

CDO *pinions*

A global biweekly credit derivatives and CDO update

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CREDIT TRENDS AND NEWS

Fitch U.S. SF Ratings Show Strong Performance

U.S. structured finance (SF) ratings capped a healthy year in 2006 with upgrades outpacing downgrades. Rating performance generally improved across each of the SF sectors. The upgrade-to-downgrade ratio for Fitch-rated SF tranches improved 5.3 to one in 2006 versus 3.2 to one in 2005. SF upgrades totaled 2,571 last year up from 1,744 the year before, while downgrades declined to 482 from 549 in the same period.

Ratings in the collateralized debt obligation sector continued to show improvement as the number of upgrades increased by 68.3% and the number of downgrades declined by 33%. The upgrade-to-downgrade ratio for CDOs improved at 3.8 to one in 2006 versus 1.5 to one in the previous year. CDO upgrades were overwhelmingly driven by the SF sector, including commercial real estate (CRE) CDOs, diversified SF CDOs and CDOs of CDOs (CDO²). The CRE CDO sector accounted for the vast majority of positive rating actions at 75%. This is attributed to the strong upgrade activity in the commercial mortgage-backed securities (CMBS) market. Moving forward, Fitch expects to see fewer upgrades and more downgrade pressure in SF CDOs as the sector adjusts to recent stress in the subprime mortgage market.

In contrast, CDOs backed by corporate assets such as investment grade (IG) and high yield bonds, did not have as many positive rating actions as SF CDOs. IG corporate bond CDOs posted a higher number of negative rating actions than high yield bond CDOs. Most of the downgrade activity in IG corporate bond CDOs was due to the portfolios' exposure to the auto sector. The credit events of auto suppliers Delphi Corp. and Dana Corp. also contributed to this negative rating volatility.

For a detailed view of the research findings entitled Fitch Ratings 1991-2006 U.S. Structured Finance Study, please go to http://www.fitchratings.com/corporate/reports/report_frame.cfm?rpt_id=324002.

VALUSPREAD

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

Index Name	2007-04-27 Mean*	2007-05-11 Mean*	Percentage Change
iTRAXX Europe - 125 Series 6 (ex 12/2011)	21.265	21.08	-0.877607
iTRAXX Europe - Crossover Price Index Series 6 (ex 12/2011)	179.025	176.75	-1.28713
iTRAXX Europe - Senior Financials Price Index Series 6 (ex 12/2011)	7.284	7.453	2.26754
iTRAXX Europe - Sub-Financials Price Index Series 6 (ex 12/2011)	13.4125	13.8475	3.14136
iTRAXX Europe - HiVol Price Index Series 6 (ex 12/2011)	38.1397	37.0673	-2.89339

*Data is calculated by Derivative Fitch based on actual contributions received from market participants. For more data analysis contact the Valuspread team at www.valuspread.com.

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COLLATERAL TALK

In Focus: European Real Estate CDOs

Real Estate CDOs have been generating much interest in Europe. Three transactions have come to market in the region to date and there is much potential for growth this year. European RE CDOs issue rated debt on dynamic portfolios of primarily commercial mortgage debt. Some portfolios also reference a certain proportion of residential mortgage debt. In response to the numerous queries Derivative Fitch has received about real estate CDOs, the rating agency's structured credit team in London has released a special report that highlights key considerations in analyzing these transactions. Similar to the U.S., Fitch's real estate CDO analytical framework combine a fundamental real estate analysis and an evaluation of the diversity benefit brought about by aggregating varying real estate positions into a single managed pool. In addition, Fitch takes into account the real estate market and securitization structures of a particular domicile.

Fitch's European RE CDO analysis follows a two-step process that uses its proprietary Default VECTOR Model and its CDO cashflow model. VECTOR is used to analyze the portfolio characteristics and to determine the pool hurdle default rates and average pool recovery rates at each rating level. VECTOR can also be customized to account for correlation risk found in a RE CDO pool. The cashflow model is then used to gauge the structural protections built-in the transaction, specifically the effect of overcollateralisation (OC) and interest coverage (IC) tests in capturing excess spread. The analysis is performed under a variety of scenarios that combine stresses for default timing with the agencies standard interest rate and foreign currency stresses. Fitch's analysis delves into areas such as asset-level default probability, pool diversity in deriving portfolio default levels and recoveries. The agency also looks into the capabilities of asset managers because RE CDOs are typically managed and not static structures. Therefore, the managers' ability to source a diverse pool of assets is critical. For instance, prudent managers can lend on a range of property types, sub-markets and regions, and can spread refinance risk over a long enough period or aggregate a sufficiently granular pool with limited exposure to any single borrower. Asset managers are operating against the backdrop of a fast growing commercial property lending environment and those who are seeking ongoing allocation need to foster strong relationships with a variety of lending banks.

For more details on Fitch's preliminary comments on its rating approach, please see European Real Estate CDOs – Analytical Considerations, dated May 2, 2007 at:

http://www.fitchratings.com/corporate/reports/report_frame.cfm?rpt_id=324406§or_flag=4&market_sector=2&detail=2

CDOs of U.S. Municipal Bonds & Loans Ignite Interest

Collateralized debt obligations that reference U.S. municipal bonds and loans are hitting CDO arrangers' and investors' radars. Fitch has rated two of these transactions to date – Non-Profit Preferred Funding Trust I and Republic Funding Trust I – and a few more preliminary proposals are in the pipeline. As with many other types of CDO transactions, it is not only important to have a deep understanding of CDO structural mechanisms but also familiarity with the reference portfolio, in this case, municipal securities. These instruments are typically issued by states, cities, counties and other government entities, as well as other issuing authorities such as not-for-profit institutions and other service sectors to help finance specific projects. Municipal securities typically enjoy a tax-exempt status.

Fitch combines the analytical capabilities and institutional expertise of both its public finance and CDO groups in assigning ratings to these transactions. The municipal CDOs that Fitch has rated so far have been issued as a structured tax-exempt pass-through (STEP) to achieve the tax-exemption from the municipal bonds. The types of obligors within the referenced pool vary. The loans and bonds in Non-Profit Preferred Funding, for instance, are extended to organizations in the healthcare, education, cultural, philanthropic and other non-profit sectors.

It is still too early in the game to tell whether or not municipal CDOs will be a sustainable and active slice of the structured credit market. These transactions emerged at a time when appetite for CDOs of asset-backed securities (ABS) has somewhat ebbed due to the troubles in subprime residential mortgages. Skittish investors may be flocking to safer havens such as municipal bonds that carry investment grade ratings as they are supported by the full faith and credit of their respective issuers. At the same time, those investors seeking better yields and searching for newer types of collateral, may also be setting their sights on unrated municipal assets.

Both Non-Profit Preferred Funding's new issue and Republic Funding's pre-sale reports can be accessed at www.derivativefitch.com.

Loan-Heavy Cap Structures Put Pressure on Bond Recovery Prospects

Aggressive loan issuance is causing concern among investors as it exerts pressure on the recovery prospects of unsecured bonds. Overall leveraged loan issuance in 2006 reached approximately USD612 billion, four times as large as high yield bonds. Leveraged loans are typically secured obligations that are backed by all or a significant portion of the assets of the borrower. In contrast, high yield bonds are generally unsecured claims. In the event of a default, the more loans there are in a company's capital structure, all else being equal, the worse the unsecured bond holders' recovery prospects typically are. Fitch's Credit Market Research group examined the capital structure of 80 firms that had at least USD500 million in high yield bonds outstanding at the end of 2005, tapped the leverage loan market in 2006, and had high yield bonds outstanding at the end of 2006.

The study found that the growth rate of loans in borrower capital structures was at 28% and was more than three times as high as the 9.0% growth rate of unsecured bond obligations. As a result, unsecured bonds were pushed further down the "recovery waterfall", which is the payment priority ordering of debt obligations that would occur in a bankruptcy. The study indicated that recovery rates on unsecured bonds might contract as much as 10% relative to levels prior to the capital structure changes. The study also noted that eight out of the ten broad industry groupings that Fitch examined experienced loan growth in excess of bond growth from 2005 to 2006, with utilities and basic materials sectors leading the pack. In addition, a complete examination of all of Fitch's recovery ratings in the 2005-06 period shows that the vast majority of recovery ratings downgrades were made among unsecured bonds and that 75% of these were the result of increase levels of secured debt (loans) in the capital structure.

For details on the study's methodology and findings please go to:

http://www.fitchratings.com/corporate/reports/report_frame.cfm?rpt_id=324954.

INNOVATIONS

Fitch Rolls Out SMARTView for U.S. Subprime RMBS

Fitch has recently launched SMARTView for U.S. subprime residential mortgage-backed securities (RMBS). This follows the launch of a similar service for commercial mortgage-backed securities in September 2006. SMARTView, which is part of Fitch's suite of Structured Finance Surveillance, Metrics, Analytics, Research and Tools (SMART) services, monitors the collateral performance in structured finance bonds and provides investors with a more detailed insight on the rating agency's internal analytical screening process. It also promotes transparency by publicly identifying transactions that Fitch has identified as requiring an immediate review. Concurrent with this launch and following a review of USD454.1 billion of rated subprime portfolio, Fitch has placed 96 subprime RMBS transactions under analysis.

Fitch receives monthly information on structured finance deals from trustees and servicers. RMBS analysts run this data using various internal algorithms that identify classes of a transaction as potential candidates for upgrades or downgrades. Fitch's SMARTView team of analysts scrutinize the output to decide which deals need a formal review, which are classified as 'under analysis', and those which can

be designated a SMARTView date. A SMARTView date means the rating is current. For a list of subprime RMBS transactions under analysis, please go to www.fitchratings.com/smartview.

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 10-May-2007	Week of 03-May-2007	Spread Change	% Change ↓	# Assets
Aerospace & Defense	15	13	1	11.3 %	5
Leisure & Entertainment	133	128	5	3.8 %	3
Chemical	79	76	3	3.7 %	17
Utilities	63	60	2	3.4 %	24
Textiles & Furniture	83	82	2	2.0 %	7
Telecommunication	76	75	1	1.3 %	32
Building & Materials	105	104	1	1.1 %	20
Gaming, Lodging & Restaurant	100	99	1	1.1 %	12
Sovereign	85	85	1	0.7 %	16
Supermarkets & Drug Stores	72	71	0	0.4 %	12
Food, Beverage & Tobacco	42	42	0	0.3 %	20
Real Estate	145	144	0	0.3 %	7
Miscellaneous	96	96	0	0.2 %	16
Retail	78	78	0	0.0 %	20
Banking & Finance	42	42	0	(0.2) %	142
Paper & Forest Products	147	148	0	(0.3) %	10
Consumer Products	75	75	0	(0.4) %	9
Automotive	136	137	(1)	(0.5) %	25
Metals & Mining	37	37	0	(1.1) %	9
Computers & Electronics	157	159	(3)	(1.6) %	20
Broadcasting & Media	103	105	(2)	(1.8) %	26
Energy	40	41	(1)	(2.5) %	13
Industrial / Manufacturing	77	80	(2)	(2.7) %	12
Healthcare & Pharmaceutical	57	59	(2)	(2.9) %	8
Insurance	16	16	(1)	(3.6) %	9
Transportation	52	60	(9)	(14.2) %	13

*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 APRIL 2007)

This is a sample list of the variety of deals that 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
ACAS CLO 2007-1	Middle Market CLO
Alesco Preferred Funding XV	Trust Preferred CDO
Canal Point II	Total Rate of Return CLO
Capital Source CLO 2007-1	Middle Market CLO
C-BASS CBO XVIII	Structured Finance CDO
CBRE Realty Finance CDO 2007-1	Commercial Real Estate CDO
CoLTS 2007-1	Middle Market CLO
Dutch Hill Funding II	Structured Finance CDO
Emporia Preferred Funding III	Middle Market CLO
Glacier CDO V	Structured Finance CDO
LNR CDO V	Commercial Real Estate CDO
Maxim High Grade CDO II	Structured Finance CDO
Nautilus RMBS CDO IV	Structured Finance CDO
Newcastle CDO IX	Commercial Real Estate CDO
Nomura CRE CDO 2007-1	Commercial Real Estate CDO
Norma CDO I	Structured Finance CDO
NorthStar Real Estate CDO IX	Commercial Real Estate CDO
Novastar ABS CDO I	Structured Finance CDO
OCI Enhanced Loan Income Fund	Total Rate of Return CLO
Preferred Term Securities XXV	Trust Preferred CDO
Sandelman Realty CRE CDO I	Commercial Real Estate CDO
Silver Marlin ABS CDO I	Structured Finance CDO
Taberna Preferred Funding VIII	Trust Preferred CDO
Trapeza CDO XII	Trust Preferred CDO
Volans Funding 2007-1	Structured Finance CDO

EUROPE

Deal Name	Deal Type
Aeolus CDO Limited Colonnade II	Structured Finance CDO
Aphex Capital Plc Series 2006- 31-33	Structured Finance CDO
Aphex Capital Plc Series 34-36 "Dent Blanche"	Structured Finance CDO
Ashwell Rated S.A. Series 8-12 (Constellations Synthetic CDO 2007-1)	Synthetic Investment Grade Corporate CDO
Avoca CLO VII Plc	High Yield Loans
AyT Cedula Cajas Global FTA Series XII & Tap IX	Structured Finance CDO
Builder IV Series 320 Class E	Structured Finance CDO
Clock Finance No. 1	Small-Medium Enterprise CDO
E.L.A.N. Limited Series 2007-2 & ELVA Funding Plc Series 2007-1	Synthetic Investment Grade Corporate CDO
Elva Funding Plc Series 2007-2 & 3	Synthetic Investment Grade Corporate CDO
Eolo Investments B.V. Series 2007-1 Plc	Structured Finance CDO
Euromax VI ABS Limited	Structured Finance CDO
Glastonbury Finance 2007-1 Plc	Structured Finance CDO
Harvest CLO V Plc	High Yield Loan CDO
HEAT Mezzanine S.A. Compartment 3	Small-Medium Enterprise CDO
ICO Meditation I Ayt, FTA	Structured Finance CDO

IM Cedulas 10, FTA	Structured Finance CDO
Magnolia Finance V plc Series 2007-6	Synthetic Investment Grade Corporate CDO
Omega Capital Investments plc Series 43 (Waypoint CDO)	Synthetic Investment Grade Corporate CDO
Pangaea ABS 2007-1 Plc	Structured Finance CDO
PREPS 2007-1 Plc	Small-Medium Enterprise CDO
Programa Cedulas TdA Series A4 Tap Apr 07	Structured Finance CDO
Programa Cedulas TdA Series A5 & Tap A4 & A6	Structured Finance CDO
Proventus European ABS CDO Plc	Structured Finance CDO
SCUTE I B.V.	Structured Finance CDO
SMART PFI 2007 GmbH	Small-Medium Enterprise CDO
Smile Securitization Company 2007 B.V.	Small-Medium Enterprise CDO
Taberna Europe CDO I Plc	Trust Preferred CDOs
Zoo ABS 4 Plc	Structured Finance CDO
Zoo HF 3 Plc	Market Value CDO

ASIA PACIFIC

Deal Name	Deal Type
Corsair (Jersey) Limited Series 304	Single-Tranche Synthetic Corporate CDO
Corsair (Jersey) Limited Series 324	Single-Tranche Synthetic Corporate CDO
Corsair (Jersey) Limited Series 326	Single-Tranche (Funded) Corporate CDO
Corsair (Jersey) Limited Series 327	Single-Tranche (Funded) Corporate CDO
Corsair (Jersey) Limited Series 328	Single-Tranche (Funded) Corporate CDO
Eirles Two Limited Series 323 (Picasso)	Single-Tranche Synthetic Corporate CDO
Morgan Stanley ACES 2007-3, 2007-4, 2007-5	Single-Tranche Synthetic Corporate CDO
Morgan Stanley ACES 2007-15	Synthetic Corporate CDO
Morgan Stanley ACES Series 2007-16	Single-Tranche Synthetic Corporate CDO
Omega Series 44 to 45	Single-Tranche Synthetic Corporate CDO
Queenstown CDO I Trust Series 2007-2	Single-Tranche Synthetic Corporate CDO (Investment Grade Bonds)
Queenstown CDO Limited Series 2007-3	Single-Tranche Synthetic Corporate CDO (Investment Grade Bonds)
Zenesis 2007 – 1/11, 1/13, 2/11,2/14, 3/12 and 3/14	Synthetic CDOs of CDOs (CDO Squared)
Zircon Finance 2007-1	Synthetic Corporate CDO
Zircon 2007-3	Single-Tranche Synthetic Corporate CDO



MARK YOUR CALENDAR

May 22

Fitch Ratings and Reuters Loan Pricing Corporation's 2nd Annual Loan and CLO Conference

Reuters Building
New York, NY

Collateralized loan obligations (CLOs) continue to be among the most active sectors in the structured credit markets. This jointly-sponsored conference brings together the latest Fitch and Reuters LPC loan and CLO research and analytics. For more information about the event, please contact Suzanne Kelly at suzanne.kelly@fitchratings.com.

June 6

American Securitization Forum's 2007 Annual Meeting

Grand Hyatt Hotel
New York, NY

Senior representatives from investment banks, asset management firms, rating agencies and regulatory bodies convene at this annual industry event to discuss the latest trends and most pressing issues in the securitization arena. For the agenda, please visit www.americansecuritization.com.

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