Derivative Fitch

CDOpinions

A global biweekly credit derivatives and CDO update

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STRUCTURED CREDIT NEWS

Subprime Mortgage Fallout Trickles to CDOs of REIT TruPS

Fitch recently placed the junior classes of notes from six collateralized debt obligations primarily backed by trust preferred securities issued by real estate investment trusts (REITs) and homebuilders on Rating Watch Negative (RWN). The rating actions were precipitated by the rapid credit deterioration of a number of the underlying trust preferred security issuers, and in particular residential mortgage REITs, who continue to face intense credit and liquidity pressures. To date, three residential mortgage REITs underlying TruPS CDOs – New Century Financial Corporation, American Home Mortgage Investment Corp. and Homebanc Corp. – have filed for bankruptcy protection. Fitch views several other residential mortgage REITs at increased risk default in the near term should adverse market conditions persist.

Fitch rates a total of 22 CDOs backed all or in part by trust preferred securities issued by REITs and homebuilders. The notional amount of rated issuance for these transactions totals approximately USD 15.8 billion. While only USD 386.5 million, or 2.4% of such rated notes are currently on RWN, additional rating actions may be warranted in the future depending on the negative, but evolving, credit condition of certain underlying trust preferred security issuers. Transaction-specific factors, including the size of the exposures relative to available credit enhancement, overall portfolio credit quality, or the more senior nature of the securities held relative to trust preferred securities, will impact Fitch's credit determination on a CDO-by-CDO basis.

Derivative Fitch, in concert with Fitch's REIT, financial Institutions and homebuilder groups will continue to monitor underlying collateral quality as it evolves. Fitch notes that CDOs backed solely by trust preferred securities issued by banks and insurance companies continue to exhibit stable credit attributes.

For more information on the CDO-specific rating actions, please refer to the rating action commentaries *"Fitch Downgrades $77MM & Places $304.1MM on Watch Negative from 5 REIT TruPS CDOs,"* dated August 2, 2007 and "*Fitch Places Taberna Preferred Funding II, Ltd. on Rating Watch Negative*," dated August 14, 2007.

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Fitch Downgrades KKR Atlantic and KKR Pacific's ABCP

Fitch downgraded the asset-backed commercial paper (ABCP) ratings of KKR Atlantic Funding Trust and KKR Pacific Funding Trust to 'B' from 'F1+' last week. KKR Financial has indicated that both programs have breached their overcollateralization (OC) tests and are unlikely to cure these breaches. As a result, the enhancement available to ABCP holders is reduced below the level commensurate with the 'F1+' rating. Fitch has also placed both programs on Rating Watch Evolving, reflecting the highly dynamic situation wherein additional collateral liquidations in this severely stressed market environment could further reduce available enhancement. However, if sufficient liquidation proceeds are realized the KKR conduits could completely meet their ABCP obligations. The collateral supporting these trusts is floating-rate 'AAA'-rated residential mortgage-backed securities (RMBS) backed by adjustable-and hybrid-rate prime mortgages. Fitch has noted that the collateral supporting the ABCP is of high credit quality and typically extremely liquid. But recently the market values of the underlying securities have come under pressure. The commercial paper sector has been the latest casualty of the continuing subprime problems. Fitch is constantly monitoring the situation in this sector and will provide timely market commentary and rating actions if and as appropriate.

European Investors Eye Increased Derivatives Usage

European credit investors will likely increase their use of derivatives in the next 12 months. This particular finding is reflective of the value placed on derivatives within Europe as an instrument that is used to diversify across national markets, and of the scope granted within the European directive, governing collective investment trusts for retail funds involving the use of derivatives. Eighty-five percent of European investors had indicated that they either offered or plan to offer retail and mutual funds that made use of derivatives, according to *Fitch Ratings' European Senior Credit Investor Survey*, which polled the top 100 institutions across the continent. This study is similar to Fitch's regular survey on U.S. senior credit investors. European investors are also slightly ahead of their U.S. counterparts in using derivative instruments more extensively for hedging as well as to gain access to high yield exposures.

The survey yielded other interesting results and reflected the current market sentiment shared among many European investors. In general, the European investors surveyed were more negative in their views than their U.S. counterparts. For instance, European investors indicated substantially more macroeconomic concerns than U.S. investors. Thirty-nine percent of European investors ranked inflation as 'high' risk to the credit markets compared to 18% in the U.S. survey. Sixty-four percent of European investors also saw a rise in interest rates as a 'high' risk versus only 24% of the U.S. respondents. Fitch also queried European investors on specific event risks such as a potential 'hedge fund collapse' and a hefty 61% of investors, said that such an occurrence would be a 'high' risk to the credit markets in the next 12 months. In contrast, only 17% of investors in the U.S. survey project an imminent risk in this area. However, both European and U.S. investors share their concerns over the imbalance between risk and reward that is evident in market pricing. Not surprisingly, European investors expressed their wariness on structured finance and high yield assets. Worries in the structured finance market may have been fuelled by recent headline or liquidity risk rather than local performance as European asset-backed bonds continue to show strength. In the corporate arena, investors from both sides of the Atlantic have similar expectations with regards to increasing leverage.

To view the complete details of the survey, please follow this link:

http://www.fitchresearch.com/creditdesk/reports/report_frame.cfm?rpt_id=336022.

COLLATERAL TALK

Fitch Intros Revised Criteria for SF CDOs

Fitch has revised its rating criteria for structured finance (SF) CDOs to reflect the increasing risks of subprime mortgage exposure in these portfolios. The rating agency has released a report explaining these changes, which follows its initial June announcement to increase default probability assumptions for U.S. subprime bonds issued since 2005 by 25%. The criteria report includes additional changes such as a modified methodology for the treatment of U.S. subprime residential mortgage bonds that are placed on Rating Watch Negative (RWN) to assume a minimum three subcategory downward rating adjustment for rating definition purposes used in Fitch's proprietary Default VECTOR model (VECTOR). To view the full length criteria report, please follow this link:

http://www.fitchratings.com/corporate/reports/report_frame.cfm?rpt_id=337104&sector_flag=4&marketsector=2&detail=2.

…Launches Downgrade Criteria for Recent Vintage U.S. Subprime RMBS

Fitch's U.S. residential mortgage-backed securities (RMBS) team has also introduced a new surveillance methodology for monitoring the performance of recent U.S. subprime mortgage vintages 2005 and forward. Delinquency and default levels are sharply rising for these vintages and the new methodology is designed to recognize the performance profiles and distinct risks in individual securities. These surveillance criteria also complement Fitch's fundamental approach to expected loss and loss coverage ratio analysis detailed in the *"U.S. Subprime RMBS/HEL Upgrade/Downgrade Criteria"* released in June. The revisions to Fitch's surveillance process reflect a higher default and loss severity assumption used for determining expected loss. Since loss coverage ratios are a function of expected losses, revisions were made to the loss coverage ratio scale for determining rating actions. Break loss components, such as prepayment rates, were also adjusted to reflect the slower speeds exhibited by these recent vintages. To view the full-length report, please follow this link:

http://www.fitchratings.com/corporate/reports/report_frame.cfm?rpt_id=336142&sector_flag=3&marketsector=2&detail=.

ASF Launches Subprime Web Page

The American Securitization Forum has launched a web page dedicated to recent developments in the subprime mortgage market. The site offers another venue for announcements, reports and commentaries from rating agencies and other sources. It can be accessed via the ASF's main website at www.americansecuritization.com.

Rating Insurance-Linked Securities

Fitch has released an exposure draft on its rating criteria for insurance-linked securities (ILS). This initial criteria launch reflects the rapid innovation and the development of new modes of risk transfer and structures in this sector. Insurance-linked securities are structured finance transactions that involve insurance risk, and whose principal and interest payments are conditional upon the occurrence or non-occurrence of some insured event. The event may include a natural catastrophe, the failure of re-insurers to pay amounts due or the inadequacy of reserves to cover life or disability claims, among others. A discussion of ILS is no longer limited to catastrophe bonds but also includes the proliferation of transactions that transfer natural catastrophe risk such as catastrophe collateralized debt obligations

(CDO) and synthetic CDO structures. ILS work by substituting insurance risk for credit risk as the main risk borne by investors. In some cases, credit risk is completely removed from the structure. In other cases, significant credit risks remains, in addition to insurance risks, and need to be addressed either via structural remedies or taken into account in Fitch's rating analysis. Fitch's ILS ratings team draws upon the expertise of its insurance and structured finance groups. It may also involve participation of the agency's public finance or sovereign analysts if the sponsor is a government entity. The rating process involves extensive analysis of the structure as well as of the associated insurance and legal risks.

The exposure draft provides a detailed view of Fitch's treatment of ILS. The rating agency is soliciting comments from market participants on its methodology. The report can be downloaded via this link:

http://www.fitchratings.com/corporate/reports/report_frame.cfm?rpt_id=336046&sector_flag=4&market sector=2&detail=2.

FITCHCDX.COM – GLOBAL INDUSTRY SECTOR PRICE MOVEMENTS*

Fitch Industry	Week of 16 Aug2007	Week of 09 Aug 2007	Spread Change	% Change	# Assets
Insurance	49	38	12	30.8 %	14
Automotive	210	181	29	15.8 %	15
Sovereign	154	134	20	15.3 %	19
Gaming, Lodging & Restaurant	218	200	18	9.3 %	5
Consumer Products	61	56	5	8.3 %	10
Banking & Finance	99	92	7	7.6 %	130
Aerospace & Defense	29	27	2	7.3 %	10
Metals & Mining	40	39	2	4.2 %	9
Miscellaneous	101	97	4	3.9 %	28
Real Estate	27	26	1	3.3 %	5
Industrial / Manufacturing	81	79	3	3.2 %	16
Paper & Forest Products	131	129	2	1.9 %	11
Building & Materials	86	85	0	0.5 %	13
Telecommunication	101	102	0	0.0 %	26
Supermarkets & Drug Stores	56	57	0	(0.3) %	9
Utilities	58	58	0	(0.6) %	14
Leisure & Entertainment	274	277	(2)	(0.7) %	3
Food, Beverage & Tobacco	43	43	(1)	(1.9) %	19
Chemical	153	156	(3)	(2.0) %	17
Transportation	69	71	(2)	(2.4) %	15
Energy	84	89	(5)	(5.3) %	5
Retail	139	147	(8)	(5.6) %	7
Broadcasting & Media	122	130	(8)	(5.9) %	22
Computers & Electronics	53	65	(12)	(17.9) %	12

**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 JULY 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
Aladdin Managed LETTRS Fund, Ltd.	High Yield Loan CDO
Alesco Preferred Funding XV &XVI	Trust Preferred CDO
ACAS CRE CDO 2007-1	Commercial Real Estate CDO
Bonifacius CDO I	Structured Finance CDO
Canal Point II	Total Rate of Return CLO
Capital Source CLO 2007-1	Middle Market CLO
C-BASS CBO XVIII & XIX	Structured Finance CDO
CBRE Realty Finance CDO 2007-1	Commercial Real Estate CDO
CoLTS 2007-1	Middle Market CLO
Dalton CDO I	CDOs of CDOs
Delphinus 2007-1	Structured Finance CDO
Duke Funding Ltd. XIII	Structured Finance CDO
Dutch Hill Funding II	Structured Finance CDO
Emporia Preferred Funding III	Middle Market CLO
Glacier CDO V	Structured Finance CDO
Gramercy Real Estate CDO 2007-1	Commercial Real Estate CDO
Greenwich Capital Commercial Mortgage Trust 2007-RR2	Commercial Real Estate CDO
Hartford Leveraged Loan Fund, Ltd.	High Yield Loan CDO
Jupiter High Grade CDO VII	Structured Finance CDO
Kodiak CDO II	Trust Preferred CDO
LNR CDO V	Commercial Real Estate CDO
Maxim High Grade CDO II	Structured Finance CDO
MMCaps Funding XIX	Trust Preferred CDO
MSC 2007-SRR4	Commercial Real Estate CDO
Nautilus RMBS CDO IV & V	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 & XXVI	Trust Preferred CDO
Resource Real Estate CRE CDO 2007-1	Commercial Real Estate CDO
Ridgeway Court Funding II	Structured Finance CDO
Sandelman Realty CRE CDO I	Commercial Real Estate CDO
Silver Marlin ABS CDO I	Structured Finance CDO
Slate CDO 2007-1	Commercial Real Estate CDO
Soloso CDO II	Trust Preferred CDO
Taberna Preferred Funding VIII & IX	Trust Preferred CDO
Trapeza CDO XII & XIII	Trust Preferred CDO
Triaxx High Grade Funding, Ltd.	Market Value RMBS CDO
US Capital Funding VI	Trust Preferred CDO
Volans Funding 2007-1	Structured Finance CDO
Westways Funding Ltd. XI	Market Value Structured Finance CDO

Europe

Deal Name	Deal Type
Aeolus CDO Limited Colonnade II & III	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 Cedulas Cajas Global FTA Series XII & Tap IX	Structured Finance CDO
AyT Cedulas Cajas Global Series XIII & XIV, FTA	Structured Finance CDO
BBVA-6 FTPYME, FTA	Small-Medium Enterprise CDO
Builder IV Series 320 Class E	Structured Finance CDO
Caixa Pinedes PYMES 1 TDA, FTA	Small-Medium Enterprise CDO
CART I Ltd.	Small-Medium Enterprise CDO
Clear PLC Series 51	Structured Finance CDO
Clear PLC Series 58	Investment Grade Corporate CDO
Clock Finance No. 1	Small-Medium Enterprise CDO
Coriolanus Limited Series 49 (N-TSAR)	Structured Finance CDO
Coriolanus Limited Series 77	Structured Finance CDO
Dekania Europe CDO III	Trust Preferred 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, 4, 7 & 8	Synthetic Investment Grade Corporate CDO
Eolo Investments B.V. Series 2007-1 Plc	Structured Finance CDO
Euromax VI ABS Limited	Structured Finance CDO
FORCE TWO Limited Partnership	Small-Medium Enterprise CDO
Fremantle Limited Series 2007-1	Other CDO
Geldilux-TS-2007-S.A.	Small-Medium Enterprise CDO
Glastonbury Finance 2007-1 Plc	Structured Finance CDO
Harbourmaster CLO 9 B.V.	High Yield Loan 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
Jet 1 Synthetic CDO	Investment Grade Corporate 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
Programa Cedulas TdA Series, FTA A5 & A6 Tap Issue	Structured Finance CDO
Proventus European ABS CDO Plc	Structured Finance CDO
Santander Empresas 3 FTA	Small Medium Enterprise CDO
SCUTE I B.V.	Structured Finance CDO
Securitized Product of Restructured Collateral Limited SPC Mustique	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
Wood Street CLO V B.V.	High Yield Loan CDO
Zoo ABS 4 Plc	Structured Finance CDO
Zoo HF 3 Plc	Market Value CDO

Asia-Pacific

Deal Name	Deal Type
Cargo III Series 2007-13 & 14 C1.a	Commodities-Linked Credit Obligation
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
CLEAR Plc Series 56 and 57	Synthetic Arbitrage CDO
Eirles Two Limited Series 323 (Picasso)	Single-Tranche Synthetic Corporate CDO
E. Sun CBO SPT 2007-2	Collateralized Bond Obligation
Helium Capital 77 & 79 Limited	Synthetic Arbitrage CDO
Morgan Stanley ACES 2007-3, 2007-4, 2007-5	Single-Tranche Synthetic Corporate CDO
Morgan Stanley ACES 2007-15 & 2007-26	Synthetic Corporate CDO
Morgan Stanley ACES Series 2007-16	Single-Tranche Synthetic Corporate CDO
Obelisk 2007-3	Synthetic Arbitrage CDO
Omega Series 44 to 45	Single-Tranche Synthetic Corporate CDO
Omega Series 49 (Stellar)	Synthetic Arbitrage 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)
ROSA – Zenesis 2007-6 (Asset J)	Synthetic Arbitrage CDO
Start IV CLO	Balance Sheet Collateralized Loan Obligation
Zenesis 2007 – 1/11, 1/13, 2/11,2/14, 3/12 and 3/14	Synthetic CDOs of CDOs (CDO Squared)
Zircon Finance 2007-8, 9, 10, 11, 12 and 13	Synthetic Arbitrage CDO

MARK YOUR CALENDAR

Sept. 6
Information Management Network's CDO
SummitLondon, UK

Sept. 26
Annual CRE CDO Conference
New York, NY

Join Fitch's CRE CDO team as they discuss the latest credit and performance trends in this sector. Please e-mail Melissa Pompilii at melissa.pompilii@fitchratings.com for more information.

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