



The Subprime Market Meltdown: Crisis or Opportunity?

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July 10, 2007



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Discussion outline

A. Subprime Mortgage Overview

B. The Subprime Mortgage Meltdown

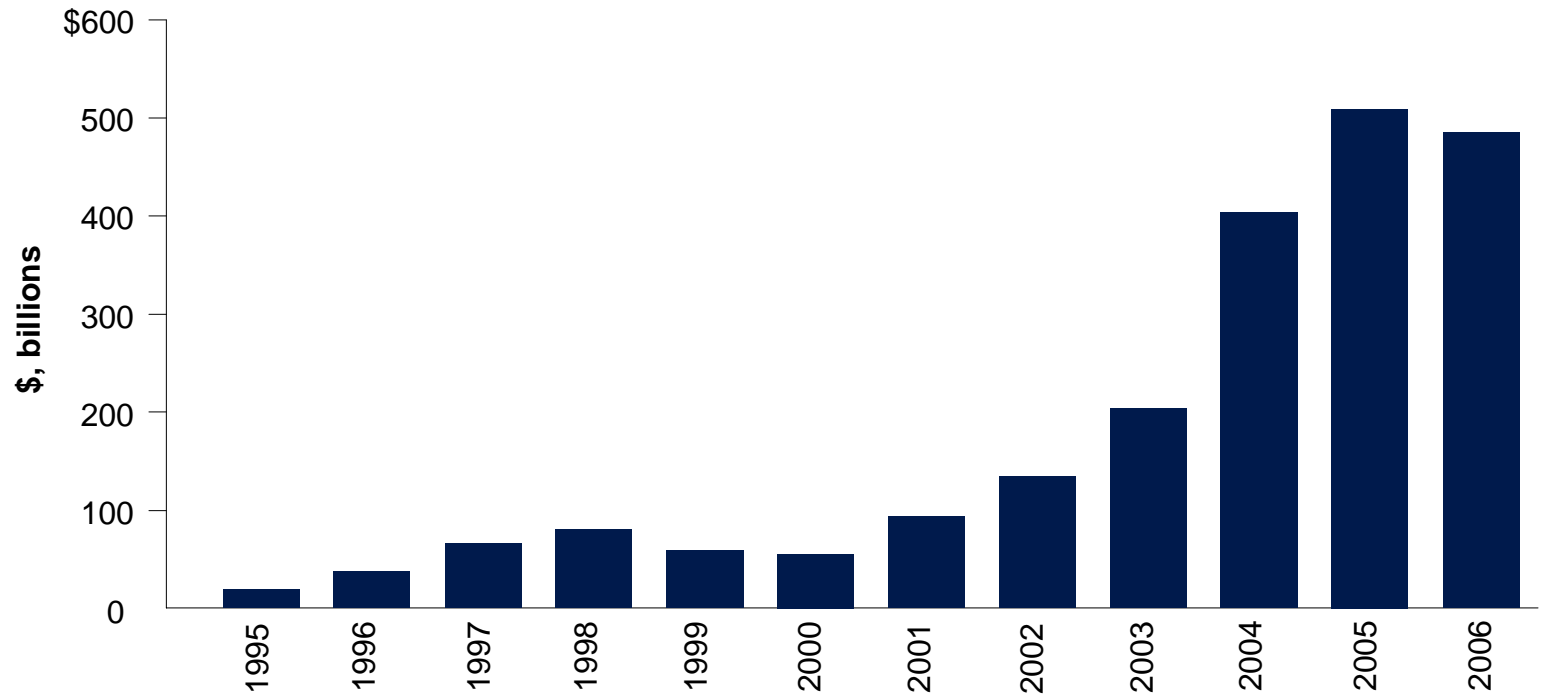


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Subprime Mortgage Overview

Size of subprime market

Total Industry-Wide Volume for Subprime Mortgage-Backed Securities:



- The subprime market grew from \$56 billion in 2000 to \$508 billion in 2005 (over 800% growth).
- Today, the subprime market represents approximately 14% of the overall mortgage-backed securities market.

The subprime borrower

Who is the subprime borrower?

- Subprime borrowers generally exhibit:
 - lower credit scores
 - higher leverage relative to prime borrowers

Mortgage Loans¹

	Prime	Subprime		Implication
FICO (Credit) Score ²	741	630	→	Higher likelihood of default
Loan-to-Value Ratio ³ (%)	75	87	→	Less money down, more leverage taken
Debt-to-Income Ratio (%)	37	42	→	Larger portion of income devoted to mortgage payments
% ARM	45	72	→	Moderate “teaser” rates (e.g., 7%) and very high reset rates (e.g., 11%)

Source: Citigroup, Deutsche Bank Securities, LoanPerformance, CPR&CDR Technologies

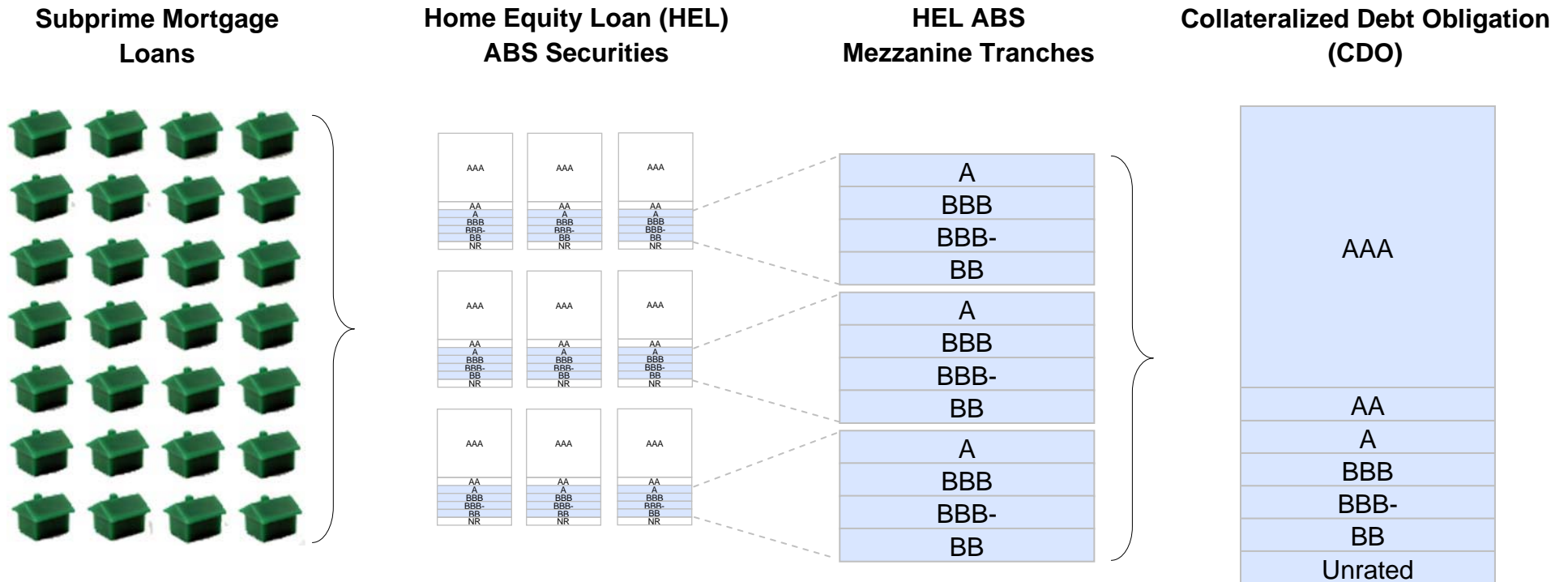
¹ Based on 2006 securitizations as of January 2007

² FICO Score is a standard measure of credit risk developed by Fair Isaac Company; the lower the FICO Score, the higher the likelihood of default

³ Combined Loan-to-Value Ratio, which reflects all known mortgage liens (when available)

Subprime investing

- Individual subprime mortgage loans are packaged and sold in the home equity loan (HEL) asset-backed securities (ABS) market.
- Subordinated HEL ABS are further repackaged and sold in the ABS collateralized debt obligation (CDO) market.



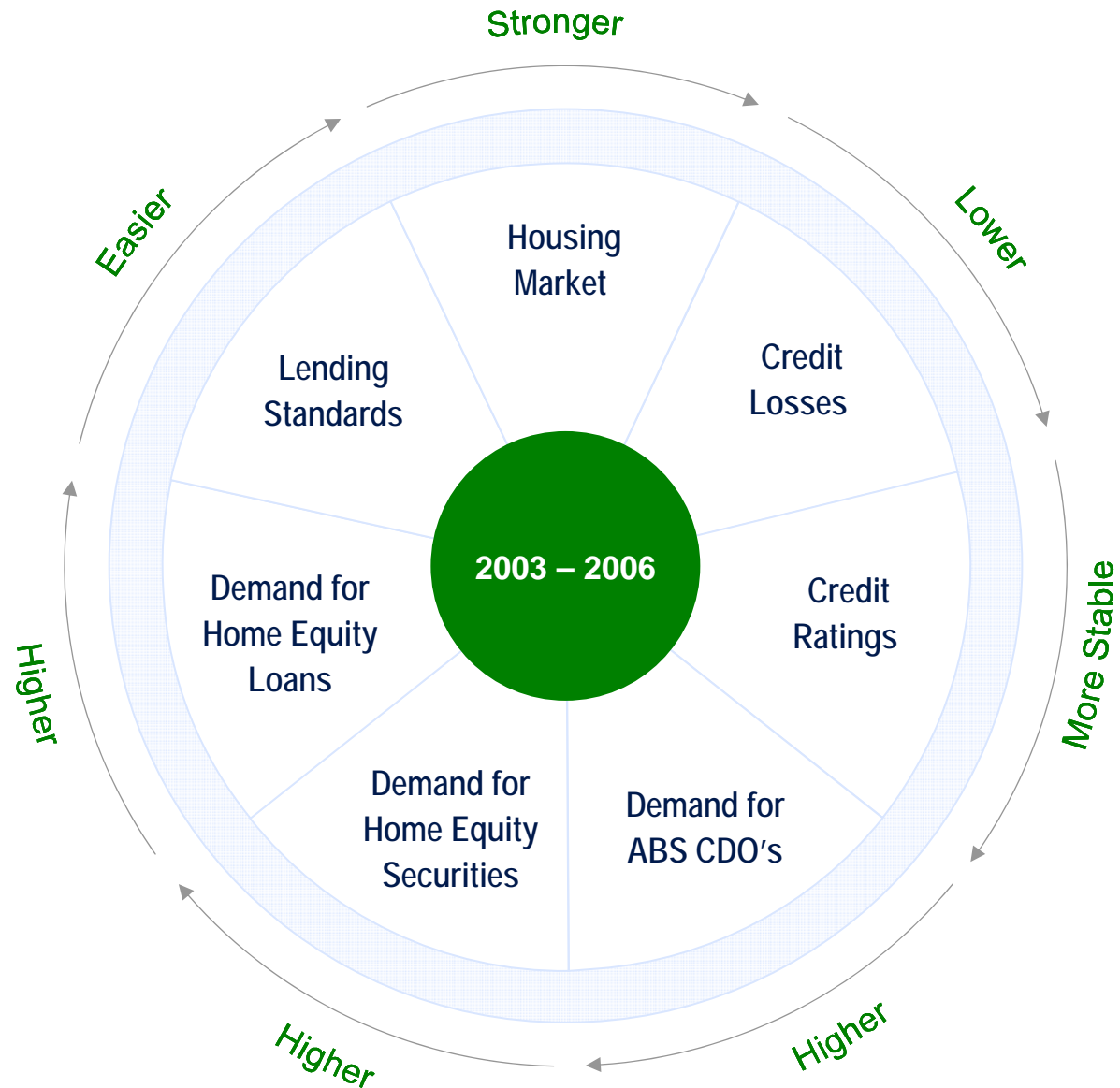
Source: GSAM, Deutsche Bank Securities, Citigroup (Note: security structures are sample representations)



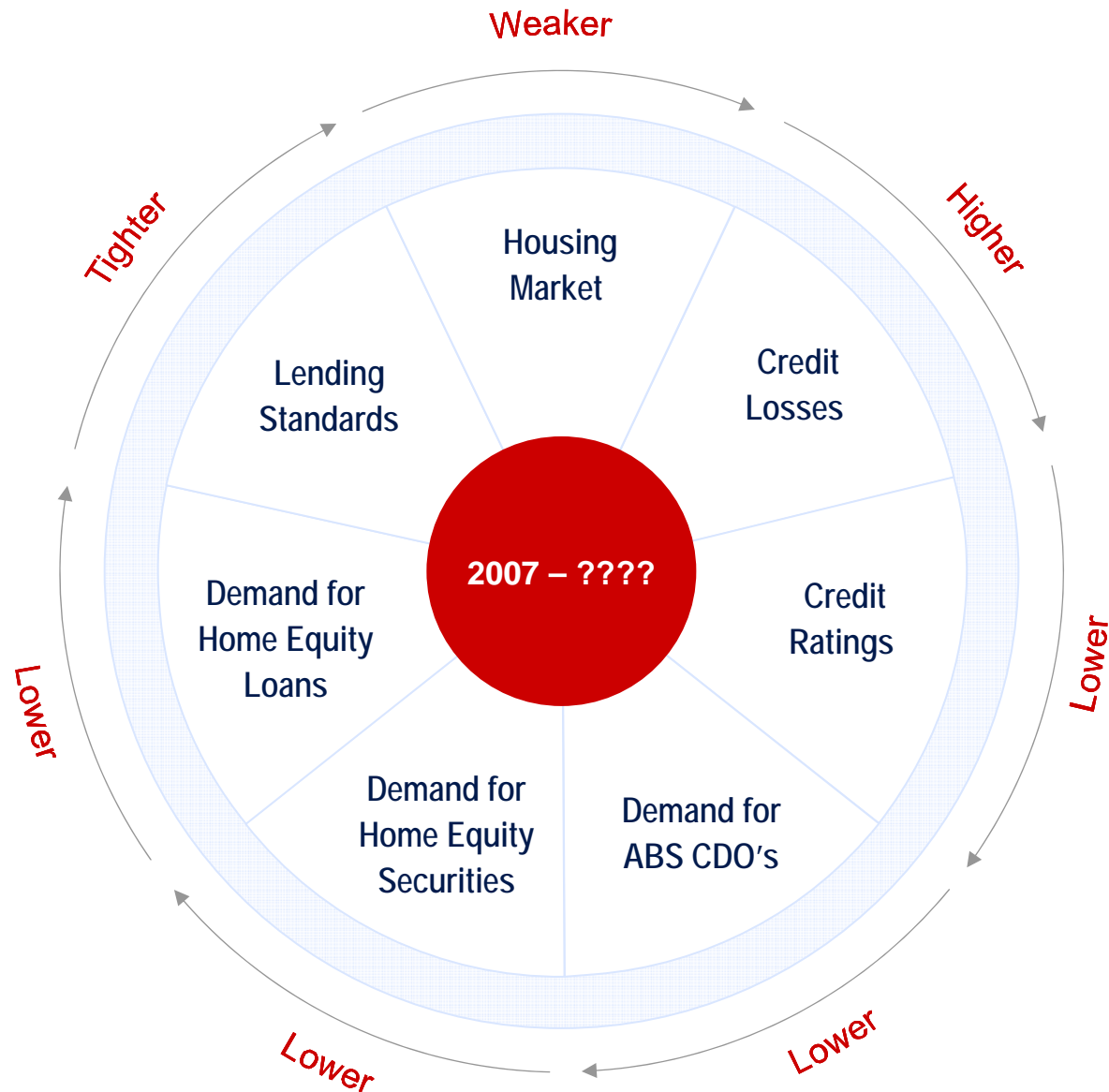
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The Subprime Mortgage Meltdown

Subprime borrowers have benefited from a *virtuous* credit cycle



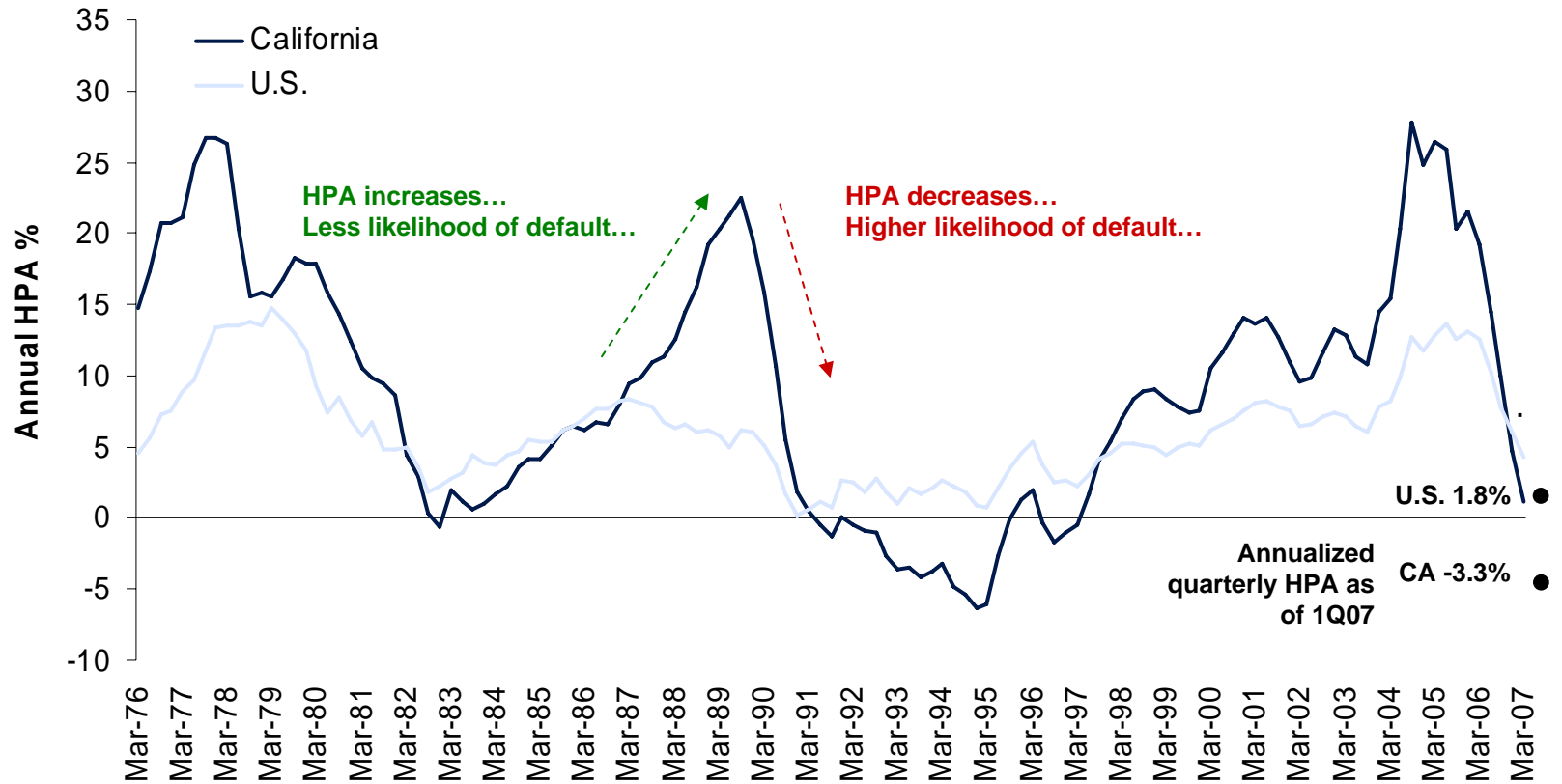
The *virtuous* cycle has become a vicious cycle for certain borrowers





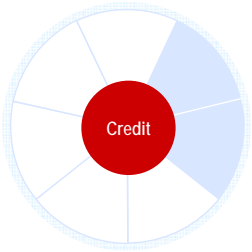
Falling home prices have increased the likelihood of default

Annual Home Price Appreciation (%):

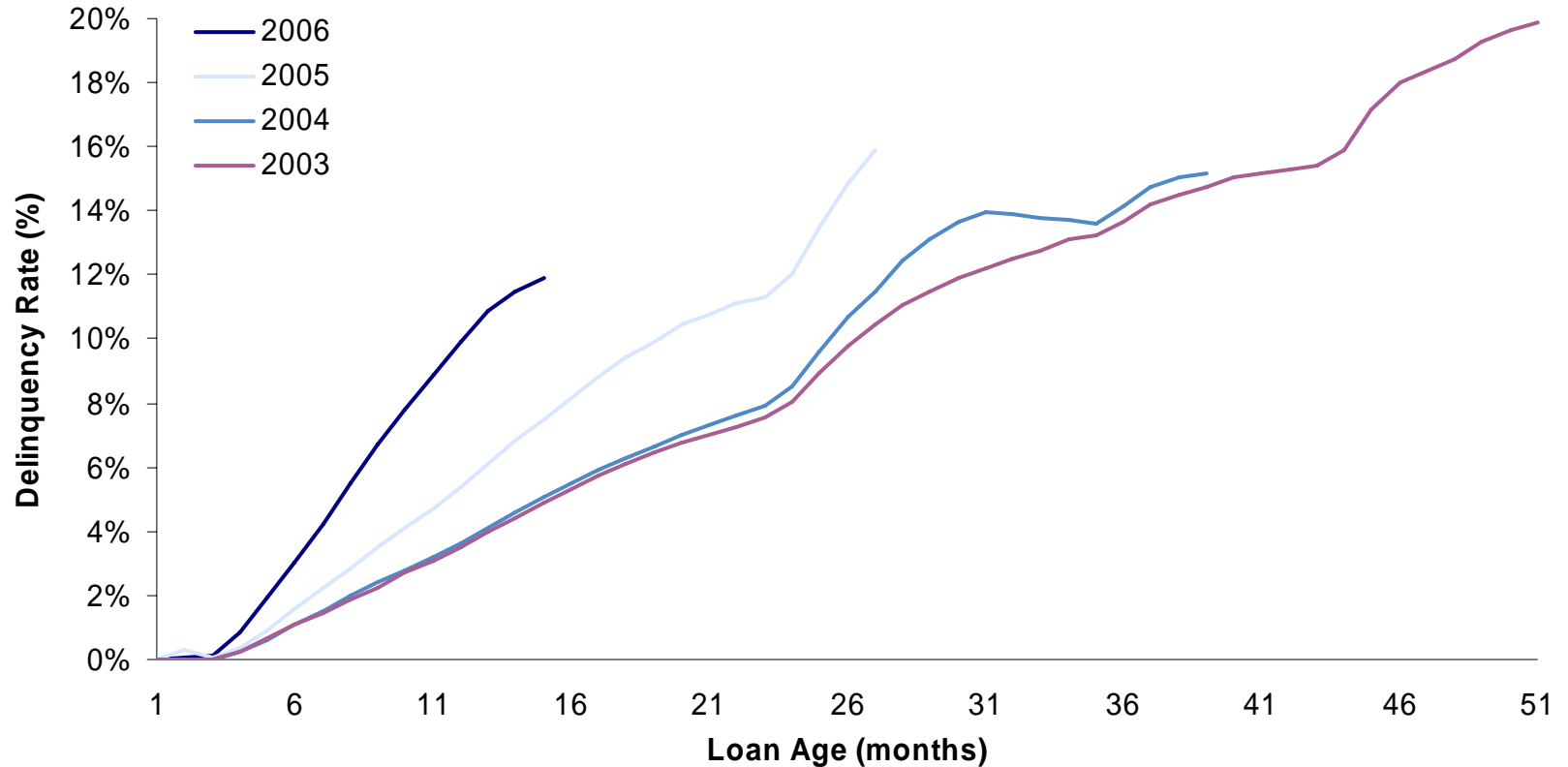


- When home prices rise, stressed borrowers are more likely to sell their houses at a profit rather than default.
- When home prices decline, stressed borrowers are more likely to default rather than sell their houses at a loss.
- Today, home prices are declining due to high supply and poor affordability.

As home prices have stagnated, easy lending standards have led to higher delinquencies



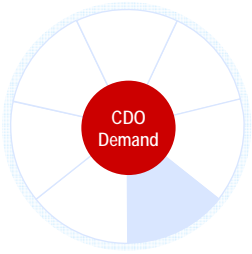
Loans Delinquent 60 Days or More:



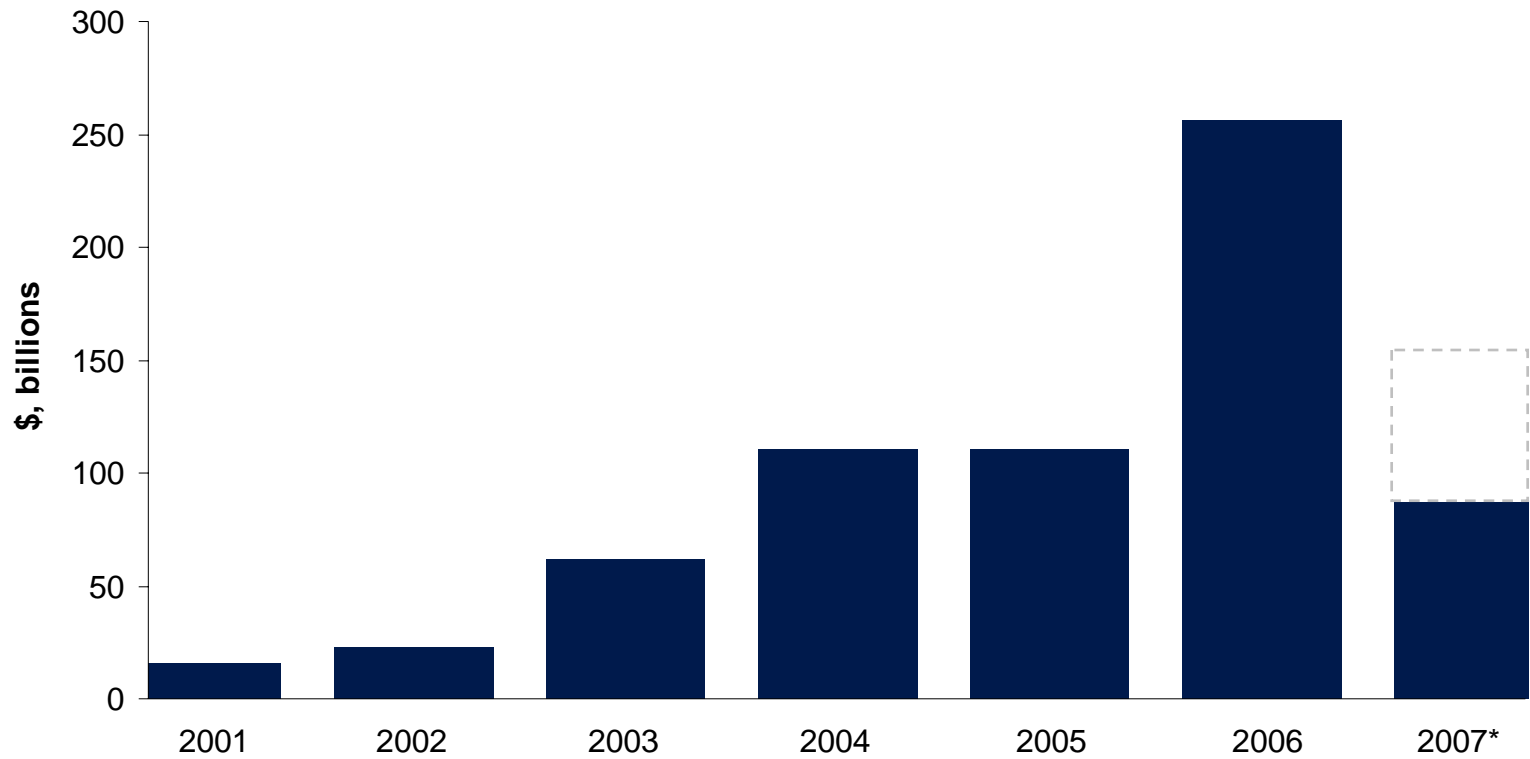
- Recent vintages have defaulted earlier than older vintages due to home price deceleration and weaker underwriting standards.
- The percentage of subprime borrowers with 2nd lien loans has increased from 7% in 2003 to 33% in 2006.
- Higher delinquency levels have led to negative rating outlooks.

Source: Credit Suisse, Loan Performance, as of May 2007

Higher credit losses have led to lower demand for CDOs



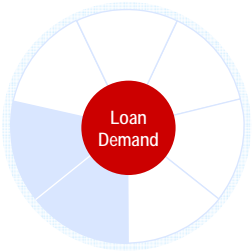
CDO Issuance (\$, bn)



- We believe a significant portion of 2007 CDO issuance remains unsold.
- The negative ratings outlook has led investors to rethink purchases of riskier CDO segments.

Source: GSAM, Lehman Brothers

* 2007 CDO issuance through April 30, 2007; dashed box indicates GSAM's estimate for total 2007 CDO issuance. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Please see additional disclosures.



Weak loan performance has led to subprime loan originator fall-out

Selected Originator News:

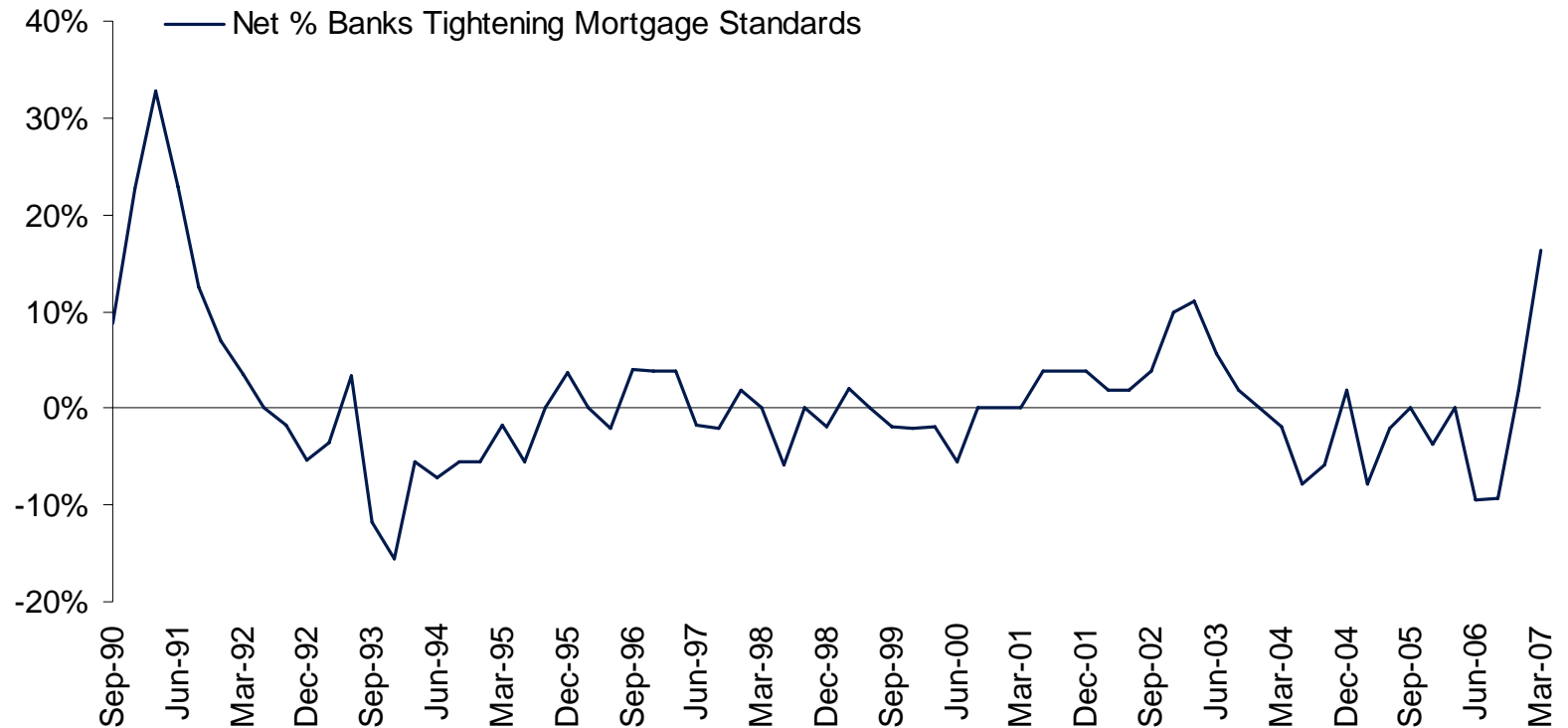
Originator	Timeline	Headline News
Ownit	Dec 2006	Ceased operations; ultimately filed for bankruptcy
Popular	Jan 2007	Closed origination business
ResMae	Feb 2007	Filed for bankruptcy; acquired by hedge fund (exited bankruptcy Jun-07)
MLN	Feb 2007	Filed for bankruptcy
HSBC	Feb 2007	Chargeoffs 20% higher than initial forecast, \$1.76bn increase in reserves
Fremont	Mar 2007	FDIC cease and desist order, exited subprime origination business
Accredited	Mar 2007	Liquidity issues; sold whole loans to meet cash requirements
New Century	Mar 2007	Stopped originating new loans due to liquidity issues, restated 2006 earnings; ultimately filed for bankruptcy

- Originators representing approximately 25% of 2006 volume have either filed for bankruptcy or have exited the business.
- An additional 20% have either been sold or are on the market as of May 2007.
- A significant number of remaining originators have announced losses and cutbacks in origination.



Banks have started to tighten their lending standards

Lending Standards



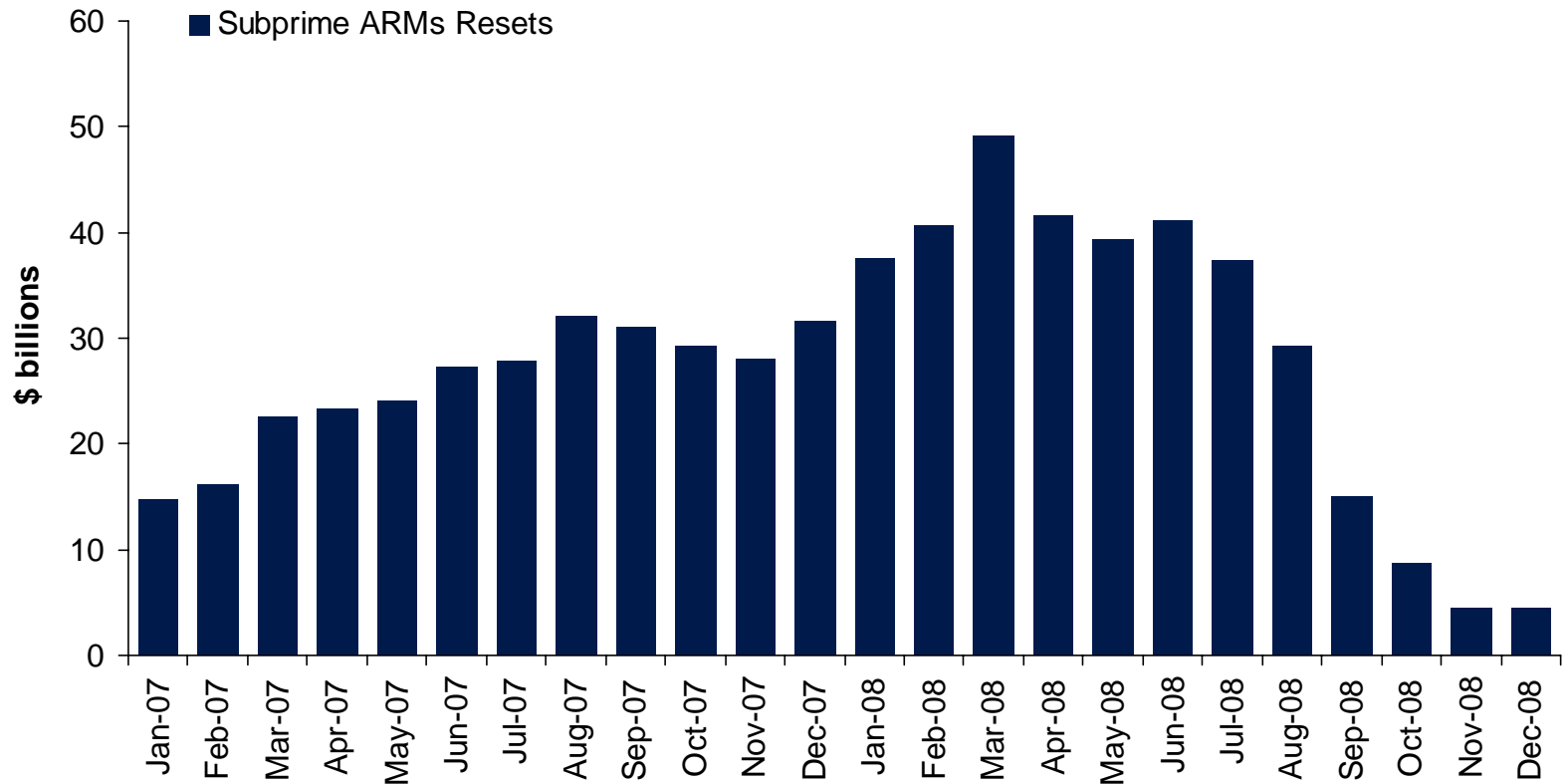
- 56% of senior bank loan officers reported tighter standards on subprime mortgages in 1Q07.
- Banks have started to tighten their lending standards as:
 - Home price appreciation has decelerated.
 - Delinquencies have increased.

Source: Federal Reserve, as of March 31, 2007

Is the worst yet to come?



Subprime ARM resets may exacerbate the vicious cycle

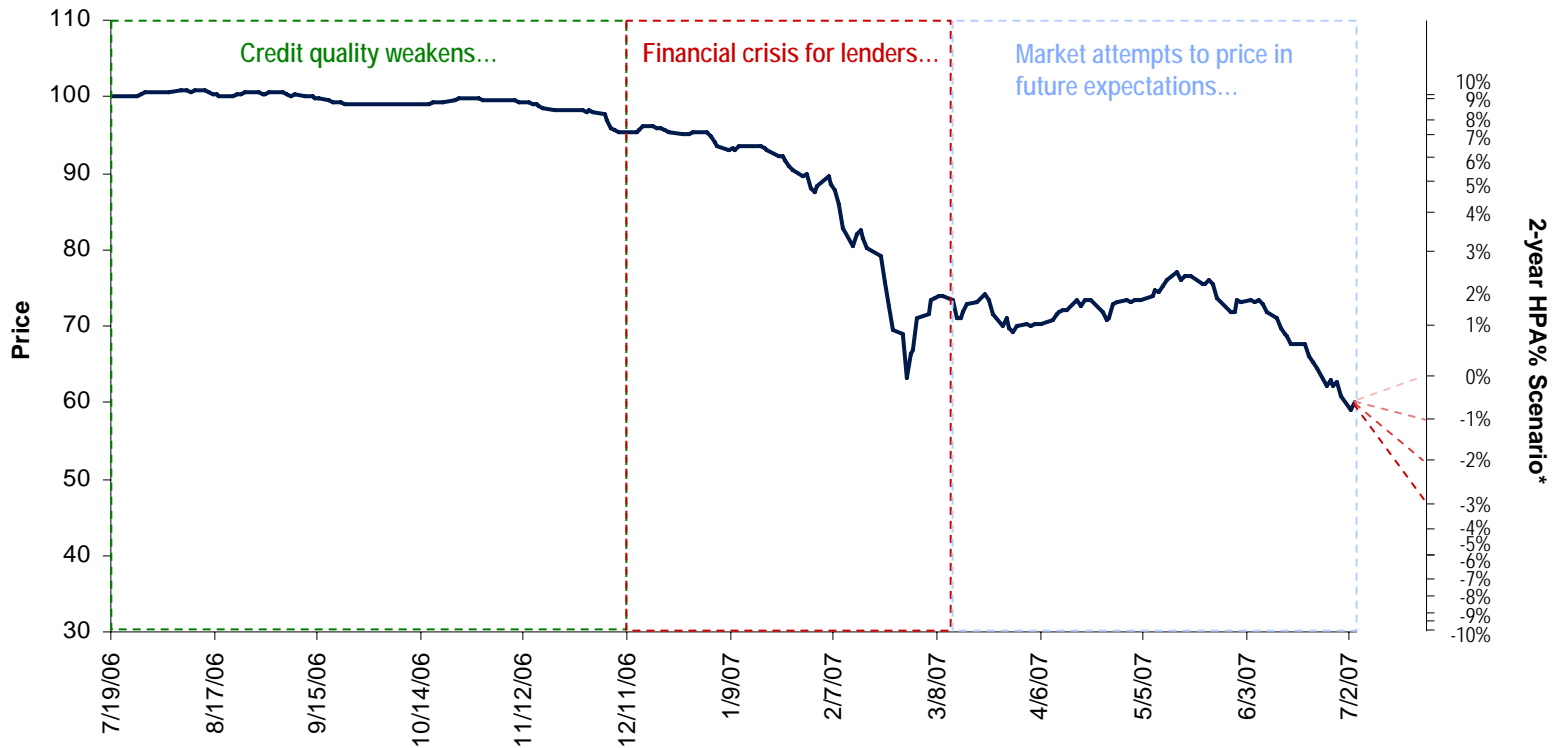


- Subprime ARM resets will reset from a low teaser rate of ~7-8% to a much higher rate of ~11%.
- In order to avoid a payment shock, subprime borrowers will need to refinance.
- Due to more stringent lending standards, subprime borrowers may not be able to find a willing lender.
- Loan modifications and subsidized refinancing assistance may ease the burden for certain borrowers.

Source: Lehman Brothers, Loan Performance

These factors have resulted in dramatic declines in subprime bond prices

Subprime ABS Credit Default Swap Index (ABX.HE 06-2 BBB-)



We believe that the current price is not stressed enough, given:

- Future home price expectations.
- Tighter lending standards, and
- Looming ARM resets.

Source: JP Morgan, Markit Partners, Lehman Brothers

* Reflects projected index price to indicated home price appreciation over the next two years, as of June 12, 2007. HPA reverts to 4% at the end of Year 4. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Please see additional disclosures.

Subprime: yesterday and today

Subprime borrowers benefited from a virtuous credit cycle (2003-2006), but the virtuous cycle is becoming a vicious cycle:

- Borrowers are overleveraged due to easy credit availability and expectations of future home price growth.
- Weak underwriting and slower home price growth has led to significantly higher delinquencies.
- Looming ARM resets will further strain subprime borrowers, due to:
 - Higher interest rates,
 - Slowing home price growth,
 - Tighter lending standards, and
 - Limited refinancing options.
- Loan defaults and tighter credit conditions may prolong housing market weakness, resulting in additional credit losses.

Is this a crisis or opportunity?

- We believe current pricing still reflects optimistic assumptions regarding home price growth.
- Continued deterioration in credit trends will likely lead to significant rating downgrades and additional selling pressure for securities backed by subprime loans.
- Be prepared to allocate investment capital as housing market and subprime sector re-price to a more attractive risk-adjusted return profile over next several quarters.

Goldman Sachs Asset Management Conference Call Series Survey

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The Subprime Market Meltdown: Crisis or Opportunity?

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1. How relevant was this topic for you: Very Relevant Relevant Fairly Relevant Not Very Relevant Irrelevant
2. How helpful was the conference overall: Very Helpful Helpful Fairly Helpful Not Very Helpful Not Helpful
3. Were the speaker's remarks:
 - Jonathan Beinner: Very Helpful Helpful Fairly Helpful Not Very Helpful Not Helpful
 - Tom Teles: Very Helpful Helpful Fairly Helpful Not Very Helpful Not Helpful
4. Were the slide materials: Very Helpful Helpful Fairly Helpful Not Very Helpful Not Helpful
5. Were the questions in the Q&A answered/handled: Very Well Well Fine Okay Not Well
6. After participating in this call are you more or less likely to participate in a future call of interest to you: Very Likely Likely Fairly Likely Not Very Likely Not Likely
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10. Other comments:

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Compliance Review #: 07-3854