NOVEMBER 2008

FAST
Financial Analytics & Structured Transactions

STRUCTURED REPURCHASE AGREEMENTS

Team:

Stanley Brach
Managing Director
(212) 272-1370

John A. Ramuta
Executive Director
(312) 732-1493

Justin J. Kayse
Associate
(312) 732-1038

Gyorge Jucsak
Associate
(212) 272-5168

Ron M. Vanasek
Associate
(312) 325-6359

Material assistance and content provided by:

John Vo
Amy Honigman } Interest Rate Products

Steve Wolf } Capital Structure Advisory & Solutions

This presentation was prepared exclusively for the benefit and internal use of the JPMorgan client to whom it is directly addressed and delivered (including such client's subsidiaries, the "Company") in order to assist the Company in evaluating, on a preliminary basis, the feasibility of a possible transaction or transactions and does not carry any right of publication or disclosure, in whole or in part, to any other party. This presentation is for discussion purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by JPMorgan. Neither this presentation nor any of its contents may be disclosed or used for any other purpose without the prior written consent of JPMorgan.

The information in this presentation is based upon any management forecasts supplied to us and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. JPMorgan's opinions and estimates constitute JPMorgan's judgment and should be regarded as indicative, preliminary and for illustrative purposes only. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by or on behalf of the Company or which was otherwise reviewed by us. In addition, our analyses are not and do not purport to be appraisals of the assets, stock, or business of the Company or any other entity. JPMorgan makes no representations as to the actual value which may be received in connection with a transaction nor the legal, tax or accounting effects of consummating a transaction. Unless expressly contemplated hereby, the information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.

Notwithstanding anything herein to the contrary, the Company and each of its employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal and state income tax treatment and the U.S. federal and state income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Company relating to such tax treatment and tax structure insofar as such treatment and/or structure relates to a U.S. federal or state income tax strategy provided to the Company by JPMorgan.

JPMorgan's policies prohibit employees from offering, directly or indirectly, a favorable research rating or specific price target, or offering to change a rating or price target, to a subject company as consideration or inducement for the receipt of business or for compensation. JPMorgan also prohibits its research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investors.

JPMorgan is a marketing name for investment banking businesses of JPMorgan Chase & Co. and its subsidiaries worldwide. Securities, syndicated loan arranging, financial advisory and other investment banking activities are performed by a combination of J.P. Morgan Securities Inc., J.P. Morgan plc, J.P. Morgan Securities Ltd. and the appropriately licensed subsidiaries of JPMorgan Chase & Co. in Asia-Pacific, and lending, derivatives and other commercial banking activities are performed by JPMorgan Chase Bank, N.A. JPMorgan deal team members may be employees of any of the foregoing entities.

This presentation does not constitute a commitment by any JPMorgan entity to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.

Agenda

Structured Repurchase Agreements

STRUCTURED REPURCHASE AGREEMENTS

- Building Blocks of Structured Repo
- Funding Structures
- Hedging Strategies
- NIM Relief
- Other Thoughts

Why Embed Derivatives in Funding?

WHY STRUCTURED REPO

- Fulfills funding need
  - Source of Liquidity
  - Take advantage of curve shape (unlike CDs)
  - Ability to structure funding which you can't achieve via local depositors
- NIM relief
  - Work with the balance sheet
- Interest rate risk management
  - Fixed or floating
  - Add risk reducing "Caps" and "Floors"
- Greater structural flexibility
- Loan modification with no realized gain or loss
- Accounting friendly
- Cash flow timing

What Derivatives can be Embedded in a Funding Vehicle

TYPICAL EMBEDDED DERIVATIVES

- Swaps
  - Fixed or Floating
- Swaptions/Calls/Puts
  - Lower funding levels by shorting option
  - Can also go long the call to increase convexity (increases funding cost, which usually deters from executing)
- Caps/Floor (Risk Reducing)
  - Premium paid by increasing funding level
  - Value extracted by reduced funding levels if in-the-money
  - Multiple caps and/or floors can be embedded

Agenda

Structured Repurchase Agreements

STRUCTURED REPURCHASE AGREEMENTS

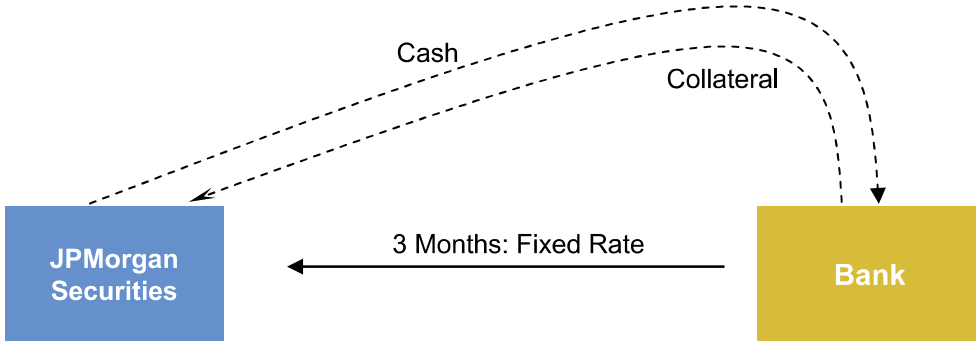
- Building Blocks of Structured Repo
- Funding Structures
- Hedging Strategies
- NIM Relief
- Other Thoughts

Structured Repo Mechanics:
Just Like Regular Repo but with Longer Maturity

STRUCTURED REPURCHASE AGREEMENTS

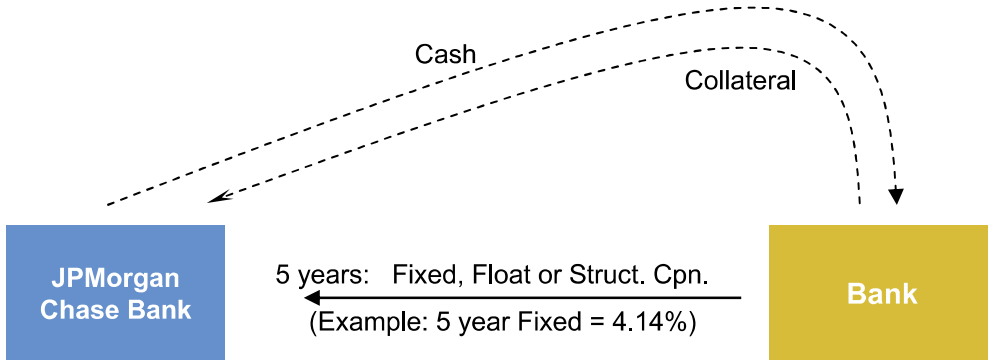
Traditional Repo: 3m Term

- Final Maturity: 3 months
- Client Pays: Fixed Rate



Structured Repo: 5 Year Term Funding

- Final Maturity: 5 years
- Client Pays: Fix / Float / Structured Coupon



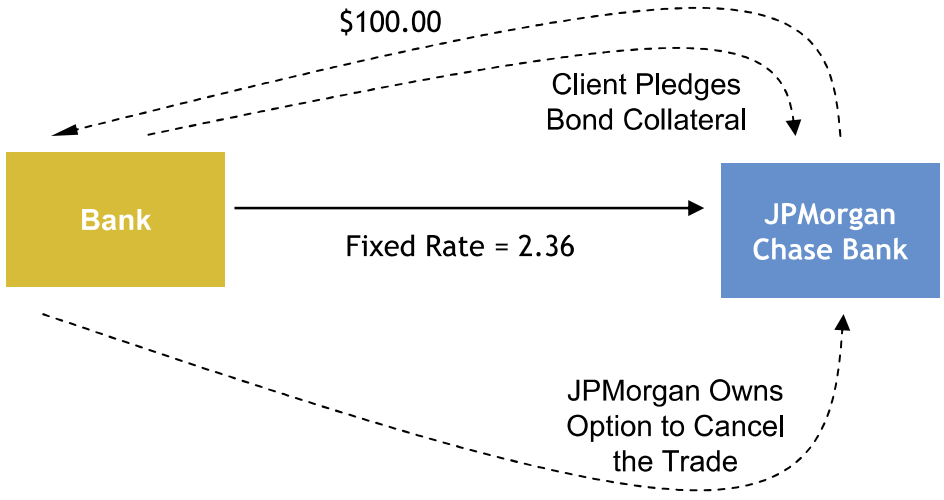
Sample Structure: Putable (aka FHLB's"convertible")

STRUCTURED REPURCHASE AGREEMENTS

Reduce Funding Rate by Selling Option to Cancel the Contract

5 year NP (no put) 1 year

Maturity:	5 years
Fixed Rate:	2.36
Payment Convention:	Qtly, Act/360
Option:	JPM owns right to cancel
Option Start/ Frequency:	1 year / Quarterly thereafter



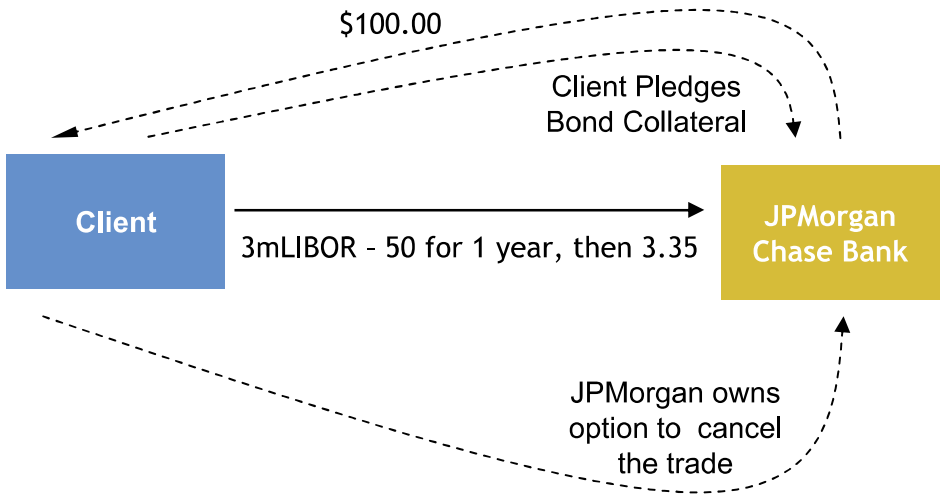
Sample Structure: Flipper

STRUCTURED REPUR CHASE AGREEMENTS

Funding with a Floating Term followed by a Fixed Term (If not put back/cancelled)

5 year NP (no put) 1 year

Maturity:	5 years
Rate:	3mLIBOR - 50, then 3.35
Payment Convention:	Qtly, Act/360
Option:	JPM owns right to cancel
Option Start/ Frequency:	1 year / Quarterly thereafter



Funding Structures

Building Blocks of Structured Repo with Embedded Caps and/or Floors

Fixed Rate Repo

Tenor	Rate
2Y	3.03
3Y	3.50
4Y	3.88
5Y	4.14
7Y	4.50
10Y	4.73

Fixed Puttable

Cancellation Lockout

Tenor	3m	6m	1y	2y	3y	5y
2Y	2.15	2.27	2.52			
3Y	2.09	2.22	2.45			
5Y	2.00	2.13	2.36	2.82	3.35	
7Y	1.96	2.08	2.30	2.75	3.26	4.01
10Y	1.87	1.99	2.21	2.64	3.12	3.84

Flipper Puttable

LIBOR Spread to Lockout

Tenor	Lockout	-25	-50	-75	-100
3Y	1Y	3.50	3.77	4.01	4.23
5Y	1Y	3.11	3.35	3.56	3.74
	2Y	4.66	5.03	5.36	5.65
7Y	1Y	2.91	3.14	3.33	3.50
	2Y	4.14	4.46	4.74	4.99
10Y	1Y	2.65	2.86	3.04	3.20
	2Y	3.62	3.91	4.16	4.38
	3Y	4.37	4.73	5.04	5.32

Embedded Long Cap Running Cost

Strike

Tenor	2.27	2.77	3.27
2Y	L + 53	L + 36	L + 25
3Y	L + 95	L + 73	L + 55
4Y	L + 131	L + 105	L + 83
5Y	L + 156	L + 128	L + 103

Embedded Long Floor Running Cost

Strike

Tenor	2.27	1.77	1.27
2Y	L + 47	L + 27	L + 14
3Y	L + 43	L + 25	L + 14
4Y	L + 40	L + 24	L + 13
5Y	L + 39	L + 24	L + 13

As of: 11/7/08
3m Rate: 2.27

Liability Sensitive

Fixed Puttable
1 Embedded Cap Struck at 2.27
2 Year Cap and Lockout

Tenor	Rate
5Y	3.24
7Y	3.15
10Y	3.00

Flipper (L + 0) Puttable
2 Embedded Caps Struck at 2.27
2 Year Cap and Lockout

Tenor	Tail Rate
5Y	5.70
7Y	5.03
10Y	4.42

Asset Sensitive

Fixed Puttable
2 Embedded Floors Struck at 2.27
2 Year Floor and Lockout

Tenor	Rate
5Y	3.55
7Y	3.43
10Y	3.26

Flipper (L + 0) Puttable
1 Embedded Floor Struck at 2.27
2 Year Floor and Lockout

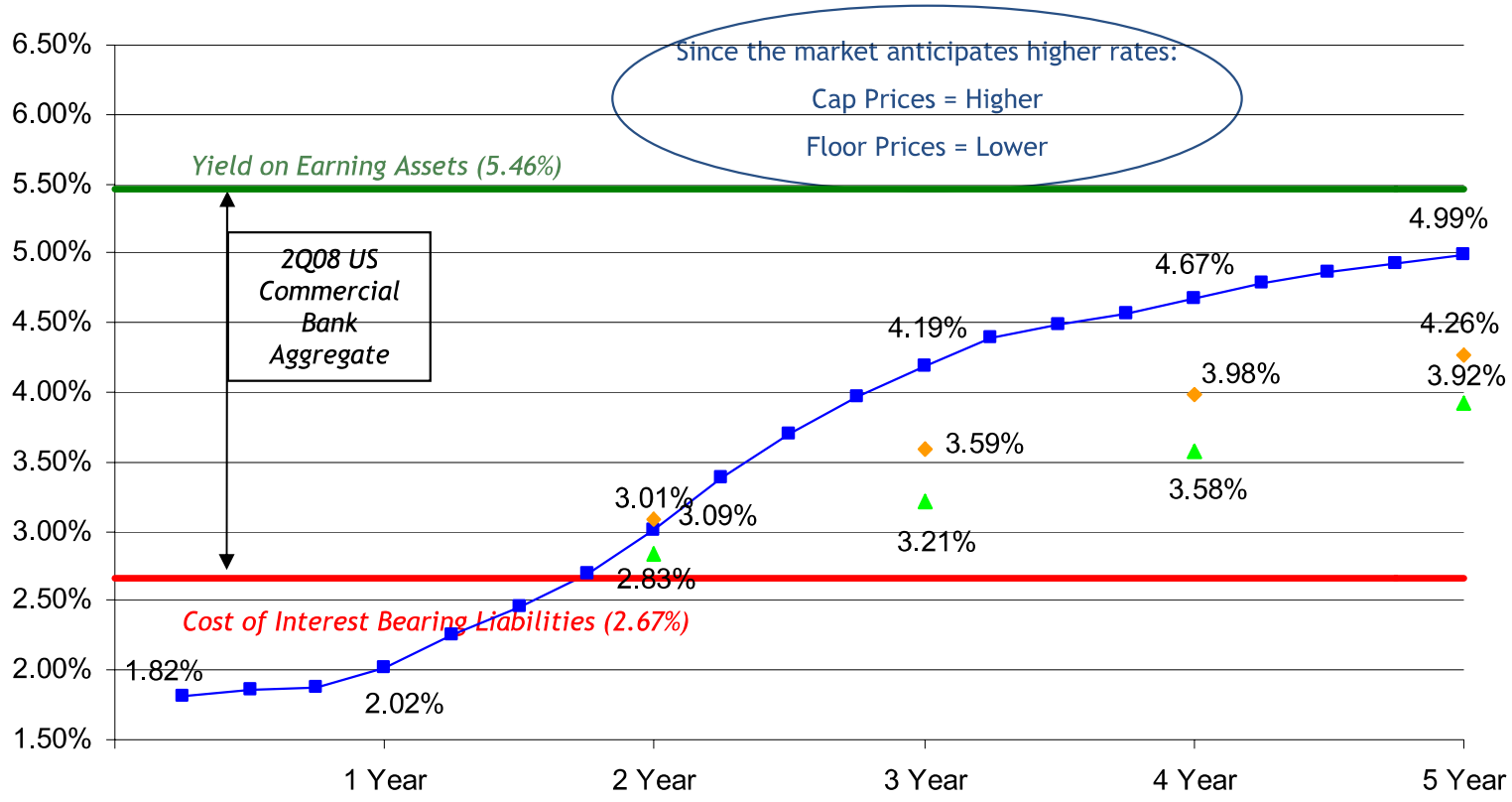
Tenor	Tail Rate
5Y	4.98
7Y	4.41
10Y	3.87

Opportunities in Today's Market

STRUCTURED REPURCHASE AGREEMENTS

RATE EXPECTATIONS

Market Expectations of 3 Month Rates Over Time



■ *EDSF Curve*

◆ *Bullet Funding*

▲ *Fixed Euro Putable Funding (10NP)*

Sources: EDSF Curve, Bloomberg; SNL

As of 11/10/08

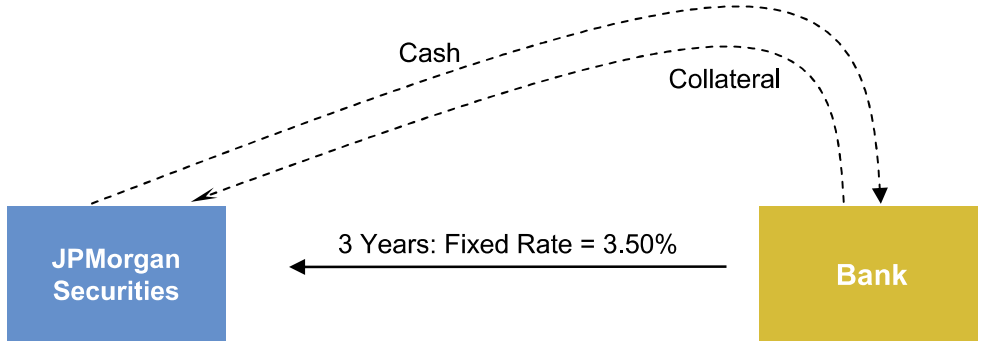
J.P.Morgan

Sample Structure: Creating a New Structure

Fixed Rate Funding with an Embedded Cap

Term Structured Repo: 3yr Term

- Final Maturity: 3 Years
- Client Pays: Fixed Rate



+

Embedded Cap: 3yr Term, 4.50% Strike

- Final Maturity: 3 Years
- Strike 4.50%
- Client Pays: 25bp/yr (Running)
- Client Receives: LIBOR – 4.50%
  If LIBOR > 4.50%

Sample Structure: Creating a New Structure (Cont)

Fixed Rate Funding with an Embedded Cap

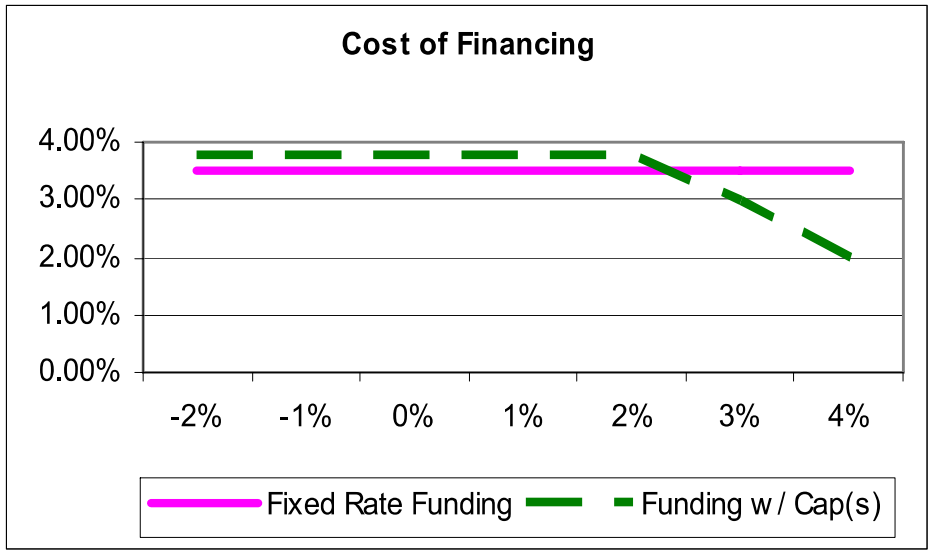
3 year Fixed Rate Funding with an Embedded Cap Struck @ 4.50%

3 year with an embedded Cap Struck @ 4.50%

Maturity:	3 years
Unhedged Funding Rate:	3.50%
Cap Premium:	0.25%
Base Cost:	3.75%
Cap Strike/Leverage:	4.50% / 1X
Rate:	Max (3.75% - Max(LIBOR – 4.50%,0), 0)

Cost of Funds - Scenario Analysis

Shock	LIBOR	Base Cost	Cap CF	Net
-2%	0.27%	3.75%	0.00%	3.75%
-1%	1.27%	3.75%	0.00%	3.75%
0%	2.27%	3.75%	0.00%	3.75%
1%	3.27%	3.75%	0.00%	3.75%
2%	4.27%	3.75%	0.00%	3.75%
3%	5.27%	3.75%	-0.77%	2.98%
4%	6.27%	3.75%	-1.77%	1.98%



Agenda

Structured Repurchase Agreements

STRUCTURED REPURCHASE AGREEMENTS

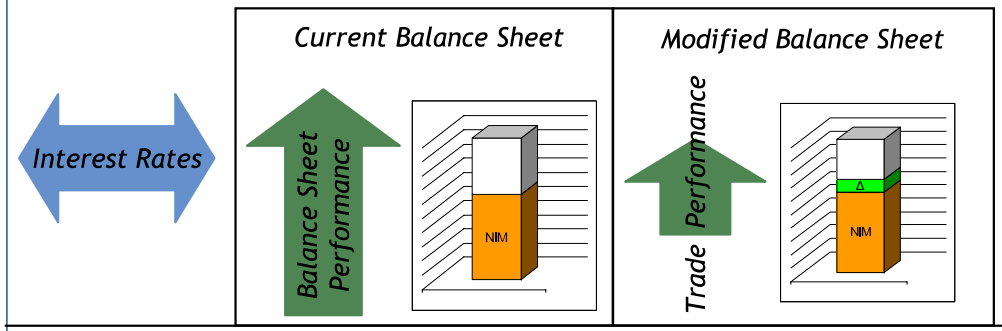
- Building Blocks of Structured Repo
- Funding Structures
- Hedging Strategies
- NIM Relief
- Other Thoughts

Liability Sensitive Financial Institution

STRUCTURED REPURCHASE AGREEMENTS

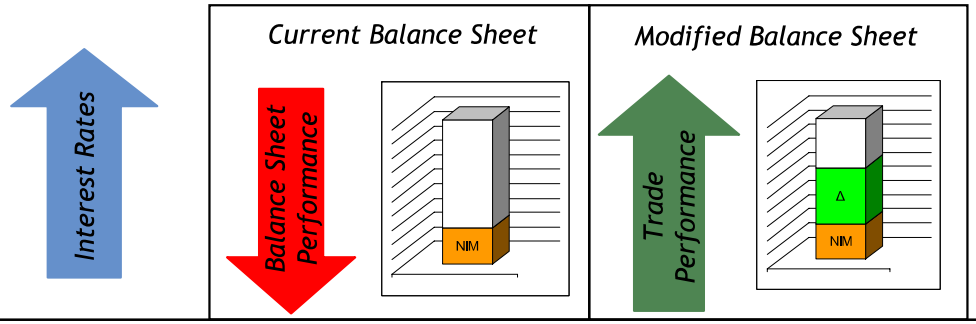
IMPACT OF A HEDGING TRADE ON THE BALANCE SHEET

- In a stable rate environment, the balance sheet should perform well



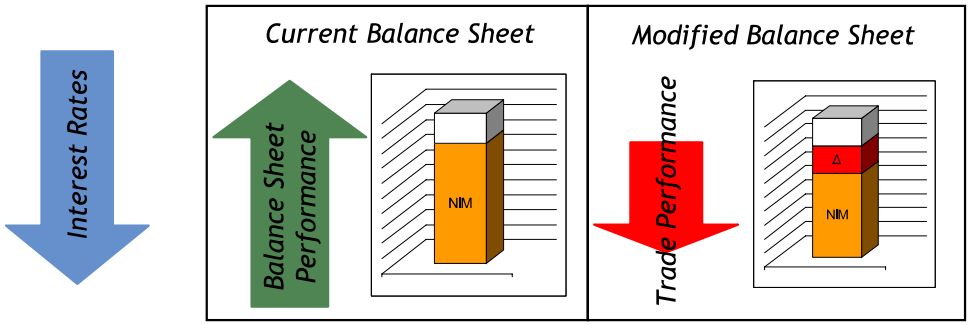
- If rates remain stable, leverage trade continues to generate NIM
- Caps embedded within structure still provide up-in-rates protection on a go-forward basis

- In a rising rate environment, the balance sheet will face NIM compression



- Due to rate sensitivity, balance sheet will struggle if un-hedged
- Fixed term funding provides protection
- Embedded cap(s) provides further protection
- Floating rate assets will help performance

- In a falling rate environment, the balance sheet will perform well



- Due to interest rate profile, balance sheet will outperform if un-hedged
- If rates fall, hedge will under-perform; however, remainder of balance sheet will outperform
- Absolute rates on funding are low

Typical Hedging Strategies

Liability Sensitive

- Funding
  - Fixed rate
  - Putable (take advantage of low rates)
  - Tail Remains in a lower rate environment
- Derivatives
  - Caps
  - Pay fixed swaps
- Assets
  - Floating Rate

Asset Sensitive

- Funding
  - Floating Rate
- Derivatives
  - Floors
  - Receive fixed swaps
- Assets
  - Longer MBS
  - Fixed rate
  - Callable with Lock-out
  - Tail remains in a higher rate environment

Liability Sensitive Bank - Hedging Against Rising Rates

Fixed Rate Funding with an Embedded Cap versus an Agency CMO Floater

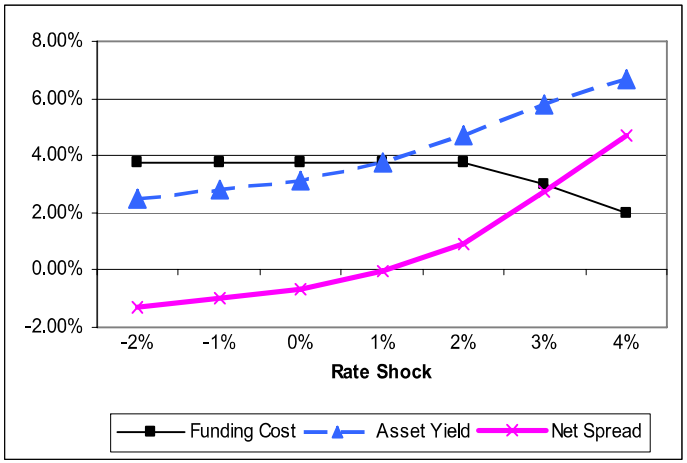
3 year Fixed Funding with an embedded Cap Struck @ 3.50%

Funding Maturity:	3 years
Unhedged Funding Rate:	3.50%
Cap Premium:	0.25%
Base Cost:	3.75%
Cap Strike/Leverage:	4.50% / 1X
Funding at Inception:	3.75% (Act/360)
Rate:	Max (3.75% - Max(LIBOR – 4.50%,0), 0)
Asset Yield (Agency CMO Floater):	1M LIBOR + 1.17% (B.E.Y.) – 7% Cap
Transaction Size:	$25MM

Cost of Funds - Scenario Analysis

Shock	LIBOR	Base Cost	Cap CF	Funding Cost	Asset Yield	Net Spread*	Annual Income
-2%	0.27%	3.75%	0.00%	3.75%	2.50%	-1.30%	(325,521)
-1%	1.27%	3.75%	0.00%	3.75%	2.81%	-0.99%	(248,021)
0%	2.27%	3.75%	0.00%	3.75%	3.14%	-0.66%	(165,521)
1%	3.27%	3.75%	0.00%	3.75%	3.78%	-0.02%	(5,521)
2%	4.27%	3.75%	0.00%	3.75%	4.74%	0.94%	234,479
3%	5.27%	3.75%	-0.77%	2.98%	5.76%	2.74%	684,653
4%	6.27%	3.75%	-1.77%	1.98%	6.69%	4.68%	1,170,625

*** Converts funding to a bond basis**



Agenda

Structured Repurchase Agreements

STRUCTURED REPURCHASE AGREEMENTS

- Building Blocks of Structured Repo
- Funding Structures
- Hedging Strategies
- NIM Relief
- Other Thoughts

NIM Relief

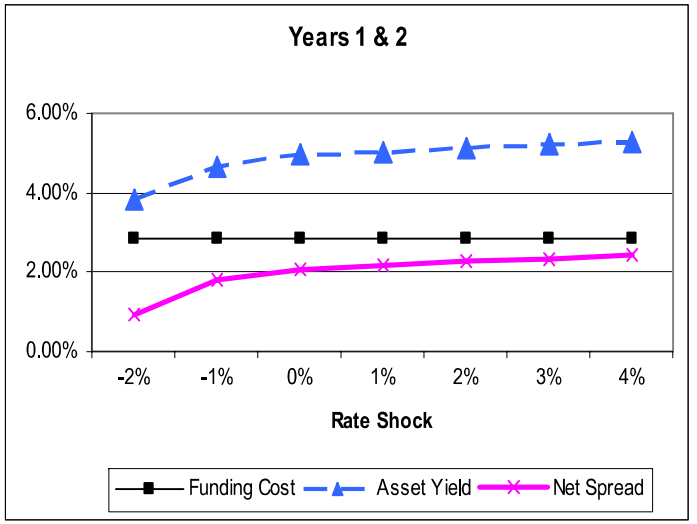
Fixed Rate Putable Funding versus an Agency P/T

5 year NP 2 year Fixed Funding vs Agency P/T

Funding Maturity:	5 Years (Putable After 2 years)
Base Cost (Rate for Years 1 & 2):	2.82%
Tail Rate (Years 3 – 5):	2.82% If not put back (cancelled) - Quarterly Put
Transaction Size:	$25MM
Asset:	FNCI 15yr 5% @99-19

Cost of Funds - Scenario Analysis (Years 1 & 2)

Shock	LIBOR	Base Cost	Cap CF	Funding Cost	Asset Yield	Net Spread*	Annual Income
-2%	0.27%	2.82%	0.00%	2.82%	3.81%	0.95%	237,708
-1%	1.27%	2.82%	0.00%	2.82%	4.66%	1.80%	450,208
0%	2.27%	2.82%	0.00%	2.82%	4.94%	2.08%	520,208
1%	3.27%	2.82%	0.00%	2.82%	5.04%	2.18%	545,208
2%	4.27%	2.82%	0.00%	2.82%	5.12%	2.26%	565,208
3%	5.27%	2.82%	0.00%	2.82%	5.20%	2.34%	585,208
4%	6.27%	2.82%	0.00%	2.82%	5.28%	2.42%	605,208



* Converts funding to a bond basis

Balancing NIM Relief & Risk Mitigation

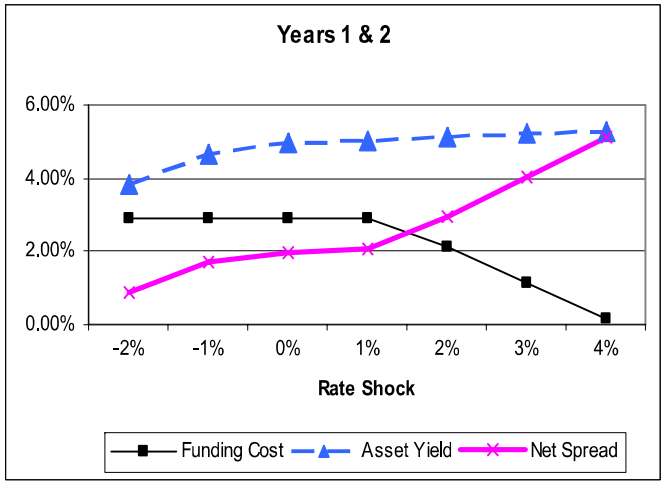
Fixed Rate Putable Funding with an embedded cap versus an Agency P/T

5 year NP 2 year (w/ 1 cap at 3.50%) Fixed Funding vs Agency P/T

Funding Maturity:	5 Years (Putable After 2 years)
Unhedged Rate for Years 1 & 2:	2.82%
Cap Premium:	0.09%
Cap Strike/Leverge	3.50%/1X
Rate for Years 1&2:	Max(2.91%-Max(LIBOR-3.50%,0%),0%)
Tail Rate (Years 3 – 5):	2.91% If not put back (cancelled) - Quarterly Put
Transaction Size:	$25MM
Asset:	FNCI 15yr 5% @99-19

Cost of Funds - Scenario Analysis (Years 1 & 2)

Shock	LIBOR	Base Cost	Cap CF	Funding Cost	Asset Yield	Net Spread*	Annual Income
-2%	0.27%	2.91%	0.00%	2.91%	3.81%	0.86%	214,896
-1%	1.27%	2.91%	0.00%	2.91%	4.66%	1.71%	427,396
0%	2.27%	2.91%	0.00%	2.91%	4.94%	1.99%	497,396
1%	3.27%	2.91%	0.00%	2.91%	5.04%	2.09%	522,396
2%	4.27%	2.91%	-0.77%	2.14%	5.12%	2.95%	737,569
3%	5.27%	2.91%	-1.77%	1.14%	5.20%	4.04%	1,011,042
4%	6.27%	2.91%	-2.77%	0.14%	5.28%	5.14%	1,284,514



* Converts funding to a bond basis

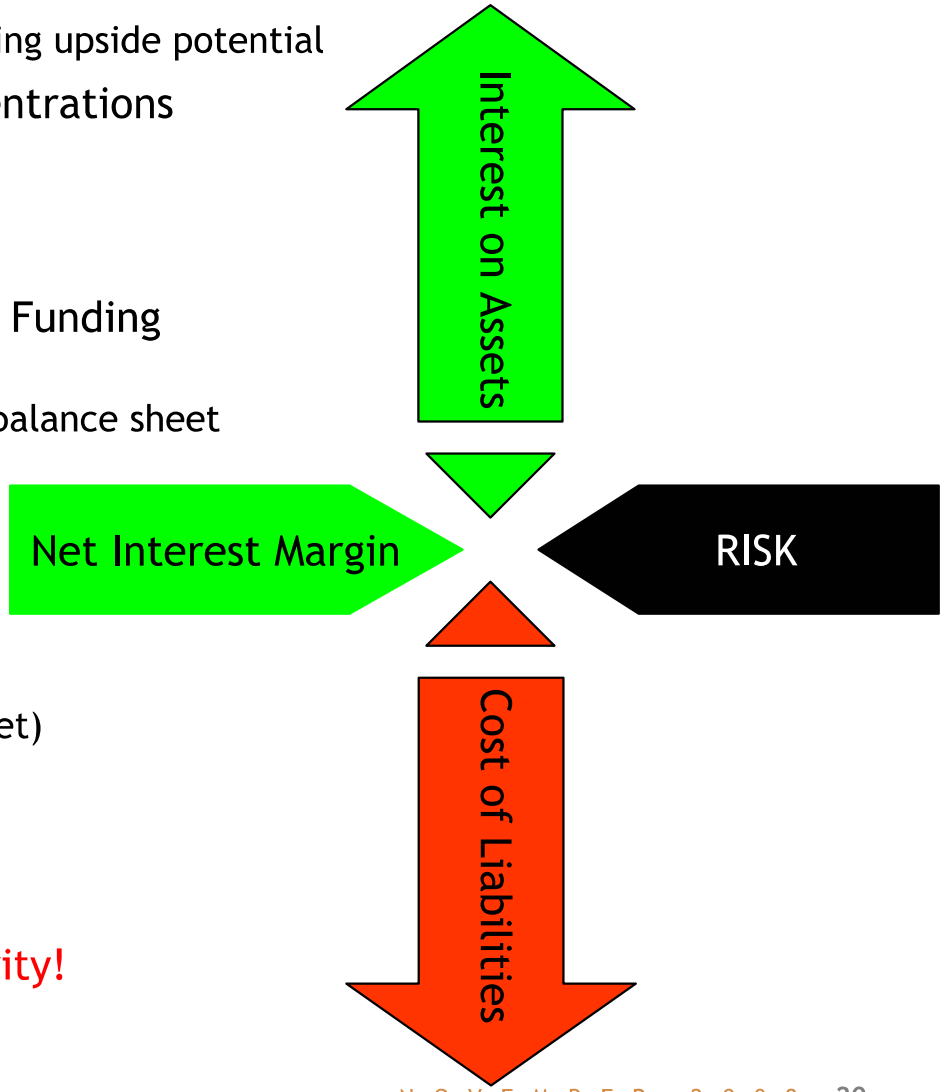
J.P.Morgan

Balance Risk Mitigation and NIM Relief

STRUCTURED REPURCHASE AGREEMENTS

UNDERSTAND WHAT YOU HAVE

- Risk management
  - Hedging current A/L position
    - Offsetting downside losses while curbing upside potential
  - Managing existing Balance Sheet concentrations
    - Add fixed rate funding
    - Add floating rate assets
    - Embed caps
  - Pushing risk into the future (tail risk) - Funding
    - Absolute levels of funding are low
    - Works along with a liability sensitive balance sheet
    - Balance Sheet growth
    - Balance Sheet diversification
- NIM generation
  - Decrease cost of funding
  - Increase asset yield (Use dislocation in Market)
  - Use wholesale leverage (TARP Capital?)



Work with the existing Balance Sheet Sensitivity!

Agenda

Structured Repurchase Agreements

STRUCTURED REPURCHASE AGREEMENTS

- Building Blocks of Structured Repo
- Funding Structures
- Hedging Strategies
- NIM Relief
- Other Thoughts

Other Thoughts

- Let the balance sheet drive the funding/hedging strategies
  - Use tails to offset strengths
  - Insurance versus leverage
- Funding Needs versus Balance Sheet A/L
  - Accounting/Income Friendly
  - May Dilute R.O.A, not R.O.E.
  - Embed multiple caps or floors
- Yield Curve considerations (take advantage of the low absolute rates)
- Flexibility

Relevant FAS133 "guardrails" for avoiding bifurcation

- Banks have MANY financial instruments on their balance sheets with embedded derivatives, without having to bifurcate the derivatives under FAS133.
  - *Callable agencies, ARM's with caps, floating rate commercial loans with floors, etc*
- Embedded derivative must be considered "clearly and closely related" to the host contract *(as per FAS133, paragraph 12)*
  - *Under the guidelines in DIG Implementation issue B19, we define the host contract in our example as a 3 year LIBOR floater*
  - *Since both the floor and the host contract are interest rate products, we believe the "clearly and closely related" condition is satisfied*
- Investor (lender) must be assured of receiving substantially all its initial investment back regardless of the impact of the derivative (as per FAS133, paragraph 13(a))
  - *Placing a floor of 0% on the borrowing rates ensures that the lender at a minimum would always at least receive its principal back, even if the embedded floor drives the rate to 0%*
  - *There is debate over the word "substantially" - some have taken it to mean that a modest amount of lost principal might be permitted*
- Return to the investor (lender) cannot more than DOUBLE as a result of the embedded derivative (as per FAS133, paragraph 13(b)(i))
  - *Since the embedded floor/cap in funding can only REDUCE the return to the lender, there are no circumstances under which this condition would be violated*