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### **Bear Stearns Fixed Income Overview**

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Tom Marano

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# Fixed Income Overview

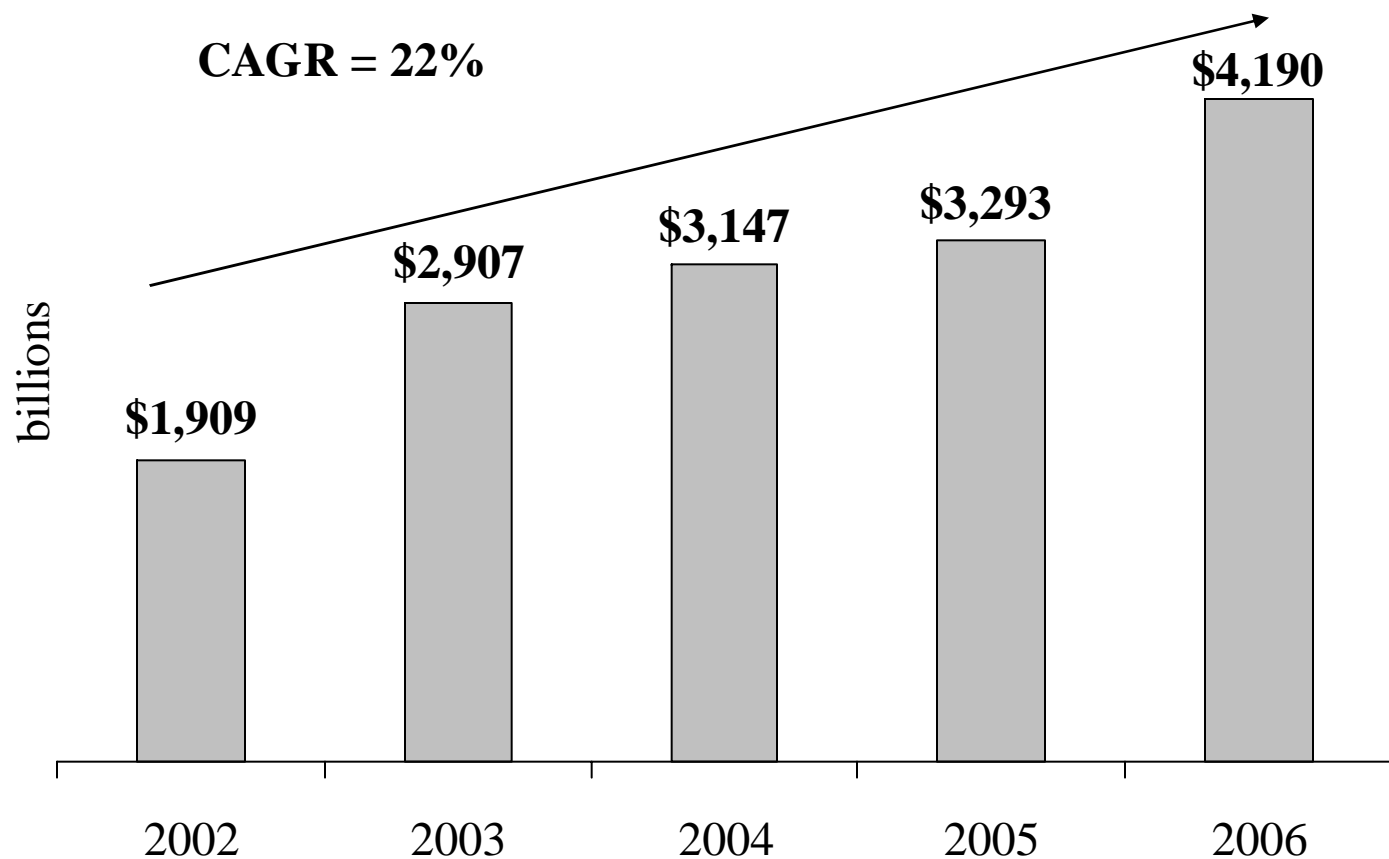
Jeff Mayer

*Co-Head of Global Fixed Income*

Tom Marano

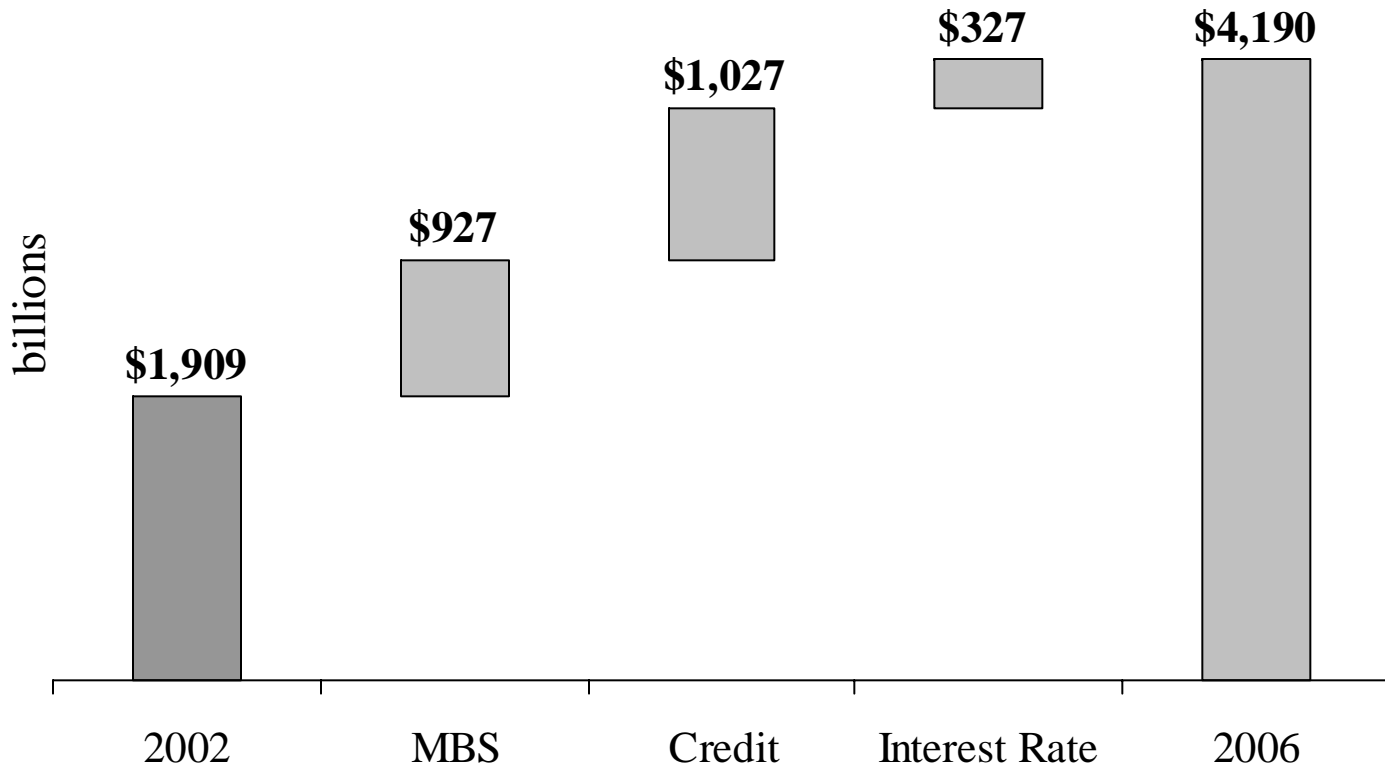
*Global Head of Mortgages and Asset Backed Securities*

## Net Revenues have Doubled Since 2002



# Led by the Growth of the Credit and Mortgage Franchises

**Contribution to Growth in Fixed Income Net Revenues 2002–2006**



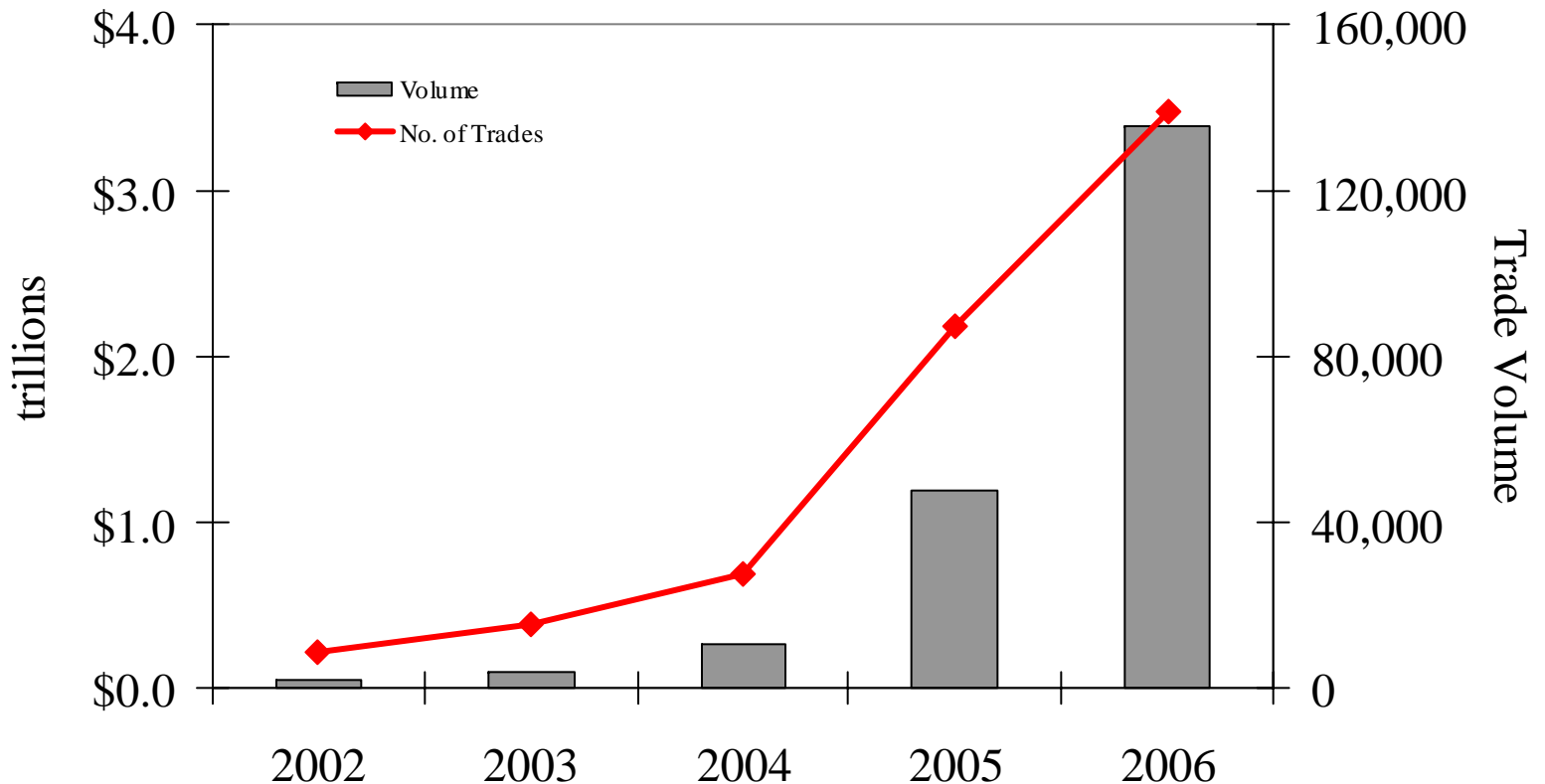
# The Franchise Continues to Grow: Credit

## Credit products continue to produce record revenues

- ❑ **Credit Trading**
  - Record revenues in 2006 well surpassed prior year record
  - Global franchise with U.S., Europe and Asia all contributing
  
- ❑ **Leveraged Finance**
  - Jointly managed with Investment Banking
  - Sixth consecutive year of record net revenues
  - Lead managed bank and bond deal volumes at record levels
  
- ❑ **Distressed Debt**
  - Record revenues in 2006
  - Strong research, client relationships and distribution capabilities

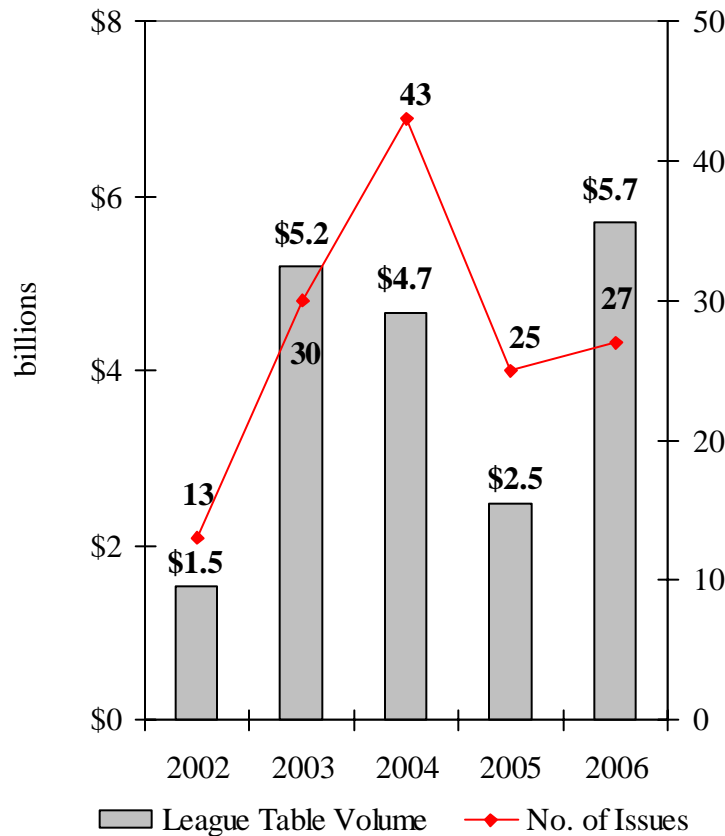
# Credit Derivatives

**Growth Trend Continues During First Quarter  
Volume up 64% over 1Q2006**

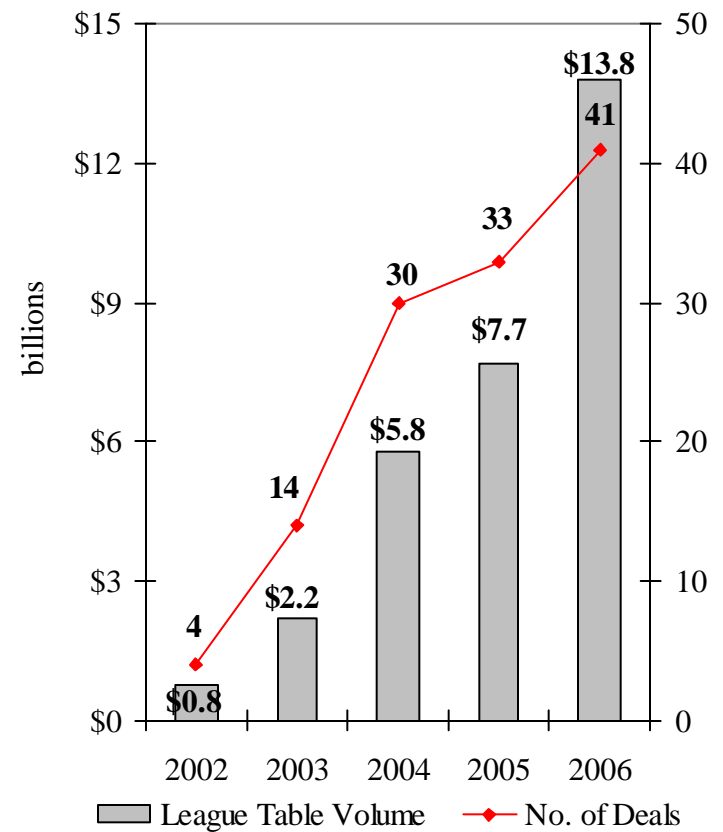


# Strategic Effort to Deepen Relationships with Financial Sponsors Continues to Fuel Business Opportunities in 1Q 2007

**Lead Managed Bond Deals<sup>(1)</sup>**



**Lead Arranged Bank Deals<sup>(2)</sup>**



(1) Source: Bloomberg High Yield Underwriter Rankings.

(2) Source: Reuters Loan Pricing Corp.

# The Franchise Continues to Grow: Interest Rate

**Broadening the franchise to both integrate cash and derivative businesses and launch new product areas**

- ❑ Interest Rate
  - Integrating cash and derivative businesses
  - Global franchise with significant operations in Europe and Asia
  
- ❑ Foreign Exchange
  - Expanding precious metals business, already profitable in first full year
  - Investing in electronic trading platforms and technology
  - Local Markets group formed



# Our Market Leading Mortgage Franchise Continues to Grow

## Origination

- ❑ Captive origination increased significantly in 2006

## Servicing

- ❑ Servicing over 500,000 loans

## Securitization

- ❑ Top ranked underwriter of MBS and ABS

## Research

- ❑ Top ranked research analysts

## Commercial

- ❑ Global CMBS platform

## CDO/CLO

- ❑ Market leader in CDO/CLO space

## **Expanding Origination Capability**

### **Origination**

**Growing captive origination platform provides a steady source of quality product for capital markets activities**

**Three domestic captive origination channels accounted for 35% of securitizations in Q1 2007:**

- ❑ **Bear Residential Mortgage Corporation (“Bear Res”)**
  - Alt-A wholesale originator launched in April 2005
- ❑ **Encore Credit Corporation (“Encore”)**
  - Sub-prime wholesale originator acquired in February 2007
- ❑ **EMC Mortgage Corporation (“EMC”)**
  - Alt-A and Sub-prime conduit operation

**Two European sub-prime mortgage originators:**

- ❑ **Rooftop – United Kingdom**
- ❑ **Bearimmo – France**

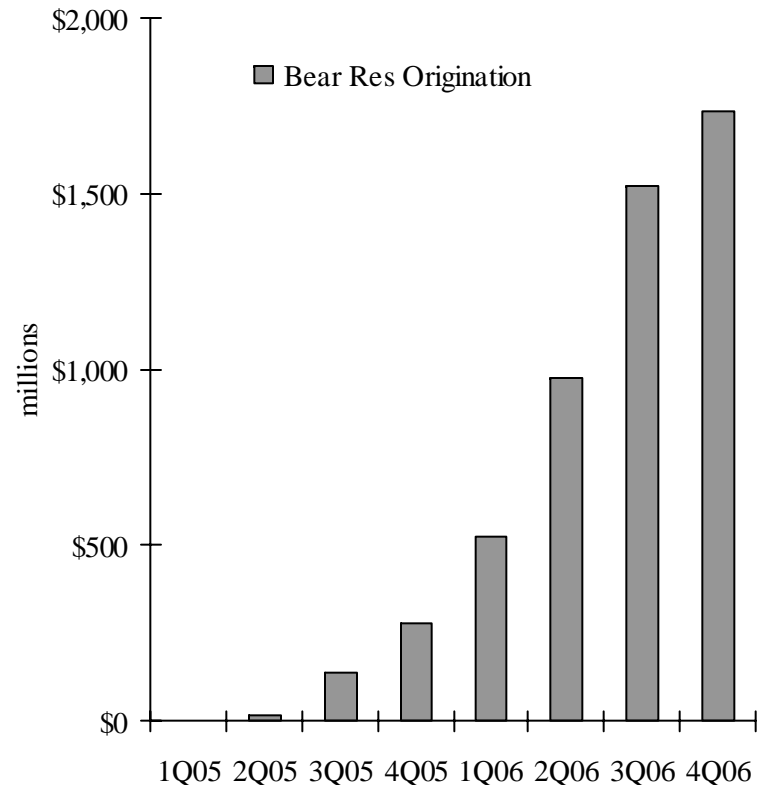
# Bear Residential Mortgage Corporation

## *Alt-A Wholesale Platform*

### Origination

Over the past 2 years we have built a highly scalable, state-of-the-art origination platform

- ❑ Originated \$4.8 billion in loans in 2006, up from \$400 million in 2005
- ❑ Web portal and automated underwriting engine enable fast & efficient loan processing
- ❑ Network of over 6,000 approved brokers & correspondents



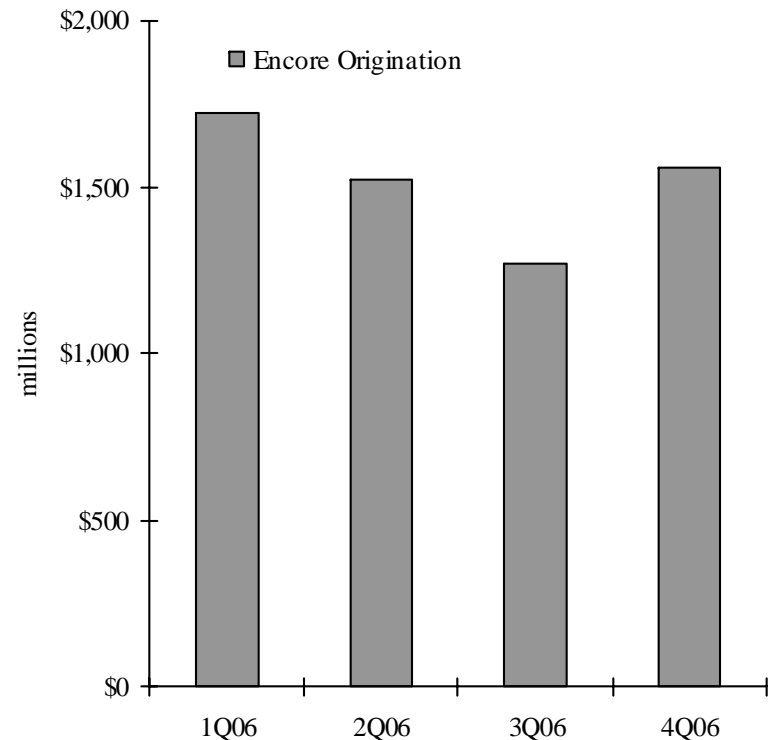
# Encore Credit Corporation

*Sub-prime Wholesale Platform*

## Origination

**Encore acquisition in February 2007 doubled our wholesale origination capacity and diversified our product mix.**

- ❑ Originated \$6.1 billion of loans in 2006
- ❑ Purchased assets and compatible platform at an attractive price
- ❑ Network of nearly 10,000 approved brokers & correspondents
- ❑ Platform will leverage Bear Res technology platform as well as Bear Stearns research and capital markets expertise



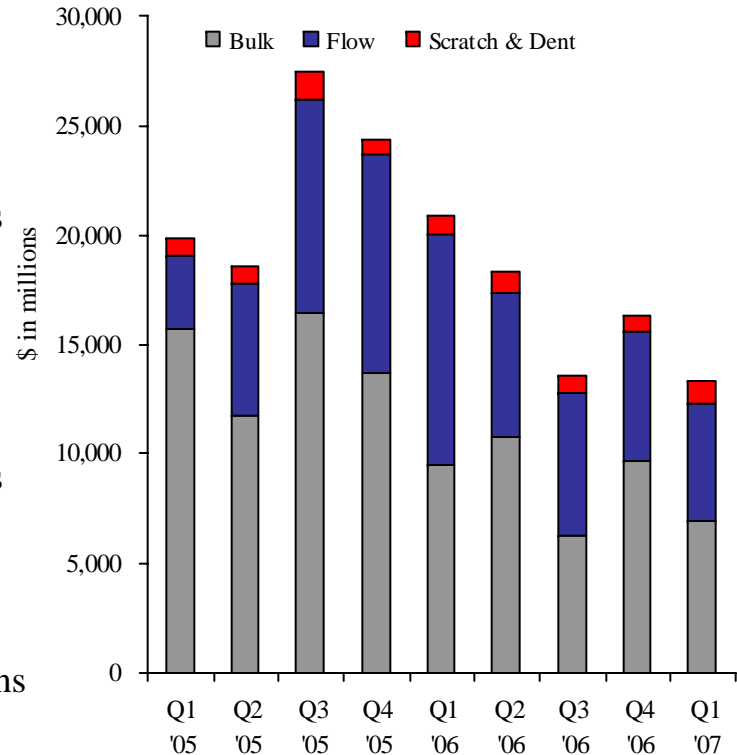
# EMC Mortgage Corporation

## *Alt-A and Sub-prime Conduit*

### Origination

**EMC is a top Alt-A and Sub-prime conduit, comprised of three main channels:**

- ❑ **Bulk**
  - Acquire large pools which are competitively bid
  - \$36.2 billion of 2006 acquisitions
  
- ❑ **Flow**
  - Approximately 500 approved sellers
  - \$29.6 billion of 2006 acquisitions
  
- ❑ **Scratch & Dent**
  - Marker leader in acquisitions of distressed and scratch & dent loans
  - \$3.4 billion of 2006 acquisitions



## Rooftop and Bearimmo

*Sub-Prime Wholesale Platforms*

### Origination

**Over the past 3 years, we have established sub-prime origination platforms in the United Kingdom and France.**

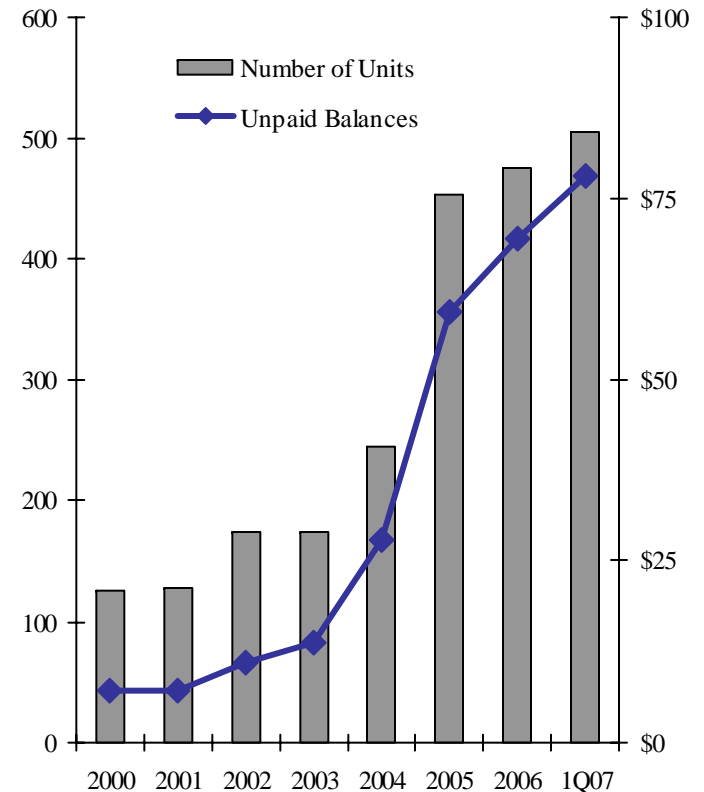
- ❑ Both platforms built organically
- ❑ Rooftop originated \$1.7 billion in 2006
- ❑ Bearimmo growing rapidly, with current monthly originations of \$25 million

# EMC Mortgage Corporation

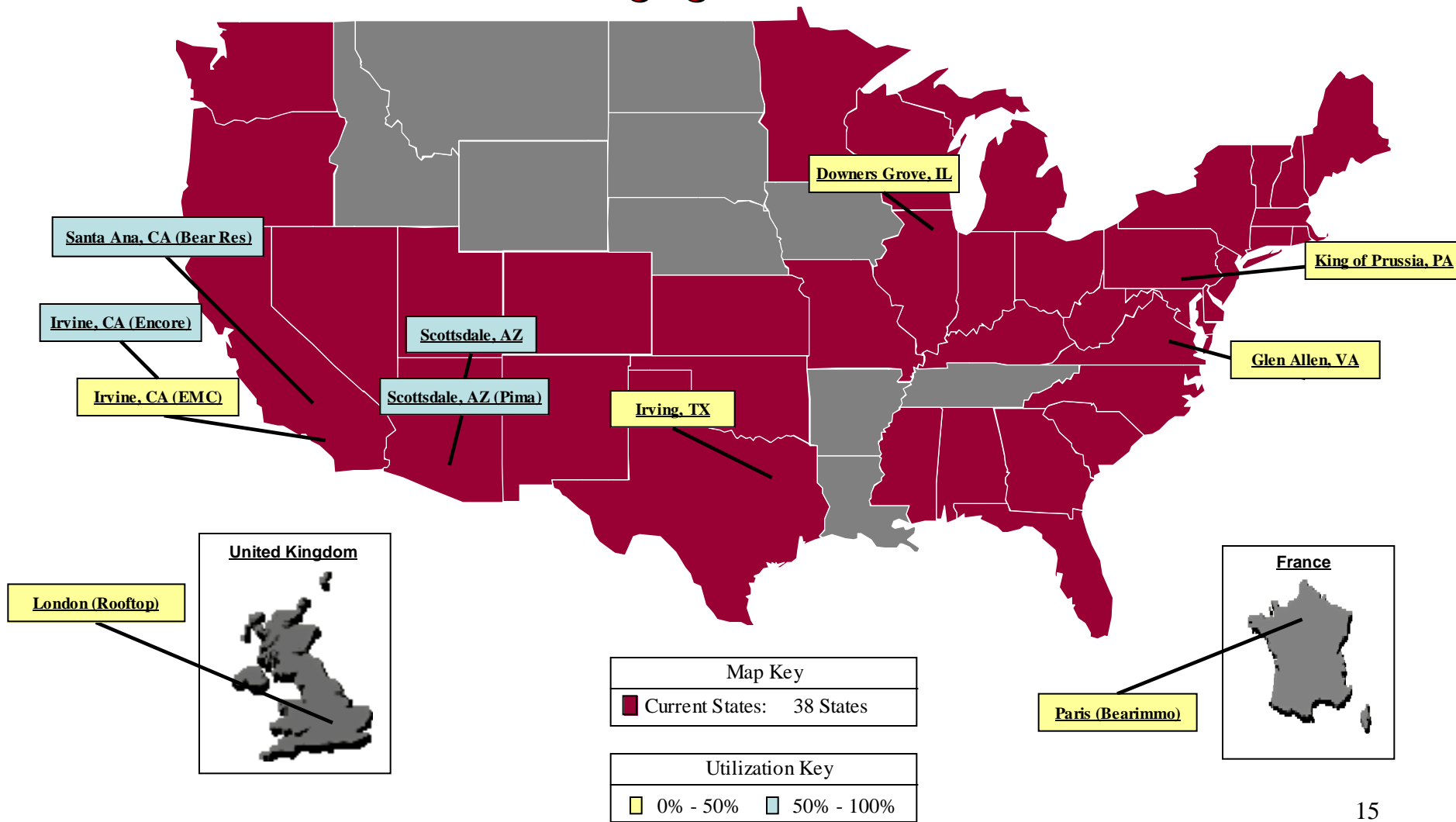
## Servicing

**EMC continues to be a top rated servicer with a new management team driving automation and innovation.**

- ❑ Market leader as specialty servicer, with over 15 years of experience
- ❑ Currently servicing 504,177 loans with balances of \$77.9 billion
- ❑ Servicing varied types of loans
  - Alt A, Sub-prime, Prime, Seconds, Option ARMs, HELOCs and ‘Scratch and Dent’
- ❑ Since 2000, the number of loans serviced has quadrupled and balances have increased eleven-fold
- ❑ In the last year, EMC has hired 18 Senior Managers, averaging more than 19 years of industry experience



# Bear Stearns Mortgage Facilities





## Market Leader in Securitization Activity

### Securitization

**Our franchise retained its leading rank in the MBS market and increased penetration into several new sectors in 2006.**

- ❑ **Ranked #1 in U.S. MBS<sup>(1)</sup> in 2006 for the third year in a row**
  - \$113 billion in 2006 securitizations
  - Consistently ranked in the top 5 for the last 20 years
- ❑ **Ranked #1 in U.S. ARM<sup>(1)</sup>s**
  - \$43 billion in 2006 securitizations
  - Top ranked every year since inception of ranking (2002)
- ❑ **Became Top 5 ranked Global CDO underwriter in 2006**
  - \$23 billion in 2006 securitizations
  - Volume nearly doubling from last year
- ❑ **Originated a record \$12.6 billion in Global CMBS**
  - \$15.5 billion in 2006 securitizations
  - Transactions in Europe, Asia and Latin America

## Mortgage Research Team

### Research

**Our top ranked<sup>(1)</sup> analytics team is a key driver of our success.**

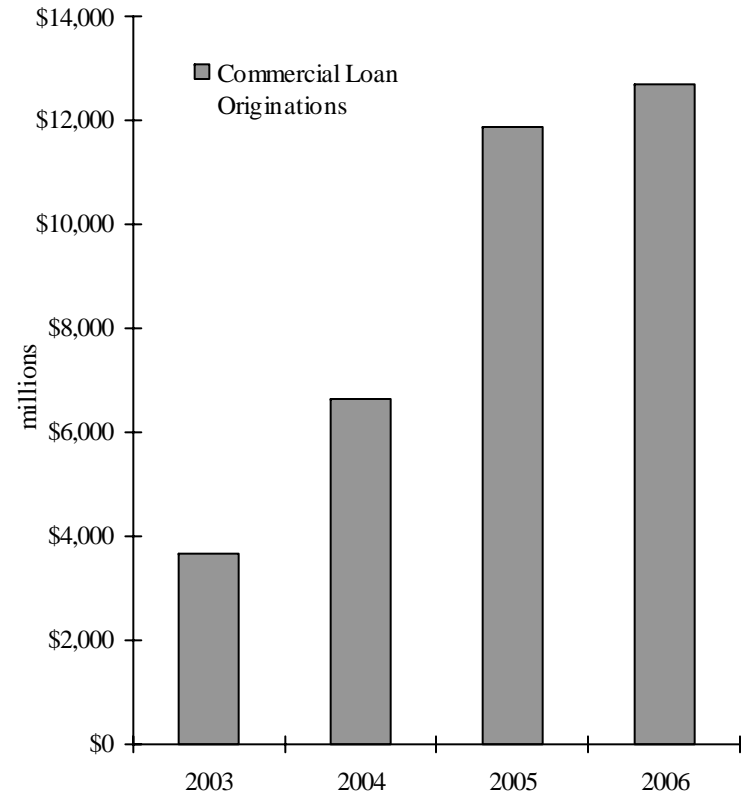
- ❑ In 2006, 7 research analysts were recognized in 9 categories, up from 4 analysts in 7 categories in 2005
- ❑ Since 2001, our research staff has earned 39 total team positions including, 13 first team awards
- ❑ Ranked #1 in MBS Prepayments since 1993 (14 years)
- ❑ Top 2 in ABS Prepayments every year since 2001
- ❑ Top 3 in MBS Non-Agency every year since 2001

# Commercial Mortgages

## Commercial

**In 2006, we firmly established Bear Stearns as a global presence in commercial real estate finance.**

- ❑ Originated over \$12.6 billion in 2006, more than double 2004 levels
- ❑ Able to apply securitization expertise to acquisition finance
  - Equity Office Properties
  - The Blue City, Sultanate of Oman
  - Daikoku Distribution Center, Yokohama
  - 180 UK petrol stations leased to Shell
- ❑ Global franchise
  - 24% of 2006 production from non-U.S. sources
  - Offices in New York, Los Angeles, London, Tokyo and Frankfurt



## **CDOs/CLOs**

### **CDO/CLO**

#### **CDOs**

- ❑ Top 5 ranked Global CDO underwriter in 2006
  - Volume nearly doubling from 2005
- ❑ Diverse and balanced range of CDO Business
  - CLOs, ABS CDOs, CDOSquared, CMBS, Trust Preferred
  - Continued growth in London-based CDO origination, reaching \$3.4 billion
- ❑ Broad based distribution platform through team in New York, London, Tokyo, Hong Kong and Singapore
  - Approximately 40% of CDO debt classes and 52% of CDO equity classes placed internationally
- ❑ Strong pipeline of deals for the remainder of the year - over \$15 billion in committed mandates

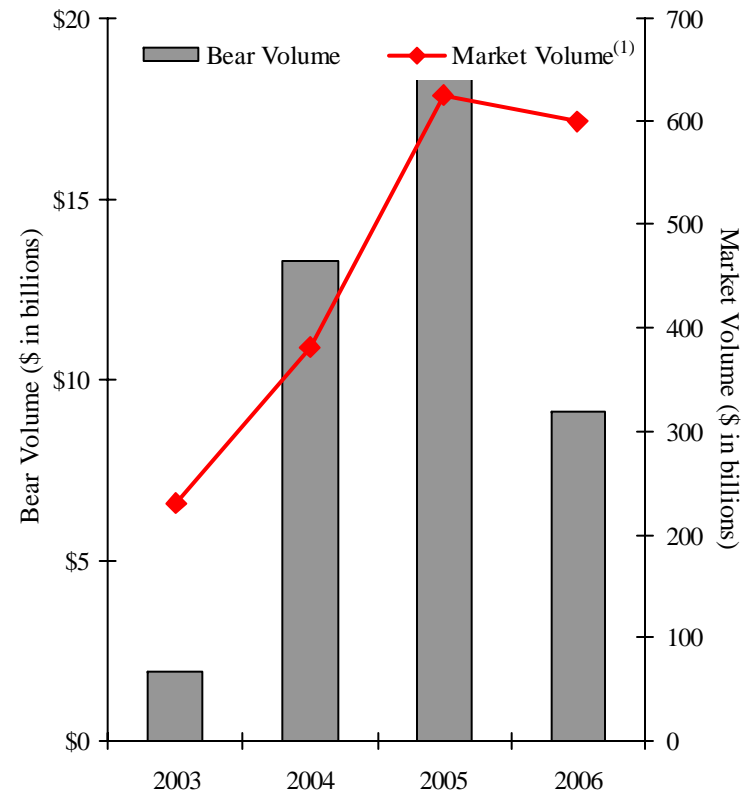
#### **CLOs**

- ❑ Major distribution channel for leverage loan-related credit

## Limited Sub-prime Exposure

**We are well positioned to handle disruption in the sub-prime market**

- ❑ **Insignificant Revenue Contribution**
  - <3% of 2006 MBS revenue came from sub-prime
  
- ❑ **Modest Warehouse Exposure**
  - No exposure to headline companies
  
- ❑ **Decreased Loan Acquisitions**
  - 50% decline in 2006 sub-prime acquisition vs. 5% market decline



(1) Market volumes (ABS Home Equity Issuance).

Certain statements contained in this discussion are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those forward-looking statements. Numerous factors may affect our business, including but not limited to interest rates, market conditions, transactions included in our backlog failing to close, general economic conditions in the US or other geographic regions that may suffer economic downturns. For a fuller discussion of these risks see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Management” in the Company’s Annual Report to Stockholders, which has been filed with the Securities and Exchange Commission.

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# Fixed Income Overview

Jeff Mayer

*Co-Head of Global Fixed Income*

Tom Marano

*Global Head of Mortgages and Asset Backed Securities*

## **RMBS Hedging**

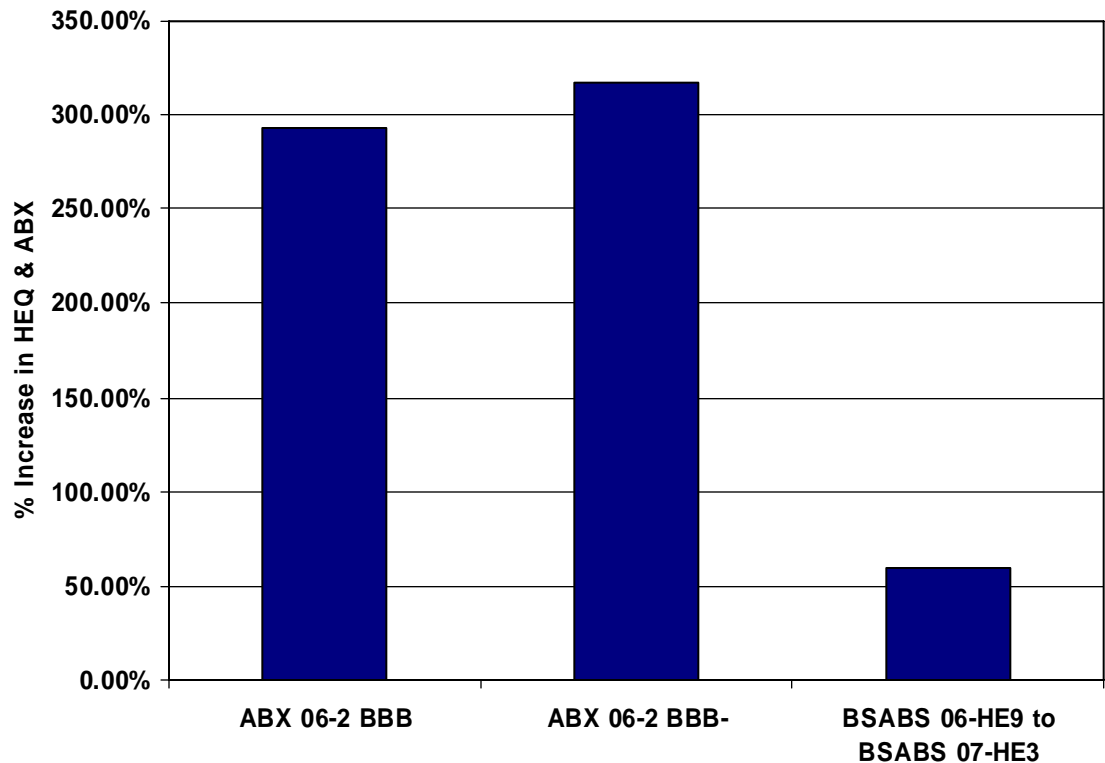
**The development of Pay-As-You-Go (“PAUG”) credit default swaps and the ABX Index provides hedging tools to investors.**

- ❑ PAUG CDS mimic the cash flows of a cash bond, allowing investors to go long or short the risk of a bond (CUSIP specific) with no limitations to the size of the trade
  
- ❑ The ABX Index is an index reflecting the performance of 20 PAUG CDS, allowing investors to take short or long positions in a basket of sub-prime securitizations:
  - The ABX Index is divided into 3 series referencing issuances in 2nd half 2005, 1st half 2006 and 2nd half 2006
  
  - Each ABX series has 5 sub-indices (AAA, AA, A, BBB, BBB-) referencing the tranche with that respective rating



# Increase in Spreads of HEQ Securitization & ABX

From 11/30/06–3/26/07



<b>Absolute Spreads</b>	11/30/2006	1.95%	3.02%	1.01%
	3/26/2007	7.66%	12.59%	1.61%
	<b>% Change</b>	<b>292.3%</b>	<b>316.8%</b>	<b>59.9%</b>

## Cost of Spread Widening—Unhedged Sub-Prime Securitization

<b>Ratings Class</b>	<b>Issuance Size (000s)</b>	<b>% of Capital Structure</b>	<b>Market Spread (in bps)</b>	<b>6bps wider in AAA &amp; AA 50bps wider in A / BBB / BB</b>
AAA	\$ 432,783	75.5%	11	\$ (484,048)
AA	75,163	13.1%	27	\$ (177,370)
A	31,914	5.6%	44	\$ (586,755)
BBB	22,073	3.9%	329	\$ (381,326)
BB	11,036	1.9%	850	\$ (176,576)
	<u>\$ 572,969</u>	<u>100%</u>	<b>Unhedged Loss</b>	<b>\$ (1,806,076)</b>

Market spread represents BSABS 07-HE2 Group 2, issued February 2007

## Cost of Spread Widening—Hedged with ABX 07-1

<b>Ratings Class</b>	<b>Market Price 2/1/07</b>	<b>Market Spread 2/1/07</b>	<b>Market Spread 3/27/07</b>	<b>Hedge Ratio</b>	<b>Notional of Hedge (000s)</b>	<b>6bps wider in AAA &amp; AA 50bps wider in A / BBB / BB</b>
A	98.68	96	245	0.21	\$ 6,542	\$ 397,370
BBB	94.13	375	833	0.25	5,518	984,049
BBB-	90.85	644	1233	0.21	<u>2,344</u>	494,803
					<u>\$ 14,405</u>	<b>Cost of Hedge</b> <u>(70,146)</u>
						<b>Hedged Profit</b> \$ <u>1,806,076</u>
						<b>Unhedged Loss</b> \$ (1,806,076)