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CREDIT DERIVATIVES

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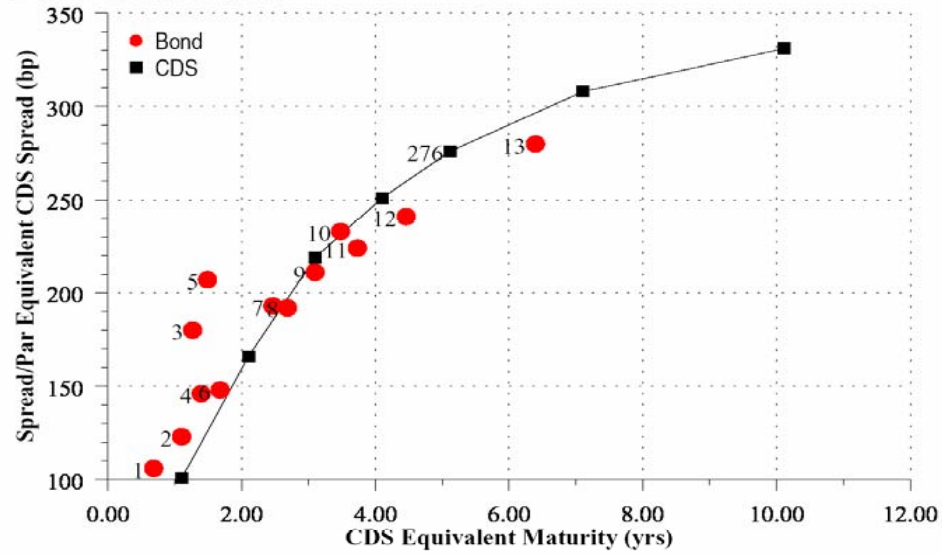
JPMorgan

CDS and Bonds spreads are very closely linked usually

As of May 10, 2007

Sector: TRANSPORTATION

FORD MTR CR CO



Note: If a bond lies below the CDS curve, the basis (CDS - Par Equivalent CDS Spread) is positive. In this case, the bond is expens
cheap relative to a CDS. This relationship holds for bonds trading with upfront as well. When analyzing bonds of similar mat
Please consult the guide to this report for further details.

FORD MTR CR CO (Recovery=65%)

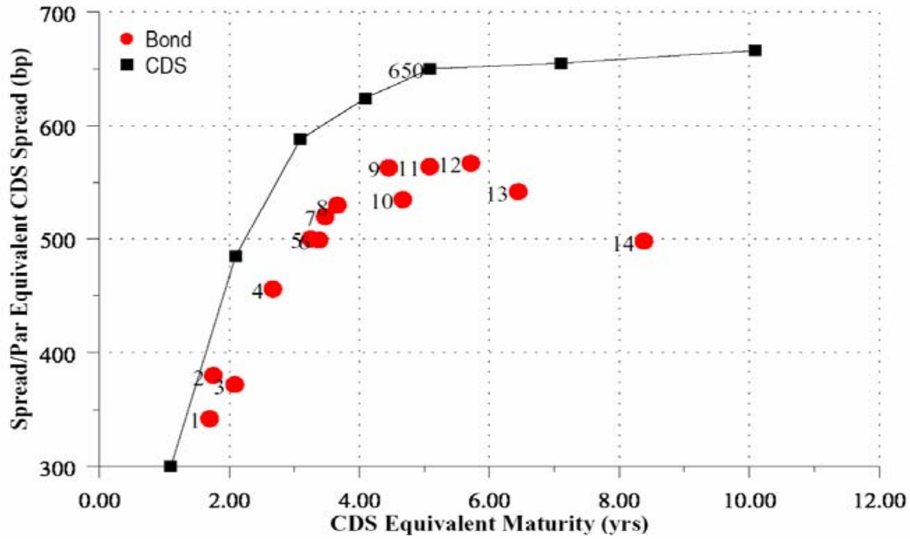
			Outst.	Price				YTW	Spread to Worst		Equiv. CDS Spread		Basis to CDS	
	Cpn	Maturity	$mm	Current	1M Ago	12M Hi	12M Lo	%	Worst Date	Z-Spread (to Swaps)	Current	1M Ago	Current	1M Ago
1	4.950	Jan 15, 08	803	99.00		99.39	89.62	6.49	-	105	**106**	-	-33	-
2	6.625	Jun 16, 08	1117	100.06	99.69	100.60	90.75	6.56	-	125	**123**	157	-22	-15
3	6.750	Aug 15, 08	300	99.56	99.35	100.59	89.22	7.12	-	179	**180**	196	-69	-42
4	5.625	Oct 01, 08	1000	98.58	98.25	98.94	88.11	6.71	-	148	**146**	166	-26	-3
5	6.375	Nov 05, 08	300	98.68	97.38	99.90	88.25	7.34	-	205	**207**	294	-81	-124
6	5.800	Jan 12, 09	2800	98.62	97.75	98.94	87.08	6.68	-	151	**148**	198	-10	-14
7	7.375	Oct 28, 09	5000	100.62	99.50	101.50	88.63	7.09	-	203	**193**	241	-8	-8
8	5.700	Jan 15, 10	1000	96.88	95.75	97.38	85.01	7.00	-	195	**192**	235	5	9
9	7.875	Jun 15, 10	2500	101.64	100.00	102.56	90.50	7.27	-	224	**211**	268	8	-4
10	8.625	Nov 01, 10	500	103.25	101.75	104.69	91.75	7.54	-	251	**233**	280	-2	-7
11	7.375	Feb 01, 11	3000	100.00	98.25	100.62	88.00	7.37	-	234	**224**	276	15	4
12	7.250	Oct 25, 11	3500	99.00	97.00	99.50	86.75	7.52	-	249	**241**	294	19	7
13	7.000	Oct 01, 13	3000	95.75	94.00	97.25	85.25	7.86	-	278	**280**	317	17	24

CDS and bond spreads diverge when credit risk is high, or with LBO or other event risk

As of May 16, 2005

Sector: TRANSPORTATION

FORD MTR CR CO

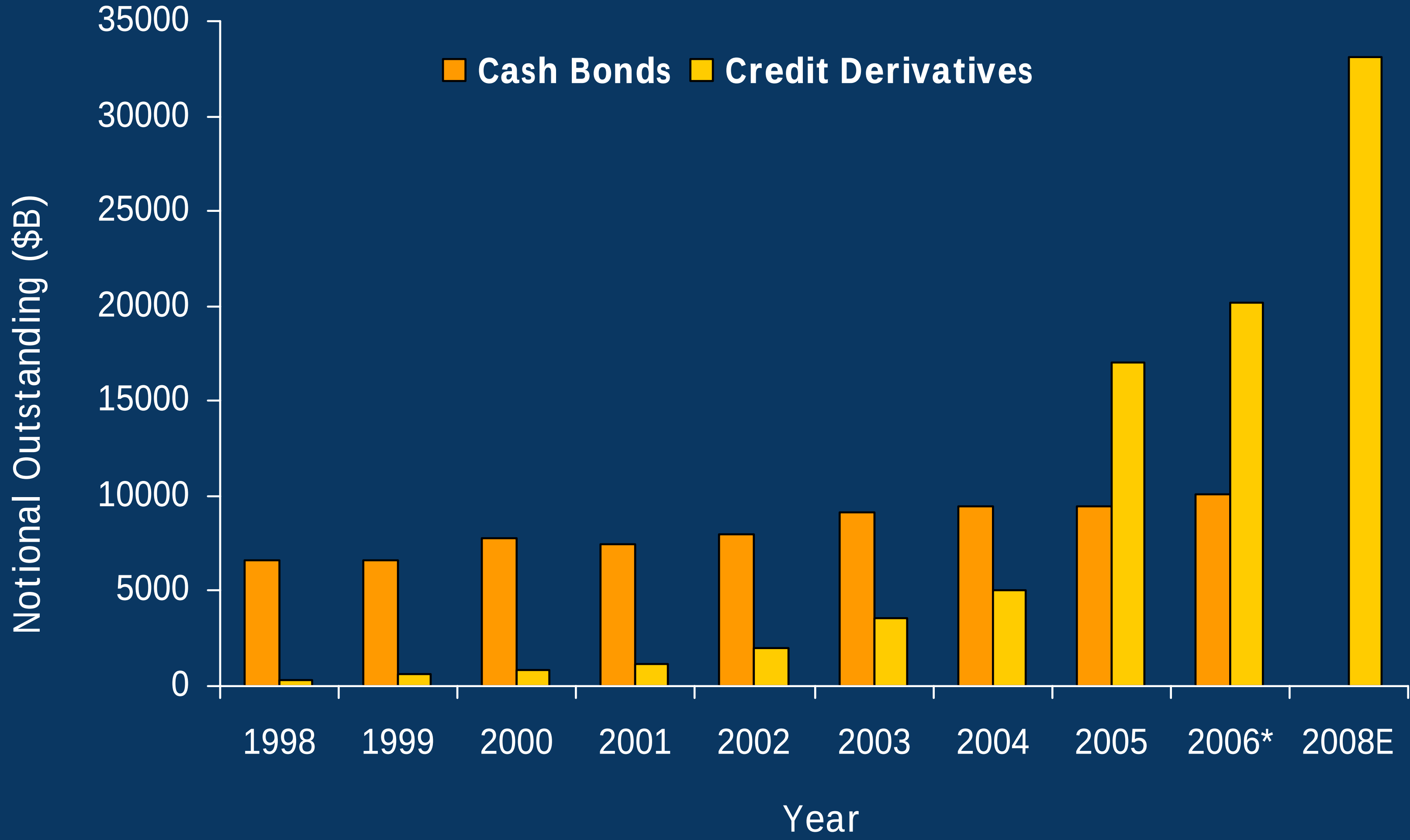


Note: If a bond lies below the CDS curve, the basis (CDS - Par Equivalent CDS Spread) is positive. In this case, the bond is expens
cheap relative to a CDS. This relationship holds for bonds trading with upfront as well. When analyzing bonds of similar mat
Please consult the guide to this report for further details.

FORD MTR CR CO (Recovery=50%)

	Cpn	Maturity	Outst. $mm	Price Current	Price 1M Ago	Price 12M Hi	Price 12M Lo	YTW %	Spread to Worst: Worst Date	Spread to Worst: Z-Spread (to Swaps)	Equiv. CDS Spread Current	Equiv. CDS Spread 1M Ago	Basis to CDS Current	Basis to CDS 1M Ago
1	6.500	Jan 25, 07	4000	98.50	100.81	107.69	98.32	7.46	-	354	**342**	196	69	151
2	7.750	Feb 15, 07	500	99.76	102.58	111.53	99.76	7.89	-	396	**380**	214	41	141
3	7.200	Jun 15, 07	1000	98.83	101.96	109.90	98.10	7.82	-	384	**372**	207	110	196
4	4.950	Jan 15, 08	1000	91.50	95.85	100.15	91.50	8.59	-	453	**456**	242	88	197
5	6.750	Aug 15, 08	300	93.41	100.81	108.54	93.41	9.14	-	486	**500**	214	94	252
6	5.625	Oct 01, 08	1000	90.25	96.75	104.29	90.25	9.04	-	490	**499**	238	99	229
7	6.375	Nov 05, 08	300	91.51	97.99	106.69	91.51	9.30	-	498	**520**	268	82	200
8	5.800	Jan 12, 09	2800	89.25	95.56	104.41	88.98	9.34	-	517	**530**	284	79	186
9	7.375	Oct 28, 09	5000	91.50	99.07	111.42	91.50	9.78	-	555	**563**	314	71	171
10	5.700	Jan 15, 10	1000	86.50	93.81	101.16	86.25	9.34	-	508	**535**	286	104	206
11	7.875	Jun 15, 10	2500	92.25	100.22	113.62	91.50	9.85	-	558	**564**	326	86	179
12	7.375	Feb 01, 11	3000	89.50	97.71	111.00	89.23	9.82	-	550	**567**	330	85	178
13	7.250	Oct 25, 11	3500	89.00	96.87	110.88	88.00	9.58	-	522	**542**	327	111	185
14	7.000	Oct 01, 13	3000	87.50	94.99	108.04	86.50	9.17	-	470	**498**	314	162	206

The global Credit Derivatives market is larger than the global bond market



Source: British Banker's Association, Bank for International Settlements, ISDA
*Cash Bonds through September 2006.

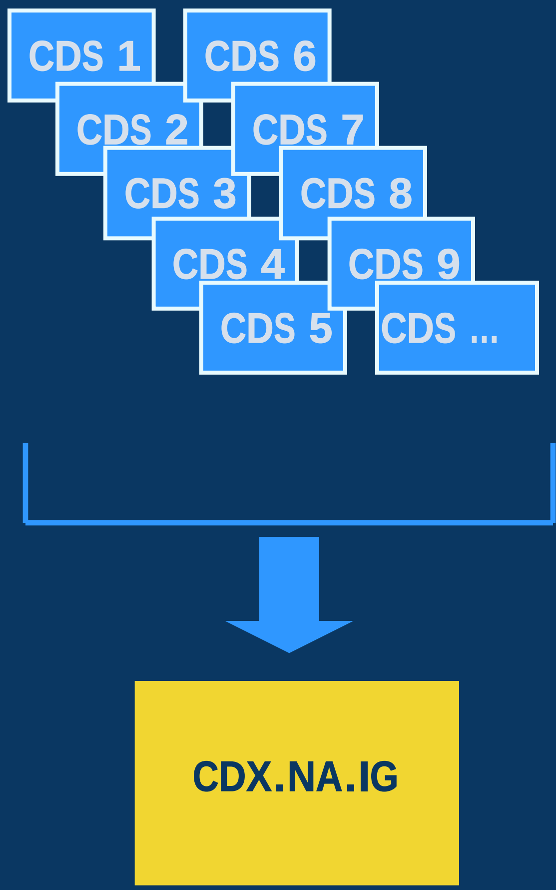
Credit Derivatives: Trading Volume by product

Type	2004	2006
Single-name credit default swaps	51.0%	32.9%
Credit derivative indices (CDX, iTraxx)	9.0%	30.1%
CDOs backed by Credit Default Swaps	16.0%	16.3%
Tranched index trades	2.0%	7.6%
Credit linked notes	6.0%	3.1%
Others (1)	16.0%	10.0%

(1). Other products include Basket Products, Options, Equity Linked Credit products

Source: British Bankers' Association Credit Derivatives Report, 2006.

Credit derivative indices are the most actively traded credit products



Credit derivative indices such as the CDX (in the US) or iTraxx (in Europe) are widely traded for the following reasons:

- Access to a broad portfolio of credits with one position – either long risk or short risk
- Very low transactions costs and liquidity – multiple dealers are traders
- CDX indices have a fixed maturity, fixed portfolio and fixed coupon
- New, "on-the-run" indices are launched every 6 months, with a new maturity date and slightly modified portfolio of underlying credits
- Equal risk to each underlying credit in portfolio: similar cash flow in default to having traded each credit default swap individually

Structured credit positions (CDOs) offer a significant spread pickup over cash bond portfolios

This makes them increasingly attractive to investors

Rating	Cash bond Index Spread over Swaps, in bps	7yr tranche of Invest. Grade portfolio, bp
AAA	16	88
AA	15	109
A	40	139
BBB	78	255
BB	200	550

A standard portfolio of credits exposes an investor to default risk

Credit Portfolio

100 credits paying an average of 45bps

Source: JPMorgan

If investor puts $100 in a portfolio:

- She earns 45bp or $0.45 per year
- If one credit defaults, and post default the bonds trade at $0.40, she loses $0.60. Her position is now worth $99.40

Instead lets assume there are two investors, one with $3 and the other with $97 to invest

Source: JPMorgan

The investors agree the following:

- Investor A (with $3) will absorb all losses in the portfolio until his $3 is wiped out
- Investor B (with $97) will not suffer any losses unless investor A is wiped out (i.e. losses exceed 3%)

How the structure works

Tranched Risk

Source: JPMorgan

Number of defaults	Recovery Rate	Cumulative Portfolio Loss	Cumulative Loss to:	
			Investor A	Investor B
8	40%	$4.80	$3.00	$1.80
7	40%	$4.20	$3.00	$1.20
6	40%	$3.60	$3.00	$0.60
4	40%	$2.40	$2.40	$0.00
2	40%	$1.20	$1.20	$0.00
1	40%	$0.60	$0.60	$0.00

- Investor A loses all his investment if there are 6 or more defaults in the portfolio
- Investor B is safe until there are 6 defaults

The investors have agreed to allocate the risk and return in an **unequal** way

Source: JPMorgan

- The terminology is that Investor A has bought the 0-3 % tranche of the portfolio, Investor B has bought the 3-100% tranche
- The 0-3% tranche will pay a significantly higher spread than the 3-100% tranche as it is more risky

Who generally buys which tranche?

	Who?	Why?
Super Senior, Senior (the safest tranches)	Financial Guarantors	Leveragable, low risk
Mezzanine (these tranches are usually rated by S&P or Moody's	Banks Asset Managers Insurance Company	Offers a higher spread than a similarly-rated portfolio of cash bonds or credit default swaps
Equity (the riskiest tranche)	Hedge Fund Asset Manager Principal protected-retail	High idiosyncratic single name risk High return

This is the traditional picture, newer products such as leveraged super senior and principal protected equity are beginning to change the investor landscape

Newest Developments: Loan CDS and LCDX: the loan CDX is scheduled to launch May 22

- LCDS is similar to CDS, but triggers only if there is a default on a loan (CDS triggers with default on bonds or loans)
- LCDX is an index of LCDS. It will give loan market participants ability to hedge broad market risks
- Results of a collaboration between dealers, ISDA, and LSTA
- 5Y tenor, with new portfolio launching every 6 months

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