UC Mortgage Strategies Market Update
September 2007

Update of Recent Market Events

- US housing market is slowing down significantly
- Inventory in both new and existing homes have increased considerably over the past six months
- Delinquencies and foreclosures have increased for borrowers with subprime credit
- There is little to no liquidity in any asset-backed security whose underlying collateral is a subprime mortgage as market participants re-price risk
- Financial institutions have tightened liquidity which has caused a spillover to capital markets above and beyond the subprime issues

UC Pension Subprime Exposure

- **UC fixed income portfolios have not experienced any losses due to the collapse of the subprime mortgage market**
- **Current exposure to subprime is less than 1% of Plan assets with an average estimated maturity of less than 1 year.**
- **The UC Retirement Plan's only investments with exposure to subprime mortgages are AAA-rated senior tranches of asset-backed securities with subprime underlying collateral. These securities have the highest priority in terms of principal and interest payments and are buffered from loss by several lower rated tranches in each deal. Average credit enhancement (protection) is 35% of the deal.**
- **Office of the Treasurer staff has stress tested each of these holdings using scenarios with extremely high foreclosures, low recovery rates and large home price declines and it is our best judgment that it is highly unlikely these senior tranches will experience any principal losses.**

Glossary of Terms

- Subprime Mortgage Loans:
  - Subprime mortgage loans generally are first lien mortgage loans to subprime borrowers.
  - The whole underwriting process for originating subprime mortgage loans is less strict than for prime-quality mortgage loans.
  - A typical subprime borrower has been delinquent on his housing payments at least once during the preceding year or has a credit score below 620
  - Typical subprime loans are 2/28 and 3/27 loans, which provide for two-year and three-year fixed-rate periods, respectively, after which loans convert to ARMs (Adjustable Rate Mortgages). Many subprime mortgage loans include prepayment penalties
  - Subprime mortgage loans are riskier than prime-quality mortgage loans. They have both weaker credit borrowers and lower collateral coverage
- Average Life
  - Is calculated as the weighted average time to principal repayment, with the amount of the principal paydowns as the weights
  - Expresses the average number of years that each principal $ will be outstanding

Source: Office of the Treasurer of the Regents
September 20, 2007