Credit Opportunities Discussion

Implications of TALF and PPIP &
Overview of the BlackRock Term Asset Backed Securities Opportunities Fund II

Presentation Outline

I. What is TALF: Purpose, Scope, and Mechanics

II. What is PPIP: Purpose, Scope, and Mechanics

III. Differences between TALF and PPIP

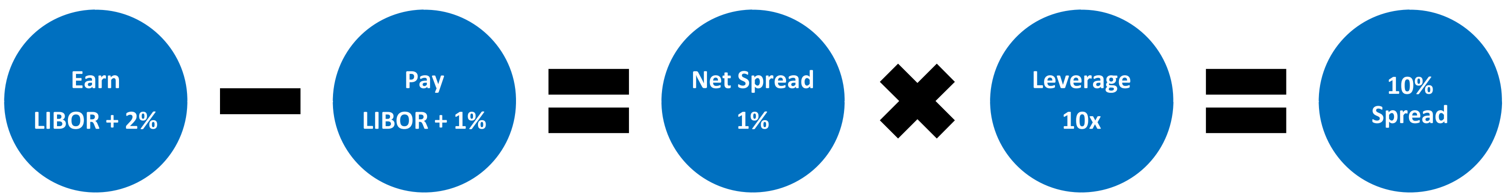
IV. Opportunities within TALF and PPIP

V. Observations about PPIP and TALF

What is TALF ("Term Asset-Backed Lending Facility")

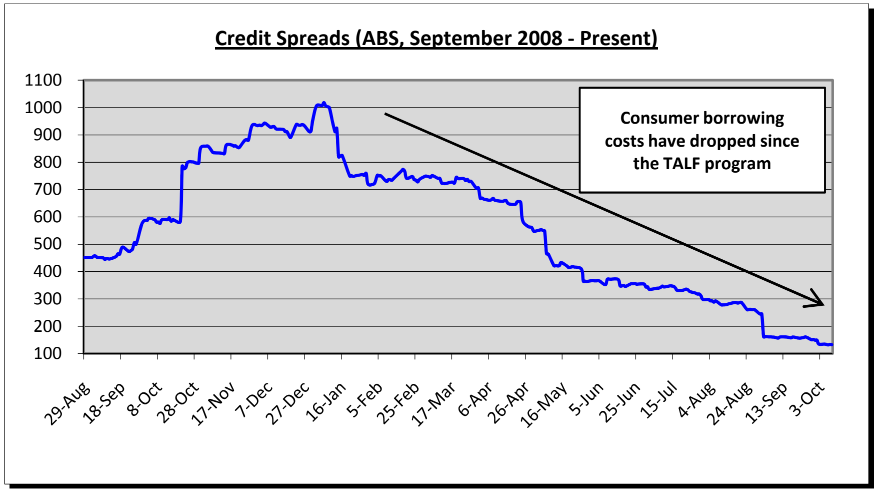
- Version 1.0 was created in November 2008 by the Federal Reserve, overseen by NY FRB
- Countervailing measure designed to resuscitate the ailing securitization market for consumer finance (i.e., auto loans, credit card loans, student loans).
  - At its peak, the ABS market had supplied roughly 50% of consumer financing needs.
  - New issuance ceased following Lehman Brothers and spreads (i.e., a proxy for consumer borrowing costs) rose dramatically. Ergo, credit availability dropped and credit costs soared.
- Goals: restart securitization market, support economic activity, and lower borrowing costs
- Scope and Mechanics:
  - FRB will lend up to $200 billion to holders of newly issued AAA-rated ABS on very generous terms: low interest rate, non-recourse loans which are not subject to mark to market or re-margining requirements.
  - TALF window opens up 1x a month (1st Tuesday) and lending is set to expire in March 2010 (unless the FRB extends the program)

    - Low margin requirements (typically 5% to 15%)
    - Newly issued ABS have minimal credit risk
        - Most have a weighted average life of approximately 3 years.
- Summary
    - Finite opportunity (opened March 2009, set to close March 2010)
        - <u>Not distressed assets</u>
    - Pure carry trade enhanced with leverage, government as prime broker
        - Investors are rewarded with generous financing terms in exchange for providing liquidity to the ailing ABS market.

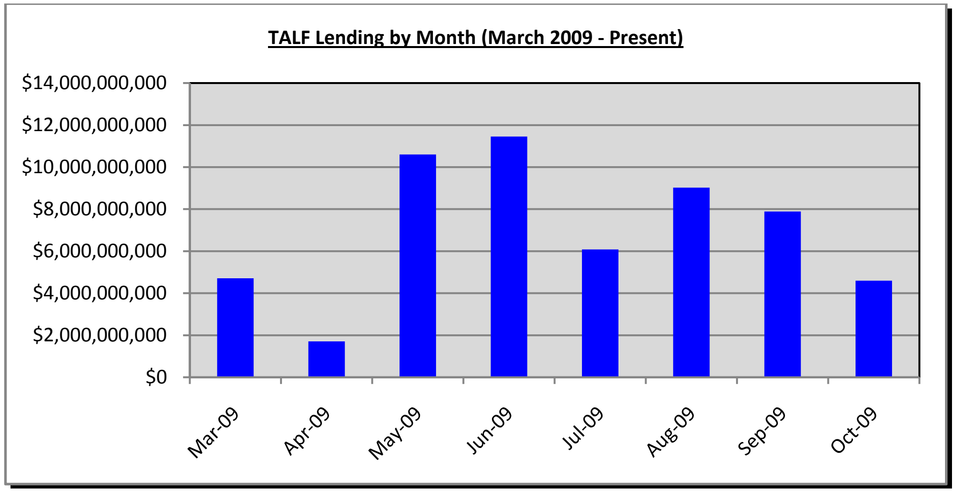


    - Expected investment life of 3 years
    - Expected returns of 5.5% to 7.5%
    - Primary risk is extension risk (i.e., asset cash flows extend beyond final maturity of TALF loan)
    - First mover advantages to those who participated in March and April offerings.

- Limited supply relative to enormous purchasing power ($500mm assets equals approximately $5B in purchasing power), and narrowing spreads reducing the carry (i.e., the net spread) have made this opportunity less attractive.



Source: Barclays Capital



Source: FRBNY

What is TALF ("Term Asset-Backed Lending Facility")

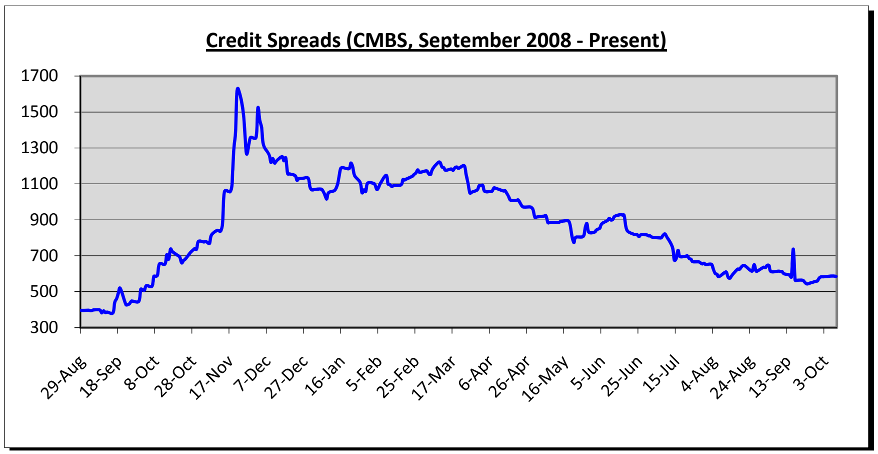
- Version 1.0 was modified in April 2009 to include newly-issued AAA-rated Commercial Mortgage Backed Securities (CMBS).
- Countervailing measure designed to resuscitate the ailing securitization market for commercial mortgages.
  - In 2007, the CMBS market accounted for roughly 50% of commercial mortgage originations.
  - Borrowing costs are high and credit availability is scarce.
- Goals: restart the securitization market, prevent defaults, facilitate sales, and improve credit availability in commercial real estate.
- Same generous terms (non-recourse, low rate, non mark to market), but higher haircuts (typically 15% for a CMBS with a weighted average life less than five years) and under same original $200 billion max loan amount.
- Greater credit risk than ABS (i.e., no excess spread and/or reserve accounts), although risk is low given subordination and current underwriting standards
- Greater extension risk than ABS given balloon payments and a slightly longer weighted average life (i.e., 5 years vs. 3 years)

What is TALF ("Term Asset-Backed Lending Facility")

- Version 2.0 was created in May 2009 to include legacy issued, super-senior (30% credit enhanced) AAA-rated (current) Commercial Mortgage Backed Securities (CMBS).
    - Securities cannot be on watch for downgrade or on review
    - Securities cannot have external third party guarantee
- Countervailing measure designed to remove assets from financial firms' balance sheets, freeing up capacity to make new loans. Secondary goals are to improve market liquidity and promote more efficient pricing of risk.
- Increases TALF loan pool from $200 billion to $1 trillion.
- Same generous terms (non-recourse, low rate, non mark to market) with similar haircuts (typically 15% for a CMBS with a weighted average life less than five years, increasing by 1% for each year beyond 5 years, to a maximum 20% haircut and a maximum 5-year loan term)
    - Haircut is applied to purchase price, not par (as with newly issued ABS/CMBS). Designed to protect taxpayer as effective haircut increases with a more distressed asset (i.e., less financing is available for lower priced assets).

- Summary (TALF 2.0 – Legacy CMBS)
  - Finite opportunity (opened March 2009, set to close March 2010)
    - <u>Assets trading at below par and assets currently trading in secondary market</u>
  - Pure carry trade enhanced with leverage, government as prime broker
    - Investors are rewarded with generous financing terms in exchange for providing liquidity to the ailing CMBS market.
  - Expected investment life of 5 years
  - Expected returns of 10% to 15% (see table an example below)
  - Higher credit risk than ABS
    - ABS credit analysis relatively rudimentary; emphasis is on structural analysis
    - CMBS credit analysis far more complex, requires both sophisticated modeling augmented by fundamental real estate knowledge
  - Higher extension risk
  - Legacy program presents more operational challenges for Fed and for an investor given evolving credit dynamics in commercial real estate
    - Fed will use Trepp as collateral monitor and may DK securities

- “Unacceptable” collateral performance, including cumulative losses, high percentage of specially serviced loans, high percentage of watch-listed loans, high concentration, etc.)
  - S&P has downgraded many CMBS issues over the past six months, creating significant uncertainty as to TALF-eligibility
- Limited supply (estimate $100 billion) given that securities must be super-senior and currently AAA-rated, and the inherent extension risk/balloon default risk of shorter duration CMBS.
  - Less purchasing power (and less leverage) given higher haircuts
- Spreads have narrowed but remain wide relative to ABS.
- Expected to launch in August with gradual capital calls



Source: Barclays Capital

ROE* given entry/exit price under five-year TALF: Deutsche Bank research						
	75	80	85	90	95	**Walk-away****
75	23%	27%	30%	33%	35%	**-10%**
80	18%	22%	26%	29%	32%	**-12%**
85	12%	17%	21%	25%	28%	**-13%**
90	3%	10%	15%	20%	24%	**-15%**
95	9%	2%	9%	14%	19%	**-16%**

ROE figures based on compounded monthly IRR

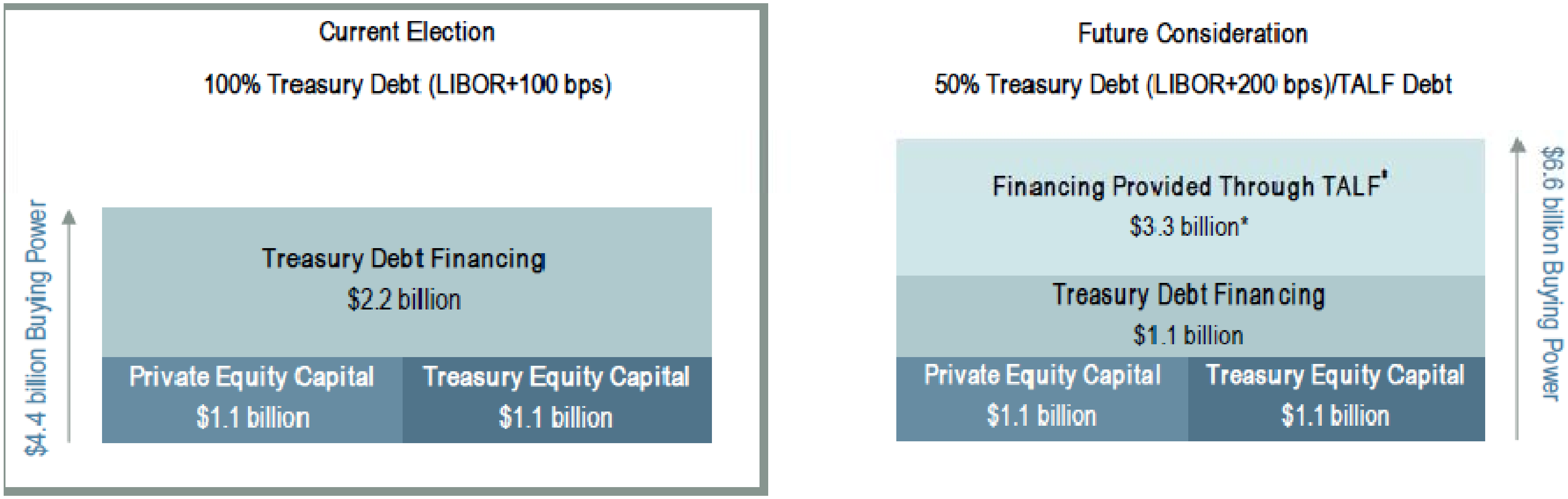
*****Walk-away assumes investor exercises put option to FRB at end of term***

TALF CMBS - Trade example	
Face Value	$100,000,000
Price	$74.25
YTM	10.87%
Coupon	5.88%
Haircut (on face)	$19,000,000
Loan Term	5 years
Loan rate (5-yr. swaps + 1%)	4.41%
Loan amount	$55,250,000
Coupon Interest	$5,880,000
Loan Interest	($2,436,525)
Net Cash Flow	$3,443,475
Cash Yield (annual)	18.12%

IRR at end of 5-year TALF Loan	
Exit Price	**IRR**
74.25 (purchase price)	19.6%
$87.63 (YTM step-up)	28.5%
$91.13	30.5%
$100.00	34.9%
Walk-away	-15.9%

What is PPIP ("Public Private Investment Program")

- Announced in February 2009, overseen by and partnering with the Treasury, with possibility of incremental financing from the FRB



- Combines private capital with public capital and public debt to purchase legacy securities (RMBS and CMBS) originally rated AAA. Goal is to remove troubled assets from balance sheets, improve secondary market liquidity and better pricing of risk.
    - Assets are trading at distressed prices

- Scope and Mechanics:
  - Selected managers (9) operate independently, limited government involvement beyond reporting requirements
    - Financing: Loans are long-term (10 years) and at fund level (i.e., cross-collateralized)
      - TALF 2.0 where loans are expected to be 5-year maximum and financing is done on a security by security basis
    - Terms are generous (Libor + 1%)
  - Estimated $40 billion aggregate capital/purchasing power
  - Estimated supply (market value, most senior tranches, originally-rated AAA): $1.2 trillion (RMBS: $800 billion, CMBS: $400 billion)
    - Prime: $350 billion
    - Alt-A: $340 billion
    - Subprime: $100 billion
    - CMBS Fixed: $440 billion
- Summary (PPIP)
  - Longer-term distressed credit opportunity
  - Expected investment life of at least 5 years, <u>but specific to PPIF risk budget</u>
    - <u>Some PPIFs have option of purchasing whole loans</u>

- Expected returns of 15% to 25%
- Primary risk is credit risk
  - Manager selection risk high
  - Minimal extension risk given long-term loans
- Expected to launch in early September, with full call of capital and immediate deployment
- Sample risk-budget and ROEs below

Loss-Adjusted Yields Based on Western Asset's Proprietary Housing Forecast and Default/Recovery Models

Representative 2006/2007 Vintage Securities*	Prime Pass Thru	Prime Last Cash Flow	Alt-A Pass Thru	Option ARM	Subprime	CMBS Conduit
Price (as of 10 Jul 09)	$68	$56	$46	$40	$38	$76
Serious Delinquency	15%	10%	23%	44%	45%	4%
Original LTV	68%	68%	76%	75%	87%	68%
Current LTV (May 2009)	94%	97%	105%	135%	117%	84%
Base Case						
Yield	**12%**	**14%**	**16%**	**18%**	**21%**	**11%**
Projected LTV	118%	121%	137%	181%	150%	135%
Remaining Defaults	24%	21%	54%	86%	87%	41%
Loss Sev erity	52%	49%	57%	68%	77%	45%
Remaining Losses	12%	10%	31%	58%	67%	18%
Stress Case						
Yield	**10%**	**13%**	**10%**	**7%**	**8%**	**5%**
Projected LTV	148%	151%	172%	226%	214%	210%
Remaining Defaults	37%	34%	76%	95%	95%	80%
Loss Sev erity	61%	59%	66%	79%	86%	67%
Remaining Losses	22%	20%	50%	75%	81%	54%

**Securities selected represent Western Asset's view of average collateral performance, credit enhancement, price and yields for each sector.*
Base Case RMBS Scenario: Reflects 19% nationwide home price decline from current levels.
Stress Case RMBS Scenario: Reflects 35% nationwide home price decline from current levels.
Base Case CMBS Scenario: Net operating incomes decline 10% from current levels, and capitalization rates increase 300 basis points from implied rates at issuance.
Stress Case CMBS Scenario: Net operating incomes decline 30% from current levels, and capitalization rates increase 500 basis points from implied rates at issuance.

- Loss-adjusted yields on RMBS (and to a lesser extent, CMBS) are compelling, even considering future stress.

Potential Model Portfolio

Sector:	Prime Pass Thru	Prime Last Cash Flow	Alt-A Pass Thru	Option ARM	Subprime	CMBS Conduit
% of Equity:	25%	15%	35%	10%	5%	10%

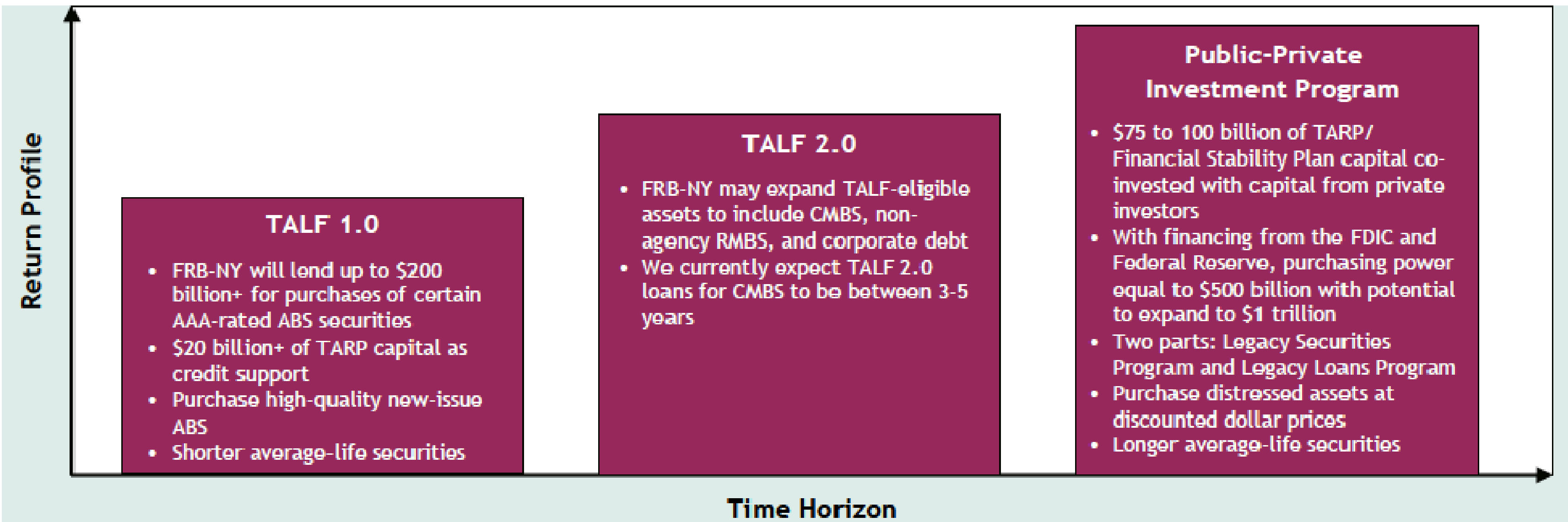
Potential Model Portfolio Net Returns

PPIF Term	Spread Levels at Time of Sale	Base Case		Stress Case	
		ROE	Cumulative Return*	ROE	Cumulative Return*
3 year	Current Spreads widen 50%	11.4%	136.6%	6.5%	122.8%
	Current Spreads widen 25%	14.3%	146.3%	8.0%	127.0%
	Current Spreads	19.0%	161.6%	11.1%	136.0%
	Current Spreads tighten 25%	24.3%	180.5%	13.6%	144.7%
	Current Spreads tighten 50%	30.3%	204.5%	17.7%	158.5%
5 year	Current Spreads widen 50%	16.0%	191.1%	9.1%	155.4%
	Current Spreads widen 25%	17.7%	202.0%	10.5%	162.2%
	Current Spreads	19.7%	215.2%	12.0%	170.2%
	Current Spreads tighten 25%	22.0%	231.7%	13.7%	179.8%
	Current Spreads tighten 50%	24.6%	252.5%	15.3%	189.8%
8 year	Current Spreads widen 50%	17.3%	275.3%	10.7%	210.6%
	Current Spreads widen 25%	17.9%	283.5%	11.3%	216.1%
	Current Spreads	18.5%	293.3%	11.9%	222.6%
	Current Spreads tighten 25%	19.4%	305.5%	12.7%	230.2%
	Current Spreads tighten 50%	20.3%	320.7%	13.5%	239.3%

Base Case and Stress Case housing forecasts and bond-level yields reflect assumptions from page 10.
Assumes cash flow reinvestment at 10% for the investment period.
Assumes all the remaining assets sold at the end of the respective PPIF term.

Differences between PPIP and TALF

- Generalizing between PPIP and TALF is difficult as each fund is designed differently, but the graph below assists in framing the two key elements we (and our clients) are concerned with: expected returns, and time horizon.



	TALF 2.0 (as currently designed)	PPIP
Opportunity Set	CMBS and ABS	RMBS and CMBS
Strategy type	Carry trade + Leverage Tactical	Distressed investing Cyclical
Credit Rating - current	AAA	< AAA
Current pricing	Par or near par	Significantly below par/distressed
Price asymmetry / Margin of safety	Lower	Higher
Primary market issues and/or Secondary market issues	CMBS (primary and secondary), ABS (primary)	Secondary only
Investment life	≤ 5 years (typically)	≥ 5 years (typically)
Investment period	Next 5 months (December 2009) (TALF could be extended)	Next 3 years (2009 to 2012) (expected to be front-loaded)
Expected Return	10% to 15% (net)	15% to 25% (net)
Primary risks	Extension risk, credit risk	Credit risk
Risk mitigation	Asset-Liability management and fundamental credit skills. Commercial real estate knowledge critical	Fundamental credit skills: Loan loss modeling and insight into real estate markets
Estimated Supply (market value)	$110 billion	$1.2 trillion
Estimated demand / purchasing power	$20 billion	$40 billion
Use of Leverage	High: between 4x – 10x	Moderate: between 2x – 3x
Financing terms	Generous; term swaps + 1%	Generous: LIBOR + 1%
Liquidity	Specific to Fund; Generally payback of principal and interest net of financing costs starting in 2010, up to 25%-30% annually in 1st 3 years J-curve expected to be less steep	Specific to Fund; Interest up to 8% annually, principal generally after investment period ends. J-curve expected to be steeper.
ERISA capacity	Specific to Fund	Specific to Fund; Unlikely to be a problem given dilution form Treasury equity investment
ERISA investment manager	Specific to Fund	No

Sample TALF 2.0 and PPIP Opportunity

	TALF 2.0	PPIP
Manager	Black Rock	Western Asset
Risk Budget	Core: Legacy CMBS Opportunistic: RMBS (if permitted), ABS (if spreads widen)	90% RMBS 10% CMBS
Target Raise (private capital)	$500mm	$1.1 billion private
Preferred Return	10%	10%
Initial closing	August 7th	September 15th (estimate)
Final closing	November 23rd	2 additional for subsequent 6 months
Management Fee	75 basis points on drawn capital	100 basis points on committed capital
Carried Interest	20%	15%
Expected Term	3 to 5 years	3 to 5 years
Stated Term	30 days after last TALF loan matures	8 year final maturity (2017), can extend 2 additional years
Investment period	Next 5 months (December 2009, but TALF could be extended)	Next 3 years (2009 to 2012) (expected to be front-loaded)
Expected Return	10% to 15% (net)	15% to 20% (net)
Minimum Investment	$10 million	$1 million
Primary risks	Extension risk, credit risk	Credit risk
Drawdown schedule	50% likely due November, likely to be front-loaded	Full drawdown expected within six months of initial clsoing
Liquidity	Interest income net of financing costs starting no earlier than 3 months after initial close; principal after end of investment period. Up to 15%-20% annually	Interest up to 8% annually, principal generally after investment period ends.
ERISA capacity	Specific to Fund	Unlikely to be a problem
ERISA investment manager	Specific to Fund	No

Observations about PPIP and TALF

- Each fund offering is unique in terms of: fees, minimum investments, liquidity, risk budget, preferred return, and expected term.
- Criteria client teams should consider when evaluating opportunities:
    - Risk budget → Huge implications for return, risks, liquidity, expected term
        - Favor high position in cap structure, dented prime and Alt-A, and seasoned CMBS. Avoid wide open mandates and bottom of capital structure.
    - Fees → High degree of variability among PPIFs and TALF opportunities.
        - Favor high preferred return, low management fee (on drawn capital as opposed to committed capital and/or capital exposure via leverage), and low carry. <u>Expect to pay – this will not be cheap</u>.
    - Manager skill → Look for skill at modeling and emphasize input estimation process (over output) and surveillance. Favor fundamental real estate knowledge in addition to modeling skills, especially in commercial real estate, where law of large numbers is less applicable.
- Remember that the opportunities (and the stage in the cycle) are different:
    - RMBS ≠ CMBS; CMBS ≠ Corporates
- TALF situation very fluid; RMBS unlikely to be added given heterogeneity/complexity, CMBS may be extended given state of CRE market and lead time to bring new issues to market, ABS opportunity may have passed.

- TALF likely to be CMBS centric going forward. Consider allocation to BR TABS II fund as a RE substitute, provided you are underweight the policy index and/or as an initial allocation. Remember that Debt > Equity – why drop down in the capital structure if you do not have to?
- A more detailed summary of the BR TABS II strategy is further outlined at the end of this presentation.

	BlackRock (Targeting 11/23/09 Final Close)
FUND	**BlackRock Term Asset-Backed Securities Opportunity Fund II, L.P. ("TABS II")**
FIRMWIDE ASSETS	$2.5 Trillion (including merger of Barclays index assets); $1.3 Trillion in traditional and non-traditional equity, fixed income, real estate and alternative strategies
FIRM HEADQUARTERS	New York, New York (with additional offices in 21 countries globally)
SEC REGISTERED	BlackRock is a SEC registered investment manager. Fund is not SEC registered.
GENERAL PARTNER	BlackRock Term Asset-Backed Securities Opportunity Fund II, LLC
INVESTMENT / STRATEGY	Designed to exploit the TALF that was established to counteract the dislocation of the Asset Backed Securities ("ABS") market and has been recently expanded to include newly issued and legacy commercial mortgage-backed securities ("CMBS") and may father expand to include non-agency residential mortgage-backed securities ("RMBS"). ABS securities for purchase will be backed by A.) Auto loan and leases, B.) Student loans, 3.) Credit card loans, 4.) Equipment loans, 5.) Floorplan loans, 6.) Insurance premium finance loans, 7.) Small business loans fully guaranteed as to principal and interest by the U.S. SBA, 8.) Residential mortgage servicing advance receivables, and 9.) Other assets deemed Eligible by the Federal Reserve and the Treasury to include other structured finance securities such as non-agency RMBS securities. All securities must have a credit rating in the highest long-term or short-term investment grade rating category from two or more nationally recognized statistical ratings organizations ("NRSRO") and no credit rating below the highest investment grade rating category from any major NRSRO. Securities also can not be on review or on watch by any NRSRO must be dollar denominated and have no more than a five (5) year average life.
FUND FOCUS	TALF eligible securities, backed primarily by CMBS securities (and RMBS subject to TALF program expansion), and may also include ABS securities, as outlined above.
FUND OPEN	Yes
INITIAL CLOSING DATE	8/7/2009
FINAL CLOSING DATE	11/23/2009 (Subject To Current Limited Partner Consent)

	BlackRock (Targeting 11/23/09 Final Close)
ADDITIONAL CLOSINGS	Yes. Several have occurred since initial closing. Final closing expected 11/23/09.
CLOSING DATE/OFFERING PERIOD	After initial notice to prospective investors, GP may hold additional closing for no more than 90 days after the original closing date, subjec to additional requested consent from limited partners
PARTICIPATING FEES BETWEEN INITIAL AND FINAL CLOSE	10% calculated annually on size of commitment and number of days past initial closing date, in addition to annual management fee calculated on size of the commitment and number of days past initial closing date, minus the cost of the fair market value of TALF financing
INVESTMENT PERIOD	Ends when Federal Reserve closes program, anticipated first or second quarter of 2010
TERM	30 calendar days following the maturity of the last TALF loan borrowed by the Fund to mature. Expected terms of three to five years.
FUNDRAISING EFFORTS	Approximately $62.5 million raised as of 8/31/09
TARGET OFFERING SIZE	$500 million, subject to increase or reduction at discretion of GP
FUND STRUCTURE	Delaware Limited Liability Company

	BlackRock (Targeting 11/23/09 Final Close)
LEVERAGE USED	A high degree of leverage, subject to TALF program limits, may be employed through the New York Fed through the TALF program, or with other financial service firms
MGMT TEAM/ EXPERIENCE	Ten (10) person team of senior portfolio managers, averaging 21 years experience in mortgage and structured finance markets, leads the firm's Fixed Income Investment Team which will evaluate opportunities, execute transactions & monitor investments on an ongoing basis. Investment Team is further supported by 135 fixed income investment professionals who focus on fundamental and quantitative credit research, as well as portfolio management. BlackRock, one of the largest ABS, CMBS and RMBS managers worldwide, manages $31 billion in CMBS, $101 billion in RMBS & $19 billion in ABS as of 3/31/09.
MINIMUM INVESTMENT	$10 million (reduced to $5.0 million for certain client plans at BlackRock's discretion, based on requests)
TARGET RETURN	Per conference calls in late July 2009, unlevered yields in 4%-8% range, and 15%-17% returns with leverage, on an annualized basis over investment term.
DISTRIBUTIONS (INTEREST)	See "Distributions" below
MANAGEMENT FEE	0.75% of drawn capital portion of aggregate Capital Commitments (net of any return of capital contributions)
DISTRIBUTIONS (PROCEEDS)	According to 7/09 BlackRock strategy summary, income proceeds will be distributed to LPs subject to distribution waterfall, beginning three months after the initial Closing Date; Realized Investment Proceeds will be distributed after the end of the Investment Period. Based on PPM, distributions will be made as follows: 100% return of capital to the LPs, 10% preferred return to the LPs, GP catch-up of 80% of all distributions until GP has received 20% of cumulative distributions of 20% with respect to all amounts distributed to LPs, and 80%/20% LP-GP split on all additional distributions. Per discretion of GP, distributable cash may be retained to meet future expenses and liabilities of the Partnership.

	BlackRock (Targeting 11/23/09 Final Close)
ADMINISTRATIVE FEE	Actual organization expenses incurred attributable to Master Fund, Offshore Fund and GP will be allocated to investors, with a cap of $750,000
ADMINISTRATOR & CUSTODIAN	Bank of New York Mellon
ERISA FIDUCIARY STATUS	Yes. BlackRock agreed to accept ERISA fiduciary status for the BlackRock TABS Fund II on 10/28/09 and amend the fund structure. Limited partners were requested to provide consent to fund change. Final closing is now expected to be 11/23/09.
MANAGER CO-INVESTMENT	None specified by BlackRock. However, the Fund is available to BlackRock U.S. and Non-US employee private capital investments according to BlackRock.