



Derivative Fitch

CDO *Opinions*

A global biweekly credit derivatives and CDO update

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CREDIT TRENDS AND NEWS

Synthetic Index Reflects Slight Credit Deterioration

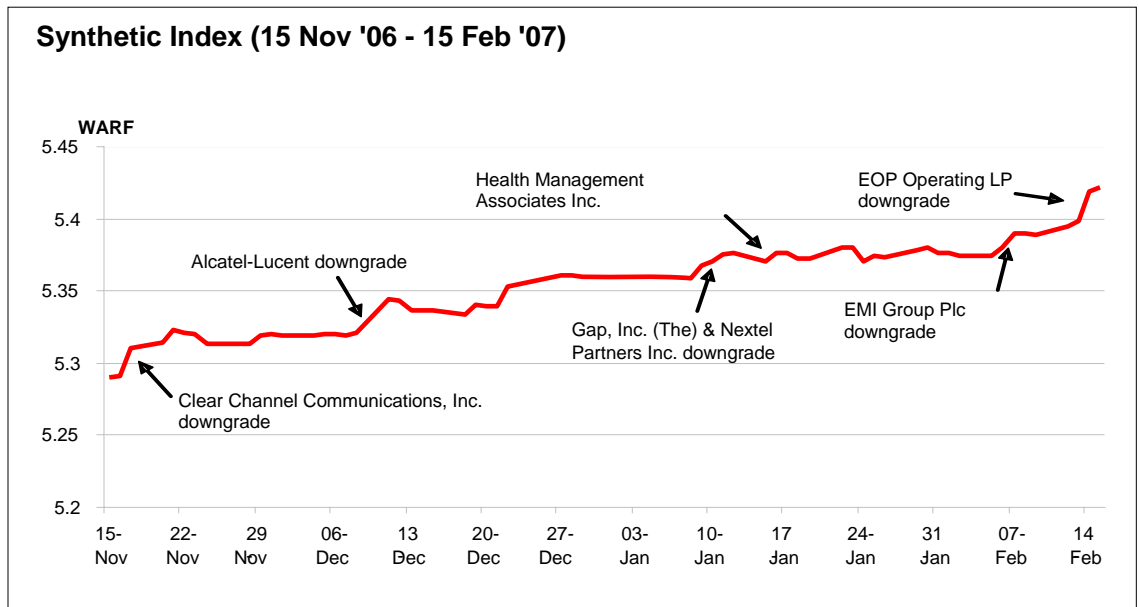
Derivative Fitch's proprietary Synthetic Index saw some credit deterioration from the period starting November 15, 2006 to February 15, 2007, which is slightly up from the same period last year. The average credit quality, which is measured by the weighted average rating factor (WARF), has deteriorated by 2.5% within this period, with the maximum deterioration occurring in the month from January 15th to February 15th. This decline can be attributed to the upgrade to downgrade ratio of 81:93. Furthermore, the index observed a net notch movement of negative 34 notches, indicating that this quarter not only saw more downgrades than upgrades, but that the downgrades were much larger on average. The health care and pharmaceutical industry suffered the largest net notch movement of negative 14, primarily due to the five notch downgrade of Health Management Associates Inc. which makes up 0.07% of the index. The telecommunications sector came in second with a net notch movement of negative 11 which included the one notch downgrades of Nextel Partners Inc., Nextel Communications and Sprint Nextel Corp. The telecom sector also happens to be the second most widely referenced industry in the index.

New York
 April Kabahar
 Director
 212-908-0245
 april.kabahar@derivativefitch.com

London
 Shaun Baddeley
 Senior Director
 +44 207 417 4396
 shaun.baddeley@derivativefitch.com

Hong Kong
 Rachel Hardee
 Senior Director
 +852 2263 9918
 rachel.hardee@derivativefitch.com

Synthetic Index (15 Nov '06 - 15 Feb '07)



SOURCE: Derivative Fitch

The index has been closely monitoring automobile exposure which currently makes up almost 5% (EUR 49 billion) of the index's total notional amount. This quarter has been fairly stable for the auto industry with two assets being downgraded by one notch compared to three assets being upgraded by one notch. Despite Dura Operating Corp.'s credit event, the exposure to the auto sector has increased once again in

both speculative and non-speculative grade names. U.S. autos are now the seventh most widely referenced industry in the index compared to being the 21st most referenced in October 2006. The largest exposure is to DaimlerChrysler AG, which constitutes 0.45% of the index notional. Ford Motor Co. is the second most widely referenced speculative-grade name in the index, constituting 0.32%.

Derivative Fitch is in the process of refining the methodology for calculating the index and making other structural changes. The agency welcomes feedback and suggestions from readers in terms of analysis they wish to be incorporated in the index. More details on the index methodology and the latest index report are available on the agency's website at www.derivativefitch.com.

Fitch Ratings Added to CDX Indices' Eligibility Criteria

CDS IndexCo, a consortium of 16 investment banks licensed as market makers in the CDX indices, has added Fitch as a determinant for an entity's inclusion in the indices, in addition to Moody's Investors Service and Standard & Poor's. Fitch believes that investors and issuers benefit from having the choice among the rating agencies across all asset types and geographies. The CDX family of credit derivative indices has been widely-traded and allows investors to buy and sell protection against default on a broad range of corporate and sovereign entities domiciled in North America and the emerging markets. Indices include CDX.NA.IG (investment grade), CDX.NA.IG.HVOL (high volatility), CDX.NA.XO (crossover), CDX.NA.HY (high yield), CDX.NA.HY.BB (high yield, BB), CDX.NA.HY.B (high yield, B), CDX.NA.HY.Notes (high yield notes) and CDX.EM (emerging markets). The universe of traded names in the credit derivatives market has grown dramatically since the CDX launch.

CONFERENCE CHATTER

- A strong global pipeline for structured investment vehicles (SIVs) is expected in 2007, according to participants at Fitch Ratings' annual Asset-Backed Commercial Paper/SIV conference in London last week. Eight to 12 SIVs are expected to be established by the end of the year. The SIV panel, which included representatives from SIV managers, investors, dealers and Derivative Fitch, discussed the healthy pipeline of potential new vehicles and new managers. While new entrants have helped to reduce contagion risk and create a more heterogeneous market, it was observed that the challenge for investors was to differentiate amongst potential investment opportunities. The single most important consideration for investors is the capability of the manager. Over 260 market professionals from Europe and the United States gathered at the Great Eastern Hotel in London for the event, which included a number of diverse panels, evaluating the opportunities and challenges in the sector. Nineteen external speakers appeared at the event alongside senior analysts from Fitch Ratings and Derivative Fitch.

- What a difference a few days make especially when you are in the mezzanine ABS CDO space. At Information Management Network's CDOs and Credit Derivatives conference in New York late last month, ABS CDO arrangers and investors remained optimistic about their outlooks on U.S. subprime RMBS performance. The mood was a bit more subdued and cautious at last week's CDO World conference also held in the Big Apple where arrangers, managers and investors discussed increasing warehouse risks and a stagnation or possibly even a halt in mezzanine ABS CDO issuance this year. The more optimistic attendees believe the housing market woes are almost over, while others argued that the full impact of the credit deterioration has not yet been completely felt. There is a "cleaning-out process" occurring in the subprime RMBS space, said one conference panelist, as weaker mortgage originators consolidate or exit the business, resulting in a much healthier market.

- Cash, synthetic and market value technologies are converging as investment vehicles such as the ABX.HE and most recently Tranche ABX.HE emerge. CDO asset managers and investors are looking to gain exposure on these indices which may add a layer of market-based risk to their portfolios. Additionally, traditional corporate credit derivatives (CDX) investors are crossing over the divide and mining arbitrage opportunities in the asset-backed securities (ABS) sector. Some panelists cautioned that

correlation assumptions used in the corporate sector may not be applicable in the ABS space due to the asset class' unique structure and risk profile.

- There is still some debate about the advantages of including overcollateralization (OC) and interest coverage (IC) triggers in structured finance (SF) CDOs. A panelist noted that there are many investors that use CDOs for capital structure arbitrage and the presence of OC and IC triggers may make it difficult to meet these investment objectives. In addition, the panelist cited the weak credit environment in 2001–2002, where the presence of OC/IC triggers in collateralized bond obligations (CBOs) did not make the structures any safer.
- Syndicated collateralized loan obligation (CLO) issuance is expected to remain strong. One panelist forecasted that the lack of ABS CDO issuance may be offset by more CLO deals expected to launch in 2007. Default rates are inching up but are still at historic lows, panelists noted. More financial institutions are at ease with the use of CDO technology. To illustrate the feeding frenzy for collateral in the U.S. loan market, one participant noted that a few years ago commercial banks were chasing after investment banks for mandates; it is the complete opposite at present. Additionally, it is becoming more difficult to distinguish between traditional middle market and syndicated CLOs. There are now more discretionary buckets for syndicated loans in middle market CLOs. The syndicated CLO managers are going down market in search of collateral and this has resulted in longer ramp-up periods for traditional middle market CLOs. Several recent middle market transactions are 50-60% ramped at closing.

VALUSPREAD

This table illustrates the two-week movement of the Dow Jones CDX & iTraxx Europe indices.

Index Name	2007-02-23 Mean	2007-03-09 Mean	Percentage Change
Dow Jones CDX NA IG 5y High Volatility Series 7 (ex 12/2011)	69.25	77.875	11.0754
Dow Jones CDX NA HY 5y B Reference Portfolio Series 7 (ex 12/2011)	217.9	240.8	9.50997
Dow Jones CDX NA HY 5y BB Reference Portfolio Series 7 (ex 12/2011)	139.25	152.65	8.77825
Dow Jones CDX NA HY 5y High Yield Overall Series 7 (ex 12/2011)	229.633	249.925	8.1191
Dow Jones CDX NA IG 5y Investment Grade Series 7 (ex 12/2011)	29.9738	33.8575	11.4707
Dow Jones CDX NA IG 5y Telecommunications Series 7 (ex 12/2011)	38.3278	39.6282	3.28141
Dow Jones CDX NA IG 5y Crossover Series 7 (ex 12/2011)	109.333	127.929	14.5356
iTRAXX Europe - 125 Series 6 (ex 12/2011)	21.345	22.5012	5.1386
iTRAXX Europe - Crossover Price Index Series 6 (ex 12/2011)	175.9	202.5	13.1358
iTRAXX Europe - Senior Financials Price Index Series 6 (ex 12/2011)	7.5	7.6875	2.43902
iTRAXX Europe - Sub-Financials Price Index Series 6 (ex 12/2011)	13.25	14	5.35714
iTRAXX Europe - HiVol Price Index Series 6 (ex 12/2011)	38.875	43.8125	11.2696

For more data analysis contact the Valuspread team at www.valuspread.com.

COLLATERAL TALK

Keeping an Eye on CREL CDO Servicers

Commercial real estate loan (CREL) CDO servicers need a unique set of skills to account for the complex nature of the underlying loans in the portfolios and the revolving nature of these transactions. A

recent joint report from Fitch's commercial mortgage-backed securities (CMBS) and CDO groups discusses the general characteristics and the varying role of servicers for these two structures.

Both CMBS and CREL CDO servicers perform various functions to help maintain the credit quality of the collateral within portfolios such as loan and asset administration, distressed debt management and customer service. Investors should be aware of the challenges involved in servicing CREL CDO portfolios and of servicers' ability to perform the crucial tasks that are assigned to them.

The property types that are referenced in a CREL CDO can be similar to those in CMBS pools. However, CREL CDOs may also include riskier and esoteric property types such as condominium conversion, land and construction loans. A greater level of real estate knowledge or specialized asset expertise is needed to properly service these loans. Unlike CMBS portfolios which are static, CREL CDOs allow new loans to be added in the pool as others either pay off or are removed. The pool's composition can affect servicing administration. For instance, as the size of the pool fluctuates in both dollar amount and collateral count, the servicer may need to reallocate staff in areas such as asset administration and reporting. Also, while CMBS has benefited from an industry-wide effort and requirement to provide standardized transaction reports, CREL CDO reporting is still evolving. These reports typically include updates on the business plan and cashflows of the property. CREL CDO reports currently require more customization and management review than the CMBS ones. For CMBS servicers looking to successfully service CDOs, they need a comprehensive database to efficiently generate these reports.

CRE CDO managers often outsource their servicing to third-parties and Fitch prefers that portfolios be maintained by commercial mortgage servicers that are rated by the agency because these servicers have been assessed for their depth of staff, formalized set of policies and procedures, strong technology platforms and established internal control plans. To the extent that CDO asset managers do not have a rated servicer performing these functions, Fitch assesses the asset manager's real estate administration and asset management capabilities to determine whether the entity has the wherewithal to service the underlying commercial mortgage loans. The report, "Commercial Real Estate CDO Servicing: A La Carte or Prix Fixe?" was published on 26 February 2007, and can be accessed through this link http://www.fitchresearch.com/creditdesk/reports/report_frame.cfm?rpt_id=315662.

FITCHCDX.COM – GLOBAL INDUSTRY SECTOR PRICE MOVEMENTS*

This table illustrates the two-week movement of the Dow Jones CDX & iTraxx Europe indices.

Fitch Industry	Week of 09-Mar-2007	Week of 02-Mar-2007	Spread Change	% Change ▼	# Assets
Utilities	50	43	7	16.3 %	36
Telecommunication	93	81	12	14.6 %	38
Energy	38	33	5	14.2 %	17
Automotive	147	131	17	13.0 %	26
Computers & Electronics	69	61	8	12.6 %	14
Real Estate	43	39	5	12.2 %	4
Industrial/Manufacturing	114	103	11	10.7 %	14
Transportation	73	67	6	9.7 %	16
Miscellaneous	115	106	9	8.6 %	37
Building & Materials	57	52	4	8.4 %	14
Banking & Finance	31	29	2	7.7 %	128
Consumer Products	57	53	4	7.3 %	11
Textiles & Furniture	95	89	6	6.4 %	5
Supermarkets & Drug Stores	76	72	4	6.2 %	11
Sovereign	29	28	2	5.8 %	67
Insurance	26	24	1	5.2 %	21
Paper & Forest Products	94	89	5	5.1 %	12
Food, Beverage & Tobacco	36	34	2	5.0 %	22
Broadcasting & Media	119	114	5	4.3 %	23
Retail	77	74	3	4.2 %	12
Leisure & Entertainment	126	122	5	3.9 %	3
Gaming, Lodging & Restaurant	114	110	4	3.6 %	9
Healthcare & Pharmaceutical	19	19	0	1.2 %	9
Chemical	101	101	0	0.2 %	15
Metals & Mining	49	49	0	(0.1) %	13
Aerospace & Defense	14	14	0	(3.2) %	5

*Weekly credit default prices sourced from GFI Group Inc. (www.GFIgroup.com). Visit www.fitchcdx.com for advanced analysis and data for the credit derivatives market.

FITCH-RATED CDOs – AS OF FEBRUARY 2007

This is a list of the variety of deals Fitch has rated in the U.S., Europe and Asia. The agency has also rated several private transactions during this period.

USA

Deal Name	Deal Type
Attentus CDO III, Ltd.	Trust Preferred CDO
Babson Quantitative Mortgage CDO	Market Value CDO
Camber Master Trust Series 7 & 8	Synthetic
CoLTS 2007-1	Middle Market CLO
Guggenheim Structured Real Estate Funding 2006-4	Commercial Real Estate CDO
Crystal River Resecuritization 2006-1	Commercial Real Estate CDO
Lexington Capital Funding III	Cashflow ABS CDO
Maxim HG CDO II	Cashflow ABS CDO
Nautilus RMBS CDO IV	Synthetic
Northstar Real Estate CDO IX	Commercial Real Estate CDO
Visage CDO II	Synthetic ABS CDO
Westways Funding X Ltd.	Market Value CDO

EUROPE

Deal Name	Deal Type
Aeolus CDO Limited Colonnade II	Cashflow ABS
Aphex Capital Plc Series 31-33 SENWAI	Synthetic/CDO ²
IM Cedulas, 10 FTA	SME CDO
HEAT Mezzanine S.A. Compartment 3	SME CDO
Magnolia Finance V Plc Series 2007-6	Synthetic/Leveraged Super Senior
Smile Securitisation Company 2007 B.V.	SME CDO
SCUTE I B.V.	High Yield Loan CDO
Taberna Europe CDO I	Cashflow ABS
Zoo HF 3 plc	Alternative Investments/Hedge Fund

ASIA

Deal Name	Deal Type
Beryl Finance Limited 2007-1	Synthetic
Corsair (Jersey) Limited Series 304	Synthetic
Morgan Stanley ACES SPC Series 2007-5	Synthetic
Morgan Stanley ACES SPC Series 2007-3	Synthetic
Morgan Stanley ACES SPC Series 2007-4	Synthetic
Zenesis Series 2007-2	Synthetic/CDO ²
Zenesis Series 2007-1	Synthetic/CDO ²



MARK YOUR CALENDAR

April 18

The Pierre

New York, NY

Derivative Fitch's Annual Global Credit Derivatives Conference

This one-day event will feature Derivative Fitch's most seasoned analytical team discussing the latest structural and performance trends in the credit derivatives and CDO market. The annual confab will also highlight the rating agency's latest research. For more information, please contact Melissa Pompilii at 212-908-0357 or e-mail her at melissa.pompilii@fitchratings.com.

New York

April Kabahar

Director

212-908-0245

London

Shaun Baddeley

Managing Director

+44 207 417 4396

Hong Kong

Rachel Hardee

Senior Director

+852 2263 9918

If you would like to respond to this e-mail, please write directly to april.kabahar@derivatifitch.com.

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