

**Meeting Between Federal Reserve Staff
and Representatives of Morgan Stanley
November 10, 2010**

Participants: Lawrence Rufrano, Molly Mahar, Matthew Eichner and Flora Ahn (Federal Reserve Board); and Diane Maurice (Federal Reserve Bank of New York)

Steve D'Antonio, Vishwanath Tirupattur, David Moffitt, Lydia Foo, Su Bai, Jim Lee and Soo-Mi Lee (Morgan Stanley)

Summary: Staff of the Federal Reserve met with representatives of Morgan Stanley to discuss mortgage-backed securities and the Federal Reserve Board's responsibilities under section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Representatives of Morgan Stanley provided Federal Reserve Board staff with a presentation of their overall views on credit risk retention requirements. A copy of the handout provided by Morgan Stanley at the meeting is attached below. The handout formed the basis for discussions at the meeting and summarizes the issues discussed.

Morgan Stanley

Federal Reserve Board

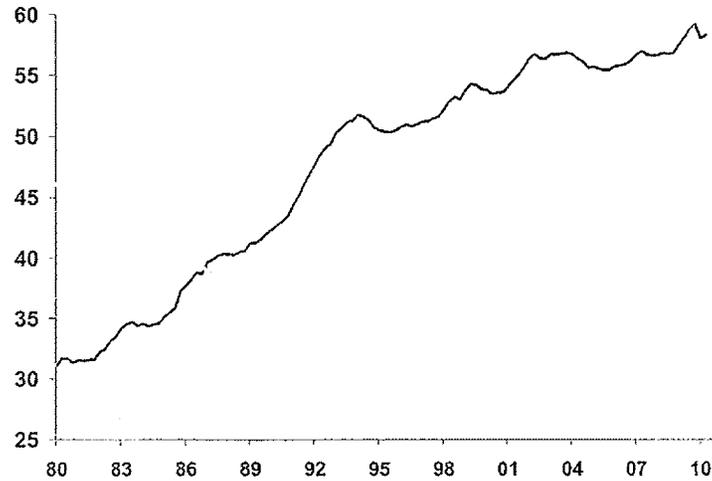
Discussion Materials

November 10, 2010

Securitization is an Important Source of Credit Intermediation

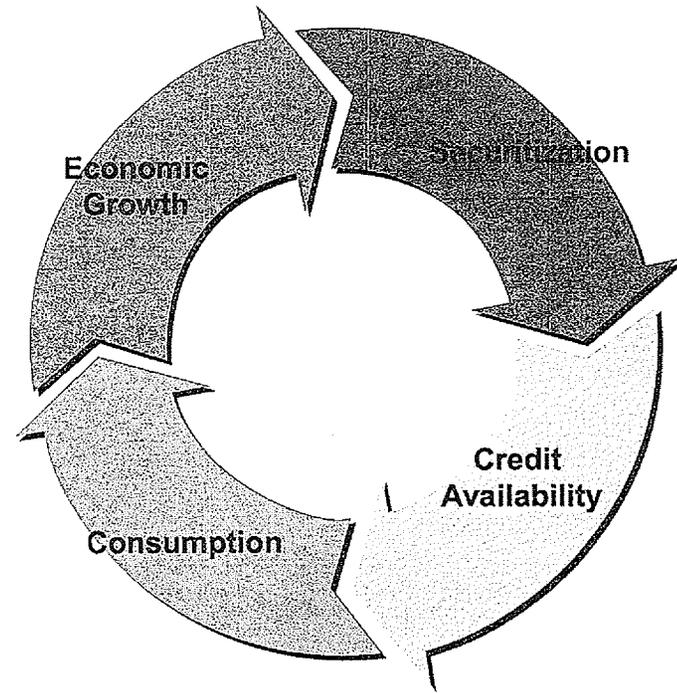
Trends in Credit Intermediation

(Share of Private Nonfinancial Debt Outstanding, Percent)



— Intermediated Through Securities Markets
- - - Intermediated Through Depository Institutions

Source: Federal Reserve

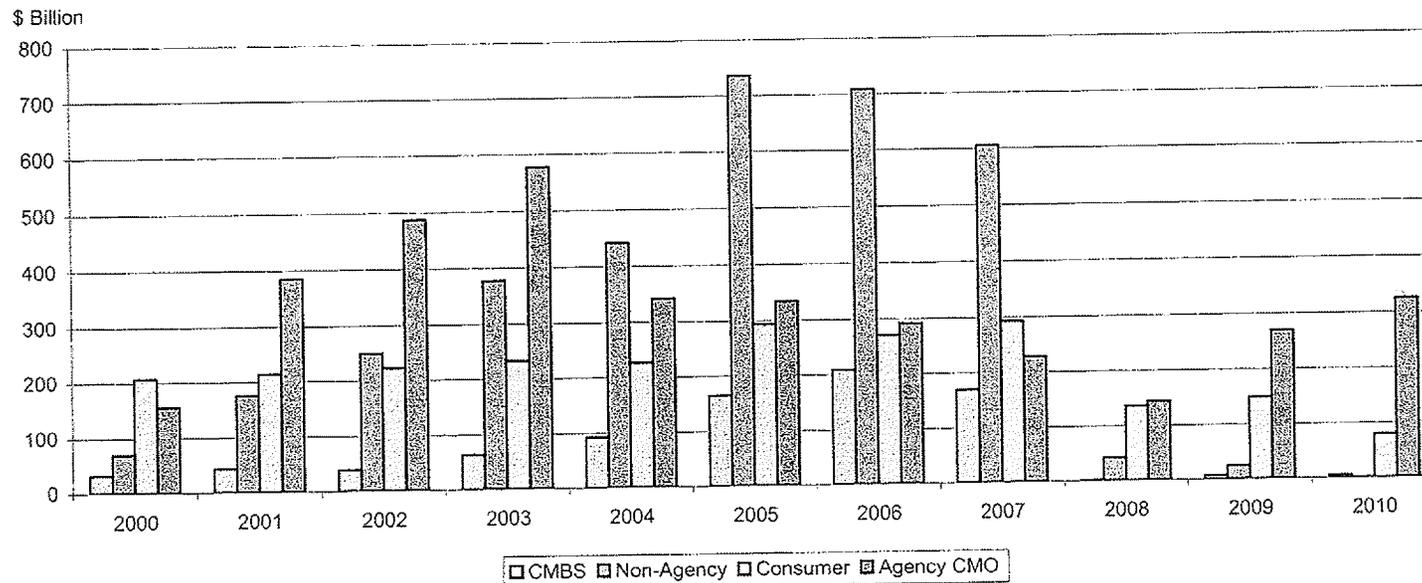


Source: Morgan Stanley Research

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Securitization Issuance by Year and Product Type



Source: SIFMA, TREPP, Bloomberg, Commercial Mortgage Alert, Morgan Stanley

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Performance of Broad Categories of Securitized Products⁽¹⁾

	Estimated Losses to Investment Grade Tranches ⁽²⁾				Outstanding Market Size ⁽³⁾ (Billion \$)
	To Date		Life time		
	Low	High	Low	High	
ABS CDO⁽⁴⁾					
- Mezzanine ABS CDO (2005-07 vintages)	60%	70%	75%	90%	80
- High Grade ABS CDO (2005-07 vintages)	30%	35%	60%	70%	170
Non-Agency RMBS					
- Sub prime (2005-07 vintages) ⁽⁵⁾	5%	15%	15%	45%	467
- Alt-A (2005-07 vintages) ⁽⁶⁾	5%	15%	15%	35%	626
- Jumbo prime (2005-08 vintages) ⁽⁷⁾	0%	2%	3%	10%	341
Agency RMBS⁽⁸⁾	0%	0%	0%	0%	6,739
CMBS (2005-2007 vintages)⁽⁹⁾	0%	0%	2%	15%	769
CLO (2004-08 vintages)	0%	0%	0%	1%	319
Credit Card ABS	0%	5%	0%	5%	222
Auto loan ABS	0%	0%	0%	0%	129
Student loan ABS (FFELP)	0%	0%	0%	2%	249
Student loan ABS (Private Credit)	0%	0%	5%	35%	(included above)

Notes:

⁽¹⁾ Losses to investment grade tranches have been calculated using estimates of pool losses and applying a generic capital structure for each category of securitized products.

⁽²⁾ Investment grade tranches defined as tranches originally rated BBB/Baa and higher.

⁽³⁾ Outstanding market size for Agency RMBS includes \$5,468 billion of pass-throughs and \$1,270 billion of agency CMOs as of Q2, 2010. Market size estimates are based on data from SIFMA and S&P for all categories except CLO and ABS CDOs which are Morgan Stanley estimates. 2005-2007 vintage issuance of ABS CDOs were \$140 billion and \$260 billion for mezzanine and high grade ABS CDOs respectively.

⁽⁴⁾ ABS CDO losses are based on Morgan Stanley estimates.

⁽⁵⁾ For subprime, pool losses to date are based on ABX 2006-1 for low and ABX 2007-2 for high. Expected life time losses are based on "Subprime RMBS Loss Projection Update: February 2010", Moody's Investors Service, Feb 24, 2010.

⁽⁶⁾ For Alt-A, pool losses to date are based on Morgan Stanley proprietary indices - 2006-2 Fixed for low and 2007-2 Hybrid for high. Expected life time losses are based on "Alt-A RMBS Loss Projection Update: February 2010", Moody's Investors Service, Feb 24, 2010.

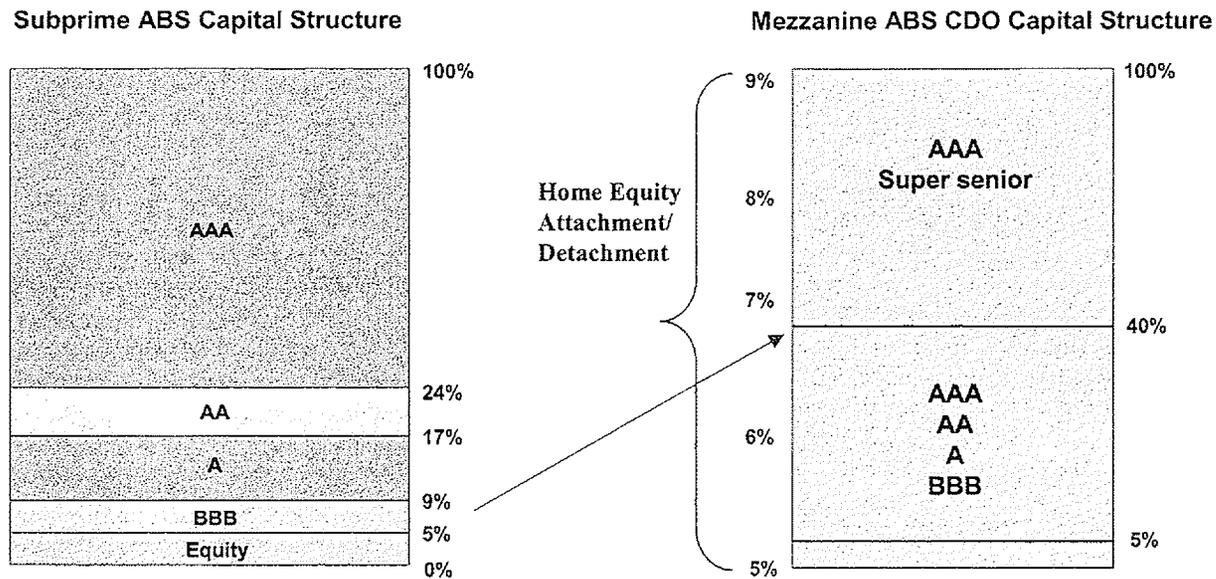
⁽⁷⁾ For Jumbo Prime, pool losses to date are based on PrimeX indices - FRM1 for low and ARM2 for high. Expected life time losses are based on "Prime Jumbo RMBS Loss Projection Update: January 2010", Moody's Investors Service, Jan 20, 2010).

⁽⁸⁾ No credit losses assumed due to government guarantees for Agency RMBS. There may be losses in premium bonds due to prepayments.

⁽⁹⁾ CLO, credit card, auto and student loan ABS losses are based on Morgan Stanley estimates.

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An Illustration of ABS CDO Securitization



Source: Morgan Stanley

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