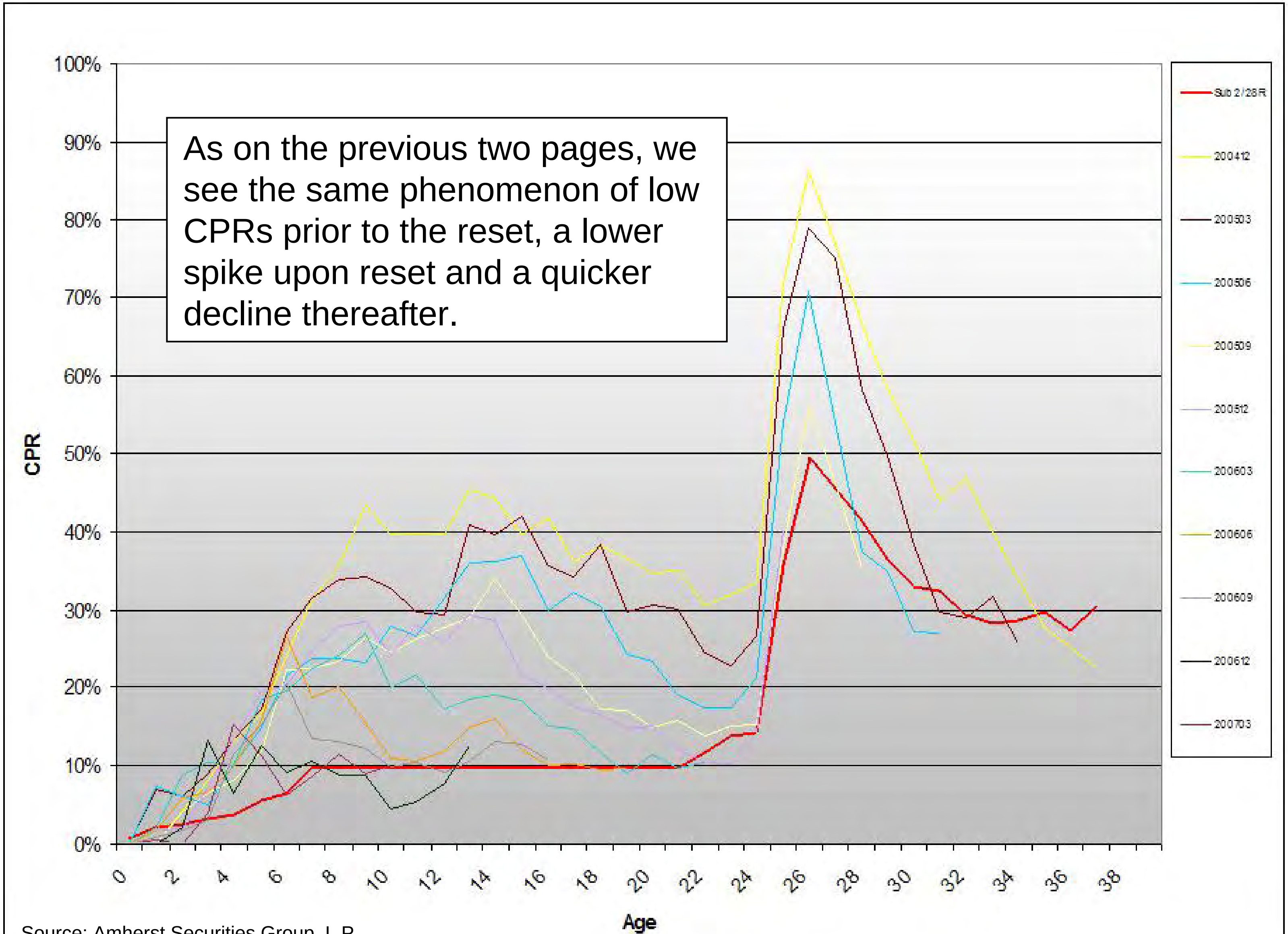
Constant Prepayment Rate for 2-28 Securitized Mortgage Loans (Yellow)

As on the previous page, we see the same phenomenon of low CPRs prior to the reset, a lower spike upon reset and a quicker decline thereafter.



Source: Amherst Securities Group, L.P.

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



Source: Amherst Securities Group, L.P.

Current MDR and CPR 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:	3.0%	5.8%	11.4%	16.6%	21.5%	26.2%	30.6%	34.8%	46.0%
CPR	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

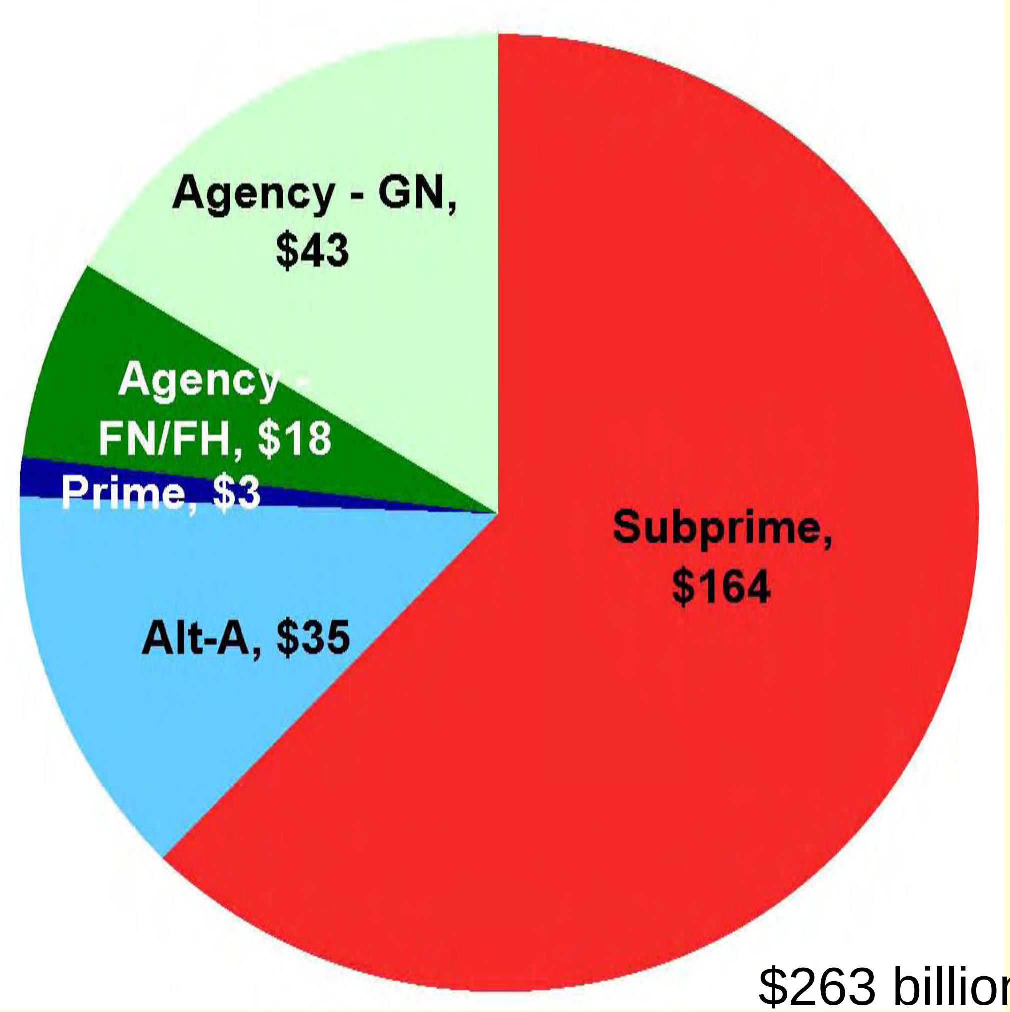
Late 2005 and thereafter, Green, fixed

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 CPR constant for that time period. Source: Amherst Securities Group, L.P.

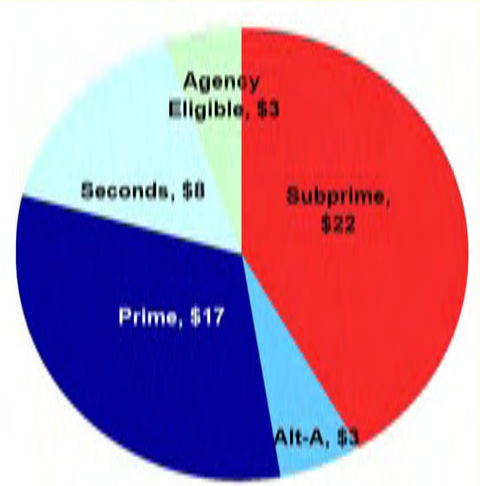
Mortgage Losses Are Likely to Exceed $300 Billion

Securitized Mortgage Losses
$ Billion (estimate)



$263 billion in total

Unsecuritized Mortgage Losses
$ Billion (estimate)



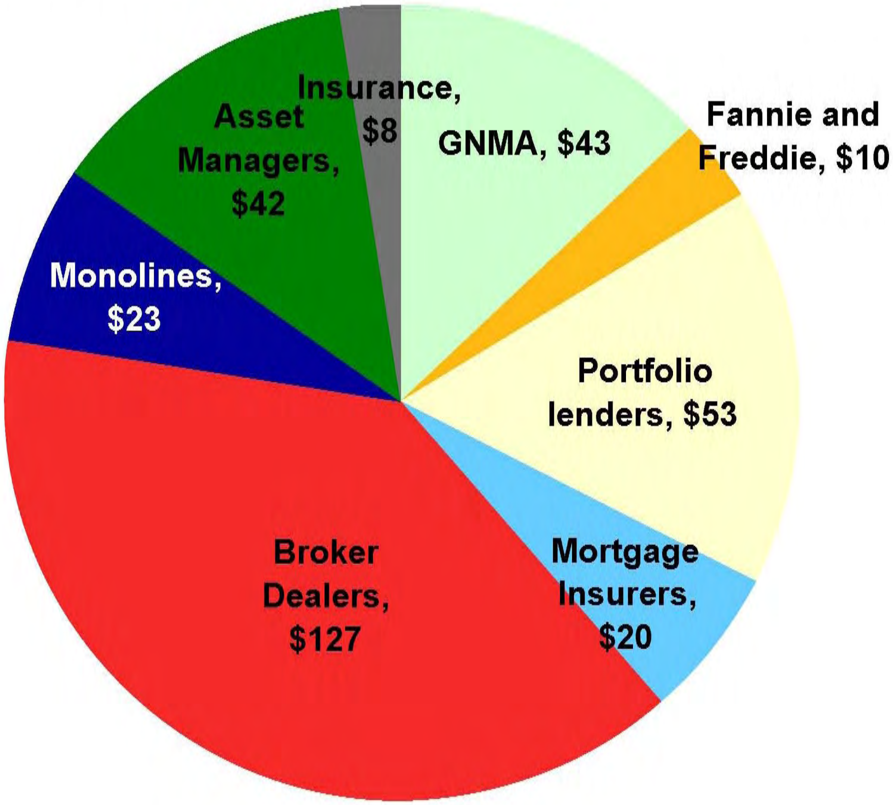
$53 billion in total

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

The Losses Will Be Widespread

Subprime Loss Distribution

$ Billion, Estimate



Selected Bank Writedowns, 3Q-4Q 2007

	Writedown	Credit loss	Total
Merrill Lynch	24.5		24.5
UBS	18.4		18.4
HSBC	0.9	9.8	10.7
Morgan Stanley	9.4		9.4
Bank of America	7	0.9	7.9
Washington Mutual	0.3	6.2	6.5
Credit Agricole	5		5
Wachovia	2.7	2	4.7
Societe Generale	3.6		3.6
JP Morgan Chase	1.6	1.6	3.2
CIBC	3.2		3.2
Barclays	2.7		2.7
Bear Stearns	2.6		2.6
RBS	2.5		2.5
Deusche Bank	2.3		2.3
WestLB	2		2
Lehman	1.5		1.5
National City	0.4	1	1.4
BNP Paribas	0.9	0.2	1.1
Credit Suisse	1		1
Total			146

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

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 (ABS)

Quick Review: What is a Securitization?

Originator of Mortgages
(for immediate sale)

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

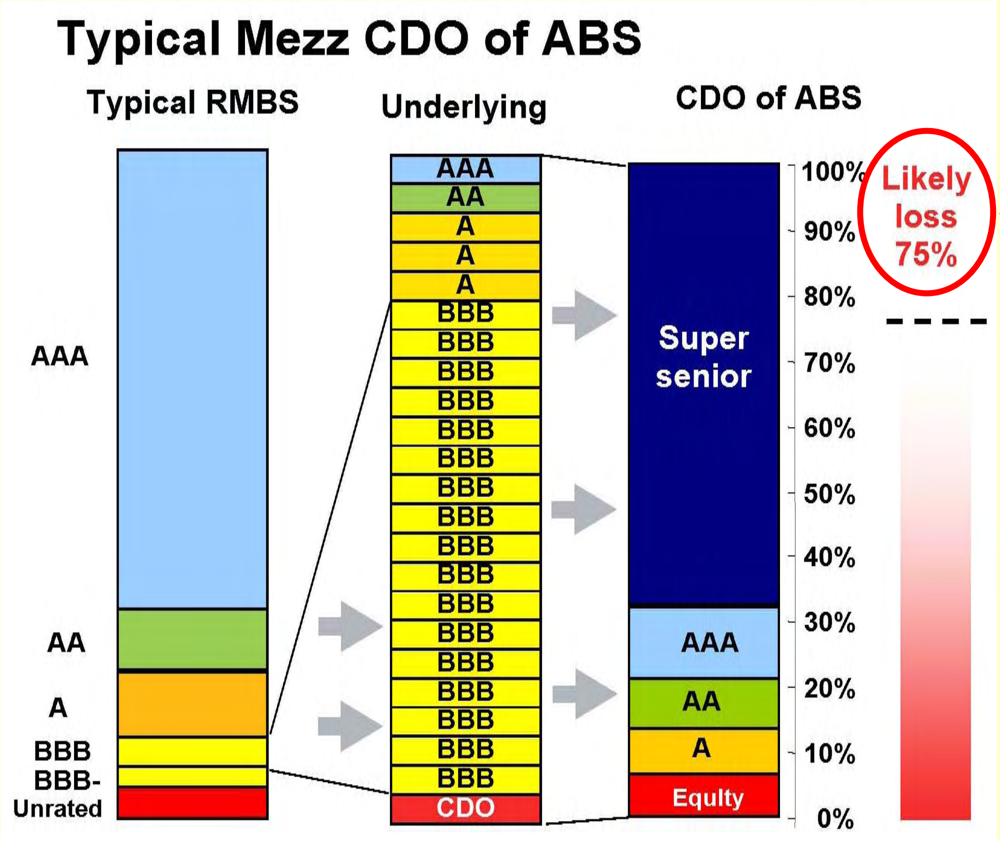
Sold to

Subprime Mortgage Backed Security Trust Structure

Bond Tranches *	Thickness of Tranche %	Thickness of Tranche 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.

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



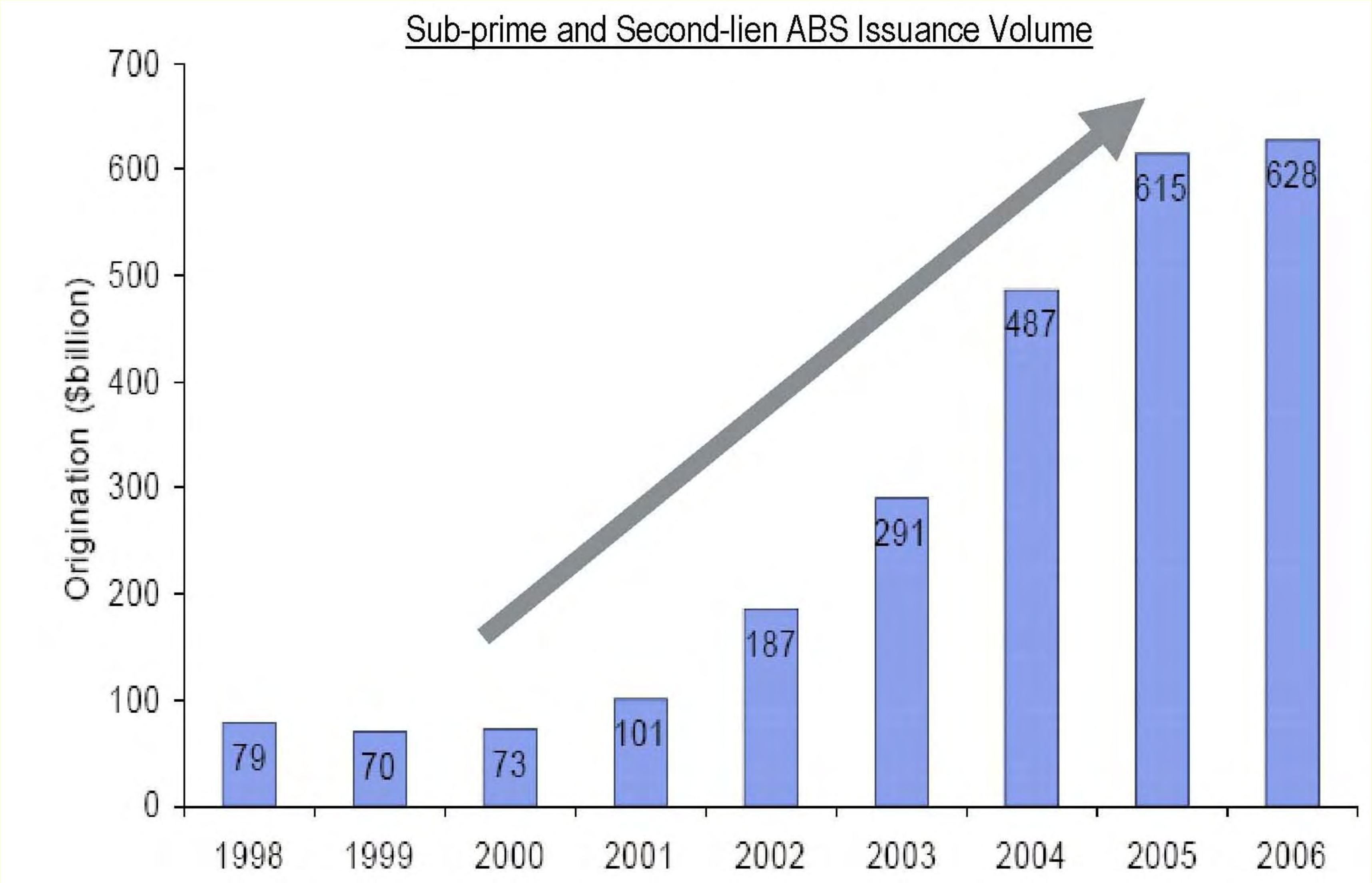
Loss rates of, say, 20%, in the underlying RMBS's can lead to catastrophic losses for a CDO

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.

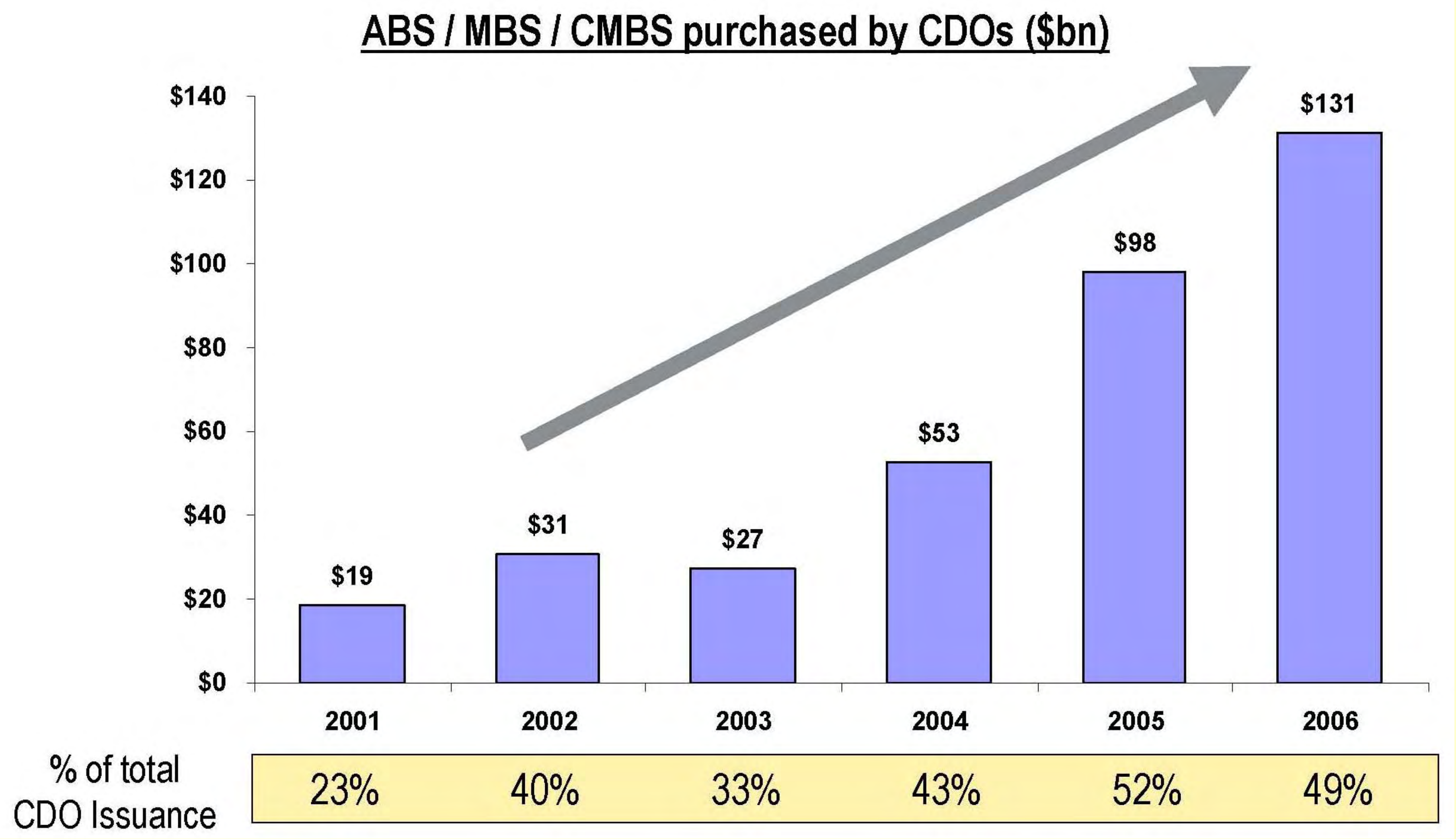
Source: Citigroup, All Clogged Up: What's Ailing the Financial System, 2/13/08.

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

MBIA's and Ambac's Exposures to CDOs and Risky Mortgages

MBIA Has Enormous Exposure to CDOs and Risky Mortgages

CDO Exposure (Net of Reinsurance):

Collateral Type	Net Par Outstanding ($B)
CDOs of High-Grade U.S. ABS	$16.1
CDOs of Mezzanine U.S. ABS	$3.0
CDO-Squareds	$8.7
Other Multi-Sector CDOs	$2.3
Investment Grade and Structured Corporate Credit	$43.2
High Yield Corporate	$13.9
CMBS and Commercial Real Estate	$43.2
Emerging Market	$0.2
CDO Total	$130.6
Direct RMBS Exposure	$43.4
Closed-End Seconds and HELOCs	$21.5
TOTAL	**$195.5**

Note: Funds managed by T2 Partners LLC are short Ambac and MBIA stock and own an interest in credit-default swaps on MBIA.

Sources: MBIA Prospectus, Form 424B5, filed 2/6/08 and Ambac Prospectus and 10-K, filed 3/5/08.

Ambac Also Has Enormous Exposure to CDOs and Risky Mortgages

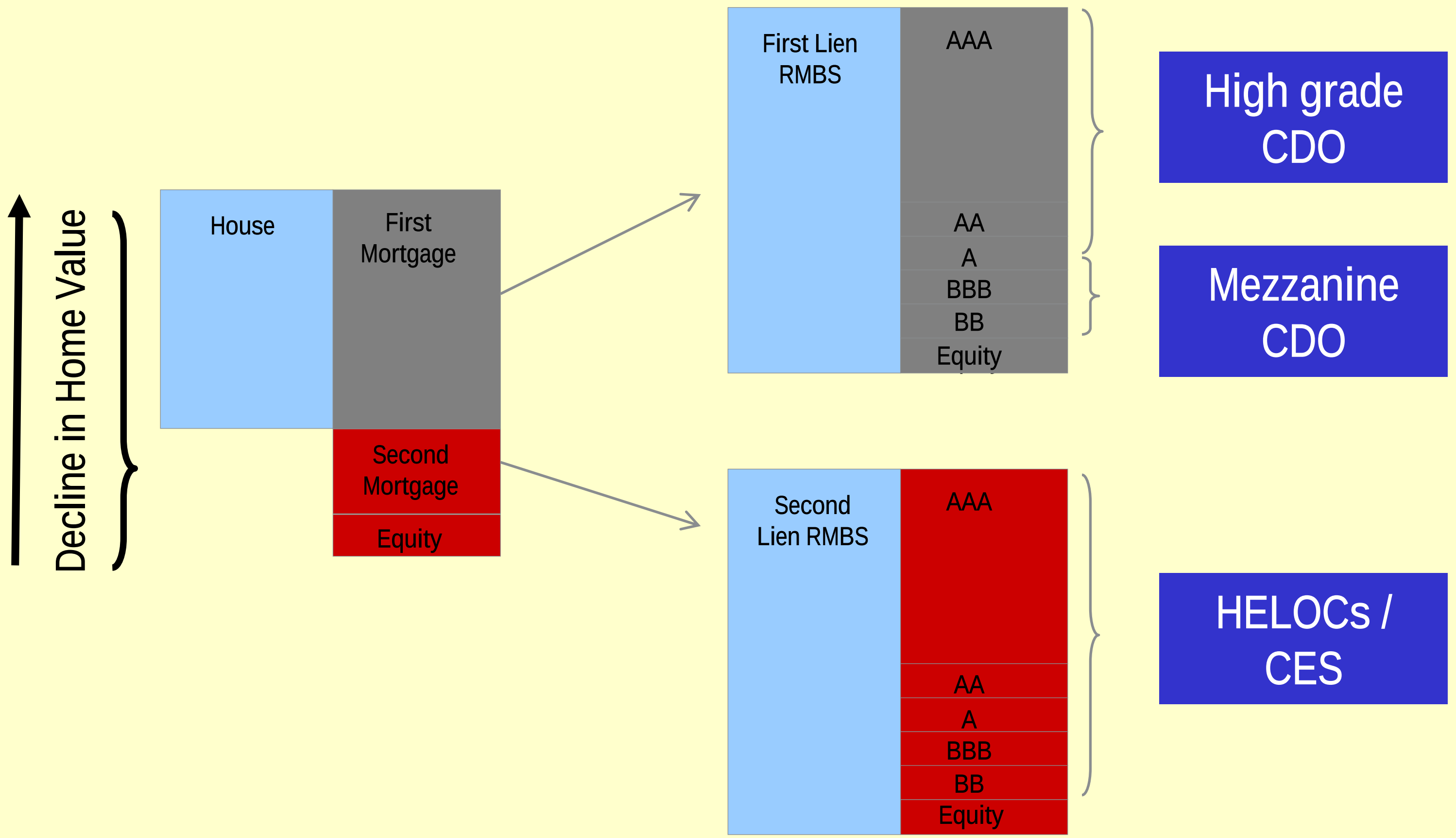
CDO Exposure (Net of Reinsurance): Collateral Type	Net Par Outstanding ($B)
CDOs of High-Grade U.S. ABS (> 25% MBS)	$26.1
CDOs of Mezzanine U.S. ABS (> 25% MBS)	$0.5
CDO-Squareds	$2.5
High Yield Corporate	$23.8
Market Value	$4.1
Investment Grade	$3.9
CDO of ABS < 25% MBS	$3.1
Other	$2.9
CDO Total	$66.9
Direct RMBS Exposure	$15.1
Closed-End Seconds and HELOCs	$17.3
TOTAL	**$99.3**

Note: Funds managed by T2 Partners LLC are short Ambac and MBIA stock and own an interest in credit-default swaps on MBIA.

Sources: MBIA Prospectus, Form 424B5, filed 2/6/08 and Ambac Prospectus and 10-K, filed 3/5/08.

Background on HELOCs and Closed-End Second Mortgages

Home Equity Lines of Credit (HELOC) and Closed-end Second Mortgages (CES) securitizations are junior to even the most subordinated tranches of a typical Mezzanine CDO. Bond Insurers typically insure HELOCs and CES to the underlying BBB level. 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
- Bond Insurers' underlying collateral is comprised of Second-liens which 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 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

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

A Closer Look at MBIA's Multi-Sector CDO Exposure

Year Issued	Deal Name	Ticker	Net Par Insured	Gross Par Insured	Reinsured Par?	Reinsured Percent?	RMBS	(Sub-Prime)	ABS	CMBS	Corp	CDO	Total
	CDOs of High Grade U.S. ABS containing RMBS Collateral												
2004	TBD - no expected losses		656				59%	(41%)	12%	2%	0%	27%	100%
2004	TBD - no expected losses		653				59%	(20%)	11%	6%	0%	24%	100%
2005	TBD - no expected losses		600				79%	(34%)	1%	1%	0%	20%	100%
2006	Broderick 2 CDO	BROD 2006-2A A1AD+A1AT	1,118	1,364	246	18.1%	76%	(20%)	0%	0%	0%	24%	100%
2006	ART CDO 2006-1	ARTHG 2006-1A A1S	828	826	(2)	-0.3%	72%	(37%)	2%	14%	0%	12%	100%
2006	Wadsworth CDO	WADS 2006-1A A1A	601	1,033	432	41.8%	72%	(24%)	0%	11%	0%	17%	100%
2006	Harp I CDO	HARP 2006-1A A1	723	871	148	16.9%	99%	(34%)	0%	1%	0%	0%	100%
2007	Jupiter V	JPTR 2007-5A A1	1,190	1,292	102	7.9%	70%	(25%)	0%	7%	0%	23%	100%
2007	Broderick 3	BROD 2007-3A A1	1,203	1,292	89	6.9%	72%	(16%)	0%	1%	0%	26%	100%
2007	Newbury Street	NWBRY 2007-1A A1	1,684	1,734	50	2.9%	53%	(51%)	0%	19%	0%	28%	100%
2007	Highridge ABS CDO I	HRIDG 2007-1A	1,177	1,297	120	9.2%	70%	(46%)	0%	0%	0%	30%	100%
2007	Faxtor HG 2007-1	FAXT 2007-1A A1M	950	1,007	57	5.6%	74%	(54%)	1%	1%	0%	24%	100%
2007	Longshore 2007-III	LNGSH 2007-3A A1	896	1,132	236	20.9%	52%	(27%)	0%	25%	0%	23%	100%
2007	Bernoulli II	BNLI 2007-2A A1A	563	750	187	24.9%	70%	(29%)	0%	0%	0%	30%	100%
2007	Silver Marlin I	MARLN 2007-1A A1	469	623	154	24.7%	69%	(31%)	2%	0%	0%	29%	100%
2007	Forge ABS High Grade CDO	FORGE 2007-1A A1	450	601	151	25.1%	70%	(18%)	0%	0%	0%	30%	100%
2007	West Trade III	WTRAD 2007-3A A1	1,015	1,250	235	18.8%	70%	(66%)	0%	0%	0%	30%	100%
2007	Tazlina II	TAZ 2007-2A A1	563	752	189	25.2%	69%	(21%)	0%	0%	0%	31%	100%
2007	Robeco High Grade I	ROBHG 2007-1A A1	413	552	139	25.1%	71%	(10%)	0%	0%	0%	29%	100%
2007	Biltmore 2007-1	BILTM 2007-1A A1	375	499	124	24.9%	63%	(7%)	0%	8%	0%	29%	100%
	Subtotal		*16,127*		*2,657*								
	CDOs of Mezzanine U.S. ABS containing RMBS Collateral												
2004	TBD - no expected losses		198				84%	(31%)	0%	7%	0%	9%	100%
2004	TBD - no expected losses		179				79%	(57%)	8%	12%	0%	1%	100%
2004	TBD - no expected losses		218				75%	(42%)	4%	12%	0%	10%	100%
2007	Sagittarius I	SAGIT 2007-1A	473	630	157	25.0%	92%	(42%)	0%	3%	0%	6%	100%
	Subtotal		*1,068*		*157*								
	CDOs of Multi-Sector High Grade Collateral												
2004	TBD - no expected losses		1,350				0%	(0%)	0%	0%	0%	100%	100%
2005	TBD - no expected losses		1,430				20%	(20%)	0%	0%	0%	80%	100%
2006	Logan II	LOGAN II-A	1,115	1,310	195	14.9%	24%	(22%)	0%	0%	0%	76%	100%
2006	Menton III	MENTO III-A	1,077	1,303	226	17.3%	21%	(21%)	4%	0%	0%	75%	100%
2007	Logan III	LOGAN III-A	990	1,275	285	22.4%	22%	(15%)	0%	0%	0%	78%	100%
2007	Menton IV - no expected losses	MENTO IV-A	2,175				0%	(0%)	0%	0%	0%	100%	100%
	Subtotal		*8,137*		*706*								
	Total		25,332	28,852	3,520								

Note: This chart is from Pershing Square's Open Source Model, released on 1/30/08. Subsequently, MBIA's prospectus filed on 2/6/08 showed that MBIA's multi-sector CDO exposure is actually $30.1 billion. CDOs of High Grade U.S. ABS were unchanged; CDOs of Mezzanine U.S. ABS were actually $3.0 billion (due to $1.9 billion of exposure from 2000-2003 not included in this chart); CDO Squareds were $8.7 billion; plus there were $0.8 billion of "Multi-Sector CDOs European Mezzanine & Other Collateral" and $1.6 billion of "Multi-Sector CDOs insured in the Secondary Market prior to 2005".

An Analysis of One CDO and One RMBS

A Closer Look at One CDO Whose Senior Tranche Is Guaranteed by MBIA

Longshore CDO Funding 2007-3 (LONGS073

Collateral Original		1,300,000,000				
Collateral Current		1,299,741,287				
		Remaining Par	%	Orig Rating	CE	CE $
Insured Class	A1	1,130,477,551	87.0%	AAA	13.0%	169,263,736
	A2	50,000,000	3.8%	AAA	9.2%	119,263,736
	A3	43,600,000	3.4%	AAA	5.8%	75,663,736
	B	37,700,000	2.9%	Aa2	2.9%	37,963,736
	C	18,200,000	1.4%	A2	1.5%	19,763,736
	D	10,013,736	0.8%	Baa2	0.8%	9,750,000
	Equity	9,750,000	0.8%	N/A	0.0%	-
	Total	1,299,741,287	100.0%			

MBIA has guaranteed the most senior tranche of the Longshore CDO

- MBIA's potential liability is $1.13 billion (before reinsurance)
- The most senior tranche has 13% credit enhancement (CE), totaling $169 million, meaning MBIA has no liability until the CDO suffers losses of this amount
  - However, MBIA is on the hook for 100% of the losses (before reinsurance) above this

Sources: Pershing Square, Amherst Holdings LLC.

A Closer Look at the Longshore 2007-III CDO

More than half of the Longshore CDO is backed by tranches from RMBS pools, more than half of which are subprime. The balance of Longshore is roughly equally split between tranches of CMBS pools and other CDOs (i.e., 23% of Longshore is a CDO-squared).

	%	Remaining Par ($ bln)
RMBS	25%	0.325
(Sub-Prime)	27%	0.351
ABS	0%	-
CMBS	25%	0.325
Corp	0%	-
CDO	23%	0.299
	100%	1.300

RMBS tranches account for 53.5% of Longshore's total value, or $683 million. These tranches are from RMBS pools with total assets of $27.5 billion. The tranches on average are 3.1% thick and have 13.6% credit enhancement.

		Remaining Par ($ bln)	Underlying Deal Balances ($ bln)	Wtd Thickness	Wtd CE
CMBS	23.7%	0.303	8.6	6.6%	11.8%
RMBS	53.5%	0.683	27.5	3.1%	13.6%
CDO	22.8%	0.291	3.3	14.2%	n/a
	100.0%	1.278	39.4	6.4%	

Sources: Pershing Square, Amherst Holdings LLC.

A Look at 35 of the 90 RMBS's Underlying the Longshore CDO

Prepayments have reduced the value of this pool from $1.099 billion to $818 million

Moody's *still* gives this tranche an investment-grade rating (S&P and Fitch have cut it to junk)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
1	Deal Full Name	CUSIP	Contribute BAL	% in CDO	Thickness	CCE	Orig Face	Cur Face	Deal Orig	Deal Curr	30	60	90	FCLS	REO	OCE	CCE	Moody Orig	Moody Curr	FICO	TYPE
2	ABFC 2006-OPT2 Trust	00075XAL1	10,000,000	51.98%	2.4%	11.4%	19,237,000	19,237,000	1,099,263,982	817,763,866	6.1	3.0	3.6	13.4	4.4	8.5	11.4	A2	Baa1	609	Subprir
3	ACE Securities Corp. Home	00442EAN5	10,000,000	41.63%	2.0%	9.0%	24,022,000	24,022,000	1,501,392,227	1,210,282,244	6.3	4.2	9.1	10.8	4.6	7.3	9.0	A2	Ba3	627	Subprir
4	ACE Securities Corp. Home	004424AG2	5,321,000	21.88%	3.2%	14.1%	24,321,000	24,321,000	853,364,263	750,019,187	5.2	4.3	9.3	10.7	6.1	12.6	14.1	Aa2	Aa2	644	Subprir
5	ACE Securities Corp. Home	004424AH0	2,000,000	13.02%	2.0%	12.1%	15,361,000	15,361,000	853,364,263	750,019,187	5.2	4.3	9.3	10.7	6.1	10.8	12.1	Aa3	Aa3	644	Subprir
6	BNC Mortgage Loan Trust 2	05569QAG9	3,000,000	5.91%	4.9%	15.9%	50,761,000	50,761,000	1,115,623,389	1,034,512,557	5.4	1.9	0.5	7.3	1.0	14.8	15.9	Aa2	Aa2	622	Subprir
7	Citigroup Mortgage Loan Tr	17312TAC7	1,000,000	9.02%	1.3%	9.2%	11,086,000	11,086,000	923,809,291	856,909,901	5.6	3.8	5.9	5.8	1.3	8.5	9.2	A3	Baa1	630	Subprir
8	Citigroup Mortgage Loan Tr	17311CAG6	2,000,000	25.59%	2.2%	13.4%	7,815,000	7,815,000	446,576,224	358,057,697	4.3	2.7	2.9	6.5	2.0	10.7	13.4	A1	A1	617	Subprir
9	Citigroup Mortgage Loan Tr	17311CAH4	3,000,000	36.32%	2.3%	11.0%	8,261,000	8,261,000	446,576,224	358,057,697	4.3	2.7	2.9	6.5	2.0	8.9	11.0	A2	A2	617	Subprir
10	CWABS Asset-Backed Certi	23245CAH3	12,000,000	30.00%	2.2%	12.2%	40,000,000	40,000,000	1,965,000,000	1,795,180,267	6.0	3.8	6.2	6.4	2.3	11.2	12.2	Aa3	Aa3	611	Subprir
11	CWABS Asset-Backed Certi	23245CAJ9	6,000,000	15.79%	2.1%	10.2%	38,000,000	38,000,000	1,965,000,000	1,795,180,267	6.0	3.8	6.2	6.4	2.3	9.3	10.2	A1	A3	611	Subprir
12	CWABS Asset-Backed Certi	23245CAL4	4,000,000	12.90%	1.7%	6.6%	31,000,000	31,000,000	1,965,000,000	1,795,180,267	6.0	3.8	6.2	6.4	2.3	6.0	6.6	A3	Ba3	611	Subprir
13	CWABS Asset-Backed Certi	12668NAH0	12,000,000	45.25%	1.9%	11.1%	26,520,000	26,520,000	1,529,580,100	1,398,664,760	5.1	3.6	5.2	6.5	1.6	10.2	11.1	Aa3	Aa3	611	Subprir
14	CWABS Asset-Backed Certi	12668NAL1	9,750,000	50.00%	1.4%	6.4%	19,500,000	19,500,000	1,529,580,100	1,398,664,760	5.1	3.6	5.2	6.5	1.6	5.9	6.4	A3	Ba3	611	Subprir
15	CWABS Asset-Backed Certi	12668KAG8	7,000,000	12.54%	5.3%	14.0%	55,819,000	55,819,000	1,150,000,100	1,061,692,624	5.1	3.5	5.4	6.7	1.4	13.0	14.0	Aa2	Aa2	611	Subprir
16	CWABS Asset-Backed Certi	126670ZS0	12,300,000	45.56%	2.4%	8.4%	27,000,000	27,000,000	1,780,200,100	1,117,991,479	5.7	3.6	6.7	7.2	6.2	5.5	8.4	A3	Baa2	608	Subprir
17	CWABS Asset-Backed Certi	045427AK7	15,000,000	50.00%	2.1%	8.0%	30,000,000	30,000,000	1,966,000,000	1,427,886,059	5.5	3.5	6.7	7.2	5.3	6.1	8.0	A3	Baa3	618	Subprir
18	CWABS Asset-Backed Certi	23243WAJ7	10,000,000	34.60%	2.2%	9.8%	28,900,000	28,900,000	1,670,250,200	1,291,226,326	6.3	4.5	6.9	8.5	4.6	7.6	9.8	A2	Baa2	607	Subprir
19	First Franklin Mortgage Loa	32027GAK2	10,000,000	63.51%	1.9%	7.7%	15,745,000	15,745,000	1,049,649,742	839,169,631	5.9	3.0	1.9	10.5	4.8	6.2	7.7	A2	Ba1	650	Subprir
20	FFMLT Trust 2006-FF13	30247DAK7	10,000,000	30.41%	1.9%	9.2%	32,885,000	32,885,000	2,121,593,397	1,742,324,558	5.7	3.4	2.8	10.2	5.3	7.6	9.2	A2	Baa3	650	Subprir
21	FFMLT Trust 2006-FF13	30247DAL5	10,000,000	32.51%	1.8%	7.5%	30,763,000	30,763,000	2,121,593,397	1,742,324,558	5.7	3.4	2.8	10.2	5.3	6.2	7.5	A3	Ba2	650	Subprir
22	First Franklin Mortgage Loa	32027LAL9	10,000,000	59.30%	1.7%	7.4%	16,862,000	16,862,000	1,162,896,346	964,135,094	5.7	3.2	2.4	10.6	4.8	6.2	7.4	A2	Ba1	650	Subprir
23	FFMLT Trust 2006-FF3	362334AZ7	6,500,000	39.73%	2.6%	15.0%	16,361,000	16,361,000	991,521,456	627,517,196	5.6	3.9	3.0	10.8	7.0	9.5	15.0	A1	A1	651	Subprir
24	First Franklin Mortgage Loa	320277AL0	1,000,000	5.39%	2.2%	8.6%	18,563,000	18,563,000	1,160,173,452	831,687,145	5.9	3.2	2.6	10.4	7.4	6.3	8.6	A2	Ba1	650	Subprir
25	GSAMP Trust 2007-H1	36245YAG9	6,069,000	100.00%	2.2%	15.2%	6,069,000	6,069,000	303,480,539	274,412,774	5.9	3.8	3.4	8.7	3.5	13.8	15.2	Aa3	Aa3	644	Subprir
26	GSAMP Trust 2007-H1	36245YAH7	5,615,000	100.00%	2.0%	13.2%	5,615,000	5,615,000	303,480,539	274,412,774	5.9	3.8	3.4	8.7	3.5	11.9	13.2	A1	A1	644	Subprir
27	Home Equity Asset Trust 20	437084VV5	10,000,000	39.06%	2.8%	12.6%	25,600,000	25,600,000	1,584,800,100	925,658,495	5.8	3.6	4.7	11.3	5.9	7.8	12.6	A2	A3	627	Subprir
28	Home Equity Asset Trust 20	43709NAL7	10,000,000	53.48%	2.2%	9.6%	18,700,000	18,700,000	1,080,750,100	848,376,866	6.2	5.0	7.6	11.5	4.8	8.0	9.6	A2	B2	635	Subprir
29	Home Equity Asset Trust 20	43710LAG9	10,750,000	30.71%	4.1%	15.5%	35,000,000	35,000,000	980,000,100	861,845,968	5.9	4.9	5.1	10.8	3.1	13.9	15.5	NA	Aa2	638	Subprir
30	Home Equity Mortgage Trus	43710DAE2	2,000,000	2.78%	9.4%	100.0%	72,000,000	72,000,000	879,750,200	761,973,863	4.8	3.8	6.8	0.0	0.0	100.0	100.0	Aaa	Aaa	686	Subprir
31	HSI Asset Securitization Cor	40431JAG8	2,398,000	9.63%	3.9%	16.1%	24,898,000	24,898,000	778,075,841	643,353,579	6.8	2.3	3.0	11.4	2.6	13.3	16.1	Aa2	Aa2	610	Subprir
32	HSI Asset Securitization Cor	40431JAH6	2,323,000	15.31%	2.4%	13.7%	15,173,000	15,173,000	778,075,841	643,353,579	6.8	2.3	3.0	11.4	2.6	11.4	13.7	Aa3	Aa3	610	Subprir
33	HSI Asset Securitization Cor	40431JAJ2	2,750,000	19.64%	2.2%	11.6%	14,005,000	14,005,000	778,075,841	643,353,579	6.8	2.3	3.0	11.4	2.6	9.6	11.6	A1	A2	610	Subprir
34	HSI Asset Securitization Cor	40431JAL7	1,500,000	14.28%	1.6%	7.9%	10,504,000	10,504,000	778,075,841	643,353,579	6.8	2.3	3.0	11.4	2.6	6.5	7.9	A3	Ba1	610	Subprir
35	MASTR Asset Backed Secur	57643LNL6	10,000,000	70.50%	2.9%	16.4%	14,185,000	14,185,000	915,168,720	497,547,144	5.5	1.9	5.1	15.5	7.6	9.2	16.4	A2	A3	632	Subprir
36	Merrill Lynch Mortgage Inve	59020UQX6	1,000,000	1.69%	19.3%	46.9%	59,289,000	59,289,000	1,852,807,586	306,741,689	4.0	2.6	6.0	6.5	3.1	8.1	46.9	A2	A2	648	Subprir

Source: Amherst Holdings LLC.

1 of the 90 RMBS Tranches Underlying the Longshore CDO: The M5 Tranche of the ABFC 2006-OPT2 Trust

Tranche (M5) Owned by Longshore CDO

There is $92.9 million beneath it

NAME	CUSIP	ORIGINAL	CURRENT	COUPON	ORIGCE	CURRCE	EXCESSINT
A1	00075XAA5	232,459,000.00	158,128,304.30	3.52	21.20%	28.50%	2,110,259.50
A2	00075XAB3	232,465,000.00	143,734,773.30	3.52	21.20%	28.50%	2,110,259.50
A3A	00075XAC1	205,493,000.00	87,053,706.48	3.44	21.20%	28.50%	2,110,259.50
A3B	00075XAD9	52,911,000.00	52,911,000.00	3.49	21.20%	28.50%	2,110,259.50
A3C	00075XAE7	96,963,000.00	96,963,000.00	3.53	21.20%	28.50%	2,110,259.50
A3D	00075XAF4	45,929,000.00	45,929,000.00	3.60	21.20%	28.50%	2,110,259.50
M1	00075XAG2	49,466,000.00	49,466,000.00	3.63	16.70%	22.45%	2,110,259.50
M2	00075XAH0	30,622,000.00	30,622,000.00	3.67	13.91%	18.70%	2,110,259.50
M3	00075XAJ6	21,593,000.00	21,593,000.00	3.73	11.95%	16.06%	2,110,259.50
M4	00075XAK3	19,237,000.00	19,237,000.00	3.75	10.20%	13.71%	2,110,259.50
M5	00075XAL1	19,237,000.00	19,237,000.00	3.78	8.45%	11.36%	2,110,259.50
M6	00075XAM9	18,687,000.00	18,687,000.00	3.83	6.75%	9.07%	2,110,259.50
M7	00075XAN7	17,039,000.00	17,039,000.00	4.16	5.20%	6.99%	2,110,259.50
M8	00075XAP2	10,443,000.00	10,443,000.00	4.38	4.25%	5.71%	2,110,259.50
M9	00075XAQ0	8,794,000.00	8,794,000.00	5.28	3.45%	4.64%	2,110,259.50
B	00075XAR8	10,993,000.00	10,993,000.00	5.88	2.45%	3.29%	2,110,259.50
P	ABFUIOJX1	100.00	100.00	0.00			2,110,259.50
CE	ABFKWOSW0	26,932,882.03	26,932,982.03	0.00			2,110,259.50

There was 8.45% credit enhancement when this RMBS was created, but this has risen to 11.37% thanks to prepayments

There is $2.1 million of monthly excess interest available to absorb losses (because homeowners pay a higher interest rate than the Trust does)

Source: Amherst Holdings LLC.

The ABFC 2006-OPT2 Trust is in Big Trouble

- The average loan is only *17 months old* and *almost no loans have hit their reset date*
  - $526 million of loans (64.4% of the remaining pool) have interest rate resets in July and August, 2008
- Despite this, the Trust is already in big trouble:
  - 6.0% of the loans are 30 days delinquent
  - 2.9% are 60 days delinquent
  - 2.2% are 90 days delinquent
  - 13.4% are in foreclosure and
  - 4.4% are real estate owned
  - 1.8% are homeowners in bankruptcy
- Thus, 20.0% are 90 days delinquent or worse
  - Virtually all of these loans will result in the home being auctioned
  - On average, it takes 15 months from the date of the first missed payment to the liquidation event (auction)
  - Recoveries are averaging 50-60%
  - Losses to date have only been $3.0 million

Source: Amherst Holdings LLC.

Characteristics of the ABFC 2006-OPT2 Trust

- 44.1% of loans are in states hit hardest by the bursting of the housing bubble: California, Nevada, Florida and Arizona
- Only 14.4% of performing loans are fixed rate
- 38.7% are low/no doc
- 61.3% are refi (cash out), 32.0% are purchases, 6.7% are refi (no cash out)
- No loans are insured
- Of loans 90 days or more delinquent, 34.3% are green, 26.7% are yellow and 39.0% are red
- Of performing loans (including 30 and 60 day delinquencies), 49.1% are green, 20.6% are yellow and 30.3% are red
- Once loans become delinquent, few become current again. For loans made in 2005 and 2006:
  - 55% of 30 day delinquent loans become 60 days delinquent
  - 75% of 60 day delinquent loans become 90 days delinquent
  - An even higher percentage of 90 day delinquent loans go into foreclosure and REO

Source: Amherst Holdings LLC.

Distribution of the Remaining, Performing Loans in the ABFC 2006-OPT2 Trust

Full Doc Loans

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
700 - 1100	0.1%	0.0%	0.1%	0.1%	0.3%	0.5%	0.0%	2.2%
680 - 700	0.1%	0.0%	0.0%	0.0%	0.2%	0.3%	0.2%	0.8%
660 - 680	0.1%	0.2%	0.1%	0.0%	0.6%	0.4%	0.2%	0.9%
640 - 660	0.2%	0.2%	0.1%	0.3%	0.8%	0.7%	0.6%	1.5%
620 - 640	0.7%	0.4%	0.3%	0.5%	1.5%	0.9%	0.5%	2.6%
600 - 620	0.2%	0.3%	0.9%	0.2%	1.8%	0.8%	0.0%	3.4%
580 - 600	0.3%	0.5%	0.6%	0.7%	1.3%	1.9%	0.4%	6.1%
560 - 580	0.3%	0.5%	0.5%	0.4%	1.0%	1.0%	0.3%	2.5%
540 - 560	0.2%	0.5%	0.2%	0.4%	0.4%	0.4%	0.1%	0.3%
520 - 540	0.7%	0.4%	0.3%	1.0%	1.1%	0.9%	0.4%	2.0%
500 - 520	0.3%	0.3%	0.4%	0.4%	0.8%	0.4%	0.1%	0.2%
480 - 500	0.3%	0.2%	0.2%	0.2%	0.3%	0.6%	0.1%	1.2%
460 - 480	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
0 - 460	0.2%	0.1%	0.2%	0.1%	0.4%	0.2%	0.0%	0.5%

Green:	28.5%
Yellow:	11.0%
Red:	21.8%
Total Full Doc:	61.3%

Low/No Doc Loans

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
700 - 1100	0.1%	0.1%	0.1%	0.2%	0.2%	0.5%	0.2%	2.1%
680 - 700	0.0%	0.1%	0.4%	0.1%	0.2%	0.2%	0.1%	0.9%
660 - 680	0.2%	0.0%	0.0%	0.2%	0.6%	0.5%	0.6%	1.1%
640 - 660	0.2%	0.1%	0.7%	0.4%	0.6%	1.0%	0.4%	1.3%
620 - 640	0.2%	0.3%	0.3%	0.3%	1.3%	0.8%	0.4%	0.9%
600 - 620	0.1%	0.4%	0.6%	0.6%	1.1%	0.4%	0.2%	0.5%
580 - 600	0.4%	0.4%	0.3%	0.5%	1.0%	0.9%	0.2%	0.8%
560 - 580	0.4%	0.2%	0.2%	0.5%	0.5%	0.2%	0.0%	0.1%
540 - 560	0.2%	0.2%	0.3%	0.1%	0.6%	0.0%	0.0%	0.1%
520 - 540	0.4%	0.5%	0.3%	0.3%	1.0%	0.7%	0.4%	0.9%
500 - 520	0.4%	0.1%	0.2%	0.1%	0.5%	0.1%	0.1%	0.0%
480 - 500	0.2%	0.2%	0.0%	0.1%	0.5%	0.2%	0.0%	0.4%
460 - 480	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
0 - 460	0.0%	0.1%	0.2%	0.1%	0.3%	0.0%	0.2%	0.4%

Green:	16.3%
Yellow:	9.0%
Red:	13.4%
Total Low Doc:	38.7%

Source: Amherst Holdings LLC.

S&P's Projected Lifetime Delinquency Rates for Loans With Characteristics of Those Remaining in the ABFC 2006-OPT2 Trust

Full Doc Loans
(61.3% of the Trust)

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
700 - 1100	0.4%	0.0%	0.3%	1.5%	1.6%	1.5%	1.5%	1.8%
680 - 700	1.1%	0.7%	0.0%	1.2%	1.2%	1.7%	2.5%	2.8%
660 - 680	1.5%	1.0%	2.6%	3.6%	3.3%	3.8%	2.9%	3.9%
640 - 660	1.4%	1.4%	1.5%	2.3%	2.4%	5.1%	4.3%	5.8%
620 - 640	3.8%	2.7%	4.8%	3.7%	4.4%	7.0%	8.2%	7.6%
600 - 620	4.8%	4.9%	7.5%	5.1%	9.1%	5.6%	0.0%	11.3%
580 - 600	6.8%	9.1%	12.9%	9.3%	9.8%	11.0%	14.8%	15.9%
560 - 580	7.2%	11.5%	8.7%	8.1%	9.1%	15.7%	21.0%	16.8%
540 - 560	12.3%	11.4%	9.2%	11.5%	12.7%	15.1%	21.0%	20.3%
520 - 540	13.5%	11.6%	12.1%	18.3%	15.4%	21.2%	25.8%	20.1%
500 - 520	10.9%	11.0%	12.9%	12.3%	16.6%	19.7%	17.1%	20.2%
480 - 500	18.6%	17.3%	19.3%	18.8%	21.3%	23.3%	27.1%	19.1%
460 - 480	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
0 - 460	17.9%	17.1%	17.3%	19.7%	19.4%	23.8%	20.3%	18.4%

Low/No Doc Loans
(38.7% of the Trust)

FICO/CLTV	0-65	65-70	70-75	75-80	80-85	85-90	90-95	95-100
700 - 1100	0.5%	1.1%	0.8%	1.4%	1.6%	2.6%	3.0%	3.2%
680 - 700	1.1%	1.0%	1.5%	2.2%	4.3%	3.4%	4.4%	4.7%
660 - 680	1.3%	1.1%	0.0%	1.8%	2.3%	3.2%	4.7%	7.4%
640 - 660	1.7%	1.6%	2.0%	2.3%	2.6%	6.0%	3.6%	9.6%
620 - 640	3.6%	3.5%	3.5%	5.4%	5.3%	8.0%	7.6%	16.7%
600 - 620	4.9%	7.6%	8.9%	7.5%	7.5%	9.6%	14.3%	16.4%
580 - 600	14.4%	9.0%	9.1%	10.2%	12.4%	22.4%	23.0%	25.7%
560 - 580	7.4%	14.5%	8.6%	11.4%	13.3%	25.6%	30.0%	22.8%
540 - 560	8.4%	7.3%	19.6%	15.0%	15.6%	0.0%	14.3%	21.7%
520 - 540	12.1%	14.5%	22.0%	13.8%	16.7%	28.5%	29.0%	29.0%
500 - 520	11.5%	12.0%	14.0%	13.8%	19.6%	28.3%	25.0%	17.3%
480 - 500	21.3%	21.4%	0.0%	23.4%	25.7%	28.9%	30.0%	29.8%
460 - 480	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
0 - 460	17.3%	19.2%	23.4%	24.3%	24.3%	30.0%	29.3%	28.8%

The 20% defaults in the first 17 months are only the tip of the iceberg

Source: Amherst Holdings LLC.

Conclusions Regarding the M5 Tranche of the ABFC 2006-OPT2 Trust

- The M5 tranche owned by the Longshore CDO is 2.4% thick and is senior to 11.4% of the Trust (there is only $92.9 million subordinate to this tranche)
- In only 17 months, the Trust has already lost $3 million and has $160 million in default – in total, an expected accumulated loss of $83mm (assuming a 50% loss on the defaulted loans)
- $83 million is nearly all of the $92.9 million subordinate to the M5 tranche – yet there are 343 months to go and the bulk of the loans have not hit their reset date
- **Thus, we believe that it is nearly certain that 100% of this tranche will be wiped out**
  - Yet Moody's still has it rated as investment grade (Baa1) (S&P and Fitch have cut it to junk) (funds managed by T2 Partners LLC are short Moody's)
- Amherst Securities is pricing a tranche like this as the present value of 2-3 years of interest payments only (i.e., around *6-9 cents on the dollar*)

Implications for the Longshore CDO

- We believe that the M5 tranche of the ABFC 2006-OPT2 Trust is fairly typical of the RMBS tranches that account for 53.5% of the value of the Longshore CDO, based on the data in the default, foreclosure, REO and credit enhancement columns of the table on page 66
  - If so, most are worthless, but a few might end up being worth something, so let's assume a 2/3 loss, which equals 35% of Longshore (2/3 of 53.5%)
- The CMBS pools, the tranches of which account for 25% of Longshore, are not showing any losses (in part because they are all recent 2006 and 2007 vintage)
  - The CMBS market is currently under tremendous stress, but to be conservative, let's assume no losses (though there surely will be some)
- As for CDO-squareds, which account for 23% of Longshore, if CDOs like Longshore are severely impacted, then CDO-squareds (which in Longshore's case have a weighted thickness of 14.2%; see lower chart on page 65), are worthless
- In summary, we estimate that Longshore will incur losses of 55-60% of the original collateral of $1.3 billion, or $720-$780 million
  - This is in the ballpark of the $649 million loss estimated in Pershing Square's Open Source Model

Implications for MBIA's Guarantee of the Longshore CDO

- If our estimate is correct that Longshore will incur losses of \$720-\$780 million, then after subtracting the credit enhancement of \$169 million (see page 64), **<u>MBIA faces gross losses of \$551-\$611 million</u>**
- MBIA has reinsured 20.9% of Longshore (see page 62), which would result in net losses of \$436-483 million
  - However, we doubt that MBIA's CDO reinsurance is worth much, given that 54% of MBIA's reinsurance and a higher percentage of its CDO reinsurance is with Channel Re, a captive reinsurer that we believe is insolvent (its majority owners recently wrote down their stake in Channel Re to zero)

MBIA has not taken *any writedowns* on its \$16.1 billion of exposure to CDOs of High-Grade U.S. ABS

Implications for MBIA and Ambac

- MBIA and Ambac each have $30-$32 billion of exposure to CDOs
- Based on the analysis on the preceding pages, we believe that the loss estimates in Pershing Square's Open Source Model are likely to be conservative:

Open Source Model Summary of MBIA's Projected Losses

Collateral Type	Loss to Net Par Insured	Loss to Gross Par Insured
ABS CDOs	$5,737,633,669	$6,665,622,522
Closed End Seconds *	$2,809,578,386	$2,809,578,386
HELOCs *	$2,948,599,126	$2,948,599,126
Direct Subprime *	$8,503,314	$8,503,314
Direct Alt/A *	$129,499,794	$129,499,794
Total	**$11,633,814,290**	**$12,561,803,143**

Open Source Model Summary of Ambac's Projected Losses

Collateral Type	Loss
ABS CDOs	$6,953,052,235
Additional CDO^2 Commitment	$498,340,000
Closed End Second Liens	$1,884,250,534
HELOCs	$1,002,312,957
Direct Subprime	$700,692,535
Direct Alt/A	$566,891,094
Total	**$11,605,539,355**