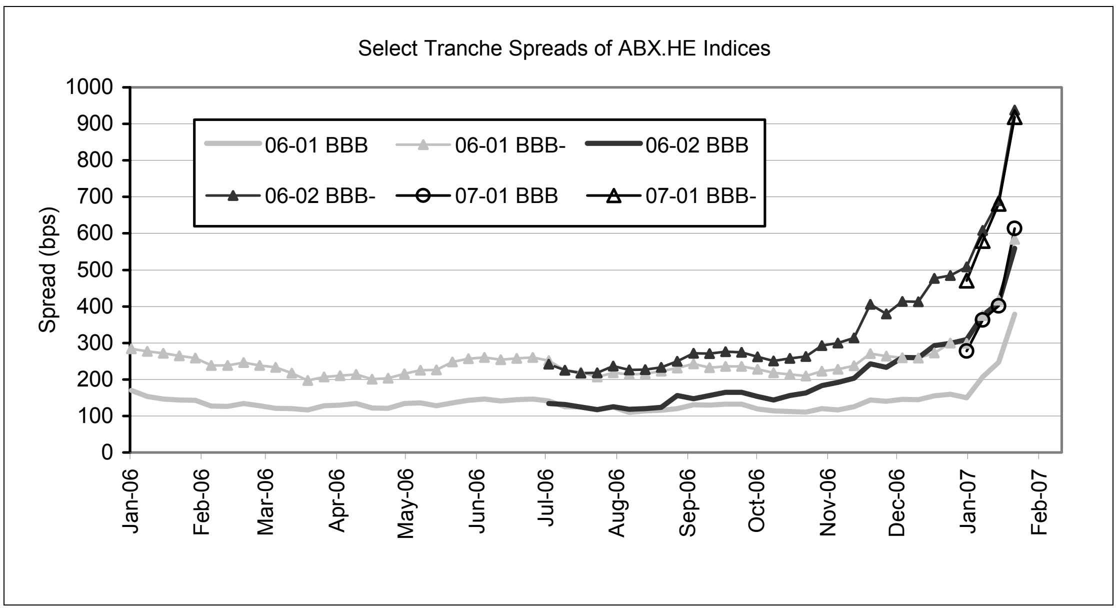
Nomura Fixed Income Research

CDO/CDS Update 2/12/07

I. Commentary

A relatively strong U.S. corporate earnings season has allowed corporate credit index spreads to remain flat to tighter despite the increased pressure facing the U.S. sub-prime business. Signs of a colder-than-expected U.S. winter and concern over Nigerian supply pushed the price of oil futures to just over $60 per barrel on Friday. However, on Monday morning, Saudi Arabia announced plans to increase shipments to Asian refiners and its oil minister stated that OPEC would have no need to further lower output. Crude oil quickly fell to $58.30 as of 11:00 a.m. this morning. As investors monitor oil prices, they will also be busy with retail sales, jobless claims, mortgage applications, and core PPI which are all expected to be released later this week.

During the week, the CDX IG 7 index tightened just under 1 bp to 30.4 bps. The North American crossover and high-yield indices tightened 4 and 6 bps to 121 and 228 bps, respectively. It was a similar result in Europe as the iTraxx series 6 index tightened less than 1 bp to 22.6 bps, while the European crossover index compressed 9 bps to 184 bps. CMBX spreads display a tightening bias in the tranches rated triple-B or higher while the lower rated tranches continue to widen. CMBX BB spreads widened over 7 bps last week to 190.4 bps and CMBX BBB spreads widened almost 2 bps to 74.1 bps. All other tranches moved slightly tighter by less than half a basis point over the week. Results appear similar when looking at spread levels since mid-January.



Note: Spread data based on 35% CPR assumption.
Source: Markit, Nomura Securities International

ABX spreads reached new wides last week. Looking at the 2007-01 series, BBB- spreads ended the week at 919 bps, 237 bps wider week-over-week, and now 448 bps wider from the roll on January 19th. 2007-01 BBB spreads gapped out to 613 bps, from 401 bps at the previous week's close. Over the past few months, the single-A and above rated indices have been relatively insulated from the spread widening that has impacted the lower rated ABX indices. However, last week the 2007-01 A

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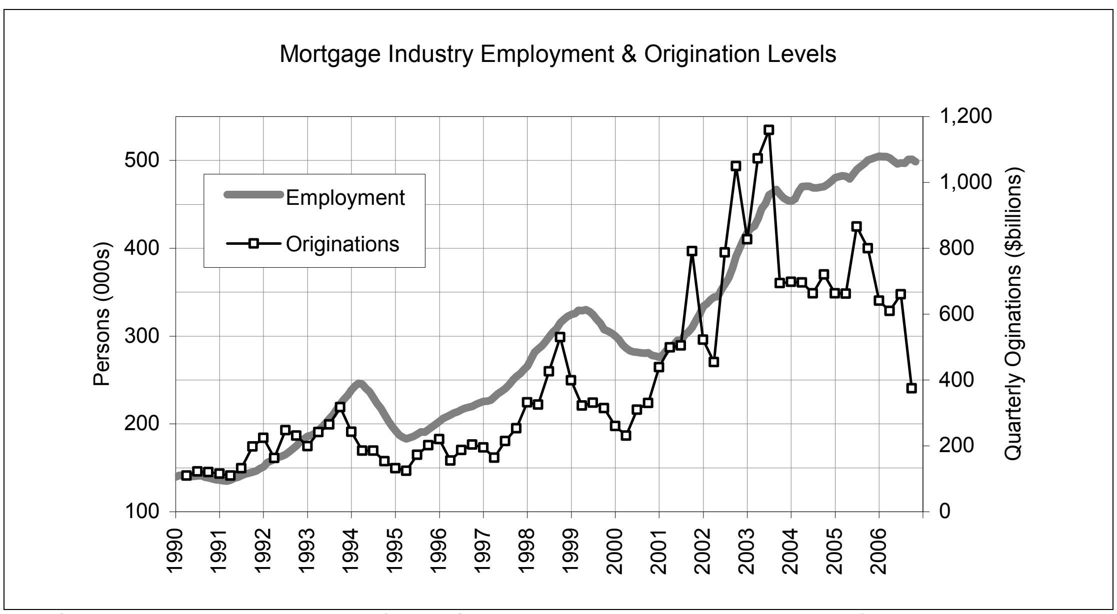
index widened 77 bps to 170 bps. Over the past two weeks the 2007-01 A index is 92 bps wider and 106 bps wider from the initial spread of just 64 bps on the day of the roll. Spreads on the 2006-02 series moved significantly as the BBB- index widened to 938 bps from 689 bps the prior week. BBB index spreads on the 2006-02 series were 148 bps wider to 559 bps week-over-week. Negative sentiment also affected the 2006-01 series, which is widely believed to reference the strongest collateral of the three ABX series. The BBB- index of the 2006-01 series widened 167 bps to 583 bps while the 2006-01 BBB index moved to 379 bps from 248 bps at the end of last week.

One of the key drivers of last week's ABX.HE spread widening was the Wall Street Journal article on HSBC's sub-prime mortgage activities.[1] The article reported that HSBC had increased its allowance for loan losses by roughly 20%, or about $1.76 billion, with respect to its U.S. sub-prime mortgage business. The article also highlighted several factors behind HSBC's decision: (1) simultaneous second-lien loans, (2) stated-income loans, (3) over-reliance on FICO scores, (4) the competitive environment that prompted HSBC to loosen its lending criteria when other lenders did so. The article also described a specific distressed loan in Ohio, one of the states with the highest delinquencies in the nation.

However, only a very careful reading of the article allows the reader to put all the facts in context. HSBC's decision to increase loss reserves by $1.76 billion relates to a huge U.S. consumer loan portfolio of $177 billion. HSBC is not doubling or tripling its reserves, or even increasing them by 50%. The bank is merely increasing them by 20%. It appears to be taking a reasonable and measured response to conditions in the sub-prime mortgage sector. Therefore, the sudden spread ABX spread widening late last week seems somewhat an over-reaction.

At this point, we think that the word "uncertain" is the best way to describe the outlook for sub-prime mortgage ABS at the triple-B rating level. Signals are decidedly mixed. On the negative side, delinquencies and early payment defaults are up, home price appreciation is weak, many loans face reset risk, and recent vintages have high proportions of piggyback seconds, first-time homebuyers, and stated-income loans. On the positive side, the job market is solid, interest rates are moderate, and the U.S. economy is growing. Whichever way the story ends in a year or two, it likely will be surprise to a large portion of the market.



Source: Haver Analytics, Bureau of Labor Statistics, Mortgage Bankers Association of America

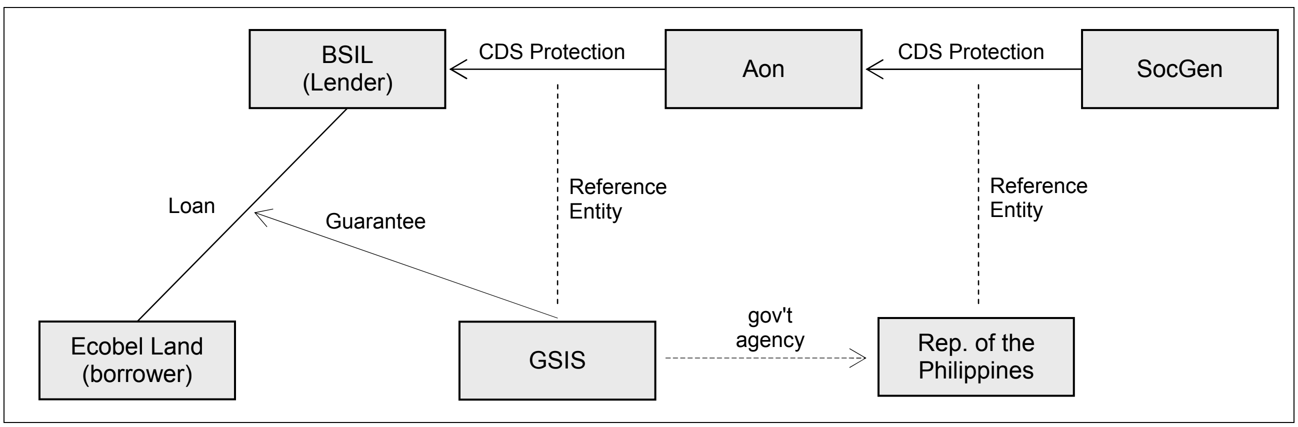
[1] Mollenkamp, C. *In Home-Lending Push, Banks Misjudged Risk*, Wall Street Journal, 8 Feb. 2007, p. A1.

In the meantime, though, there is somewhat less uncertainty about the outlook for the sub-prime lenders, as opposed to the outlook for the securities. It is already clear that the sub-prime mortgage sector has excess origination capacity and that it likely will endure a cyclical contraction.

The $64,000 question for members of the origination community is whether the contraction will shrink the industry job rolls by 50,000 or by 100,000 or by 150,000. We don't see any clear answer to that question, but none of the alternatives is particularly appealing.

CDS Litigation: Last week the U.S. Court of Appeals for the Second Circuit rendered its decision in *Aon Financial Products v. Société Générale* (No. 06-1080-cv). The decision is important and beneficial to the credit derivatives market. The court reversed the holding of the district court and essentially concluded that CDS documentation should be interpreted strictly in accordance with its terms and independently of the parties' other transactions or relationships.

Here's what happened in the case: Bear Stearns International Limited (BSIL) made a loan to a land developer in the Philippines called Ecobel Land. A Philippine government agency called GSIS guaranteed the loan. BSIL also bought credit protection from Aon through a CDS that explicitly covered the "the failure by [GSIS] to make, when due, any payments under the [guarantee] for whatever reason or cause." Aon, in turn, bought credit protection from Société Générale (SocGen) through a second CDS. However, the reference entity under the second CDS was not GSIS, but rather the Republic of the Philippines. Moreover, credit events under the second CDS were not exactly the same as under the first.



Ecobel defaulted on the loan and GSIS refused to honor the guarantee, asserting that it had not been properly authorized. Based on GSIS' refusal to honor the guarantee, Aon had to pay BSIL's assignee under the BSIL/Aon CDS contract. Aon in turn tried to get SocGen to pay under the Aon/SocGen CDS contract. In the end, SocGen did not have to pay because the Court of Appeals respected the differences between the BSIL/Aon CDS and the Aon/SocGen CDS. The court did not treat the two as being linked in any way.

The two key credit events in the Aon/SocGen CDS were "failure to pay" and "sovereign event." The court concluded that GSIS' refusal to honor the surety bond was not a "sovereign event." The court focused on the inclusion of the word "condition" in the definition of that term. The court rejected the idea that the refusal by GSIS to honor the contract could be the "condition" that caused the refusal in the first place. The court also observed that the term sovereign event seemed to refer to "such large-scale events as the restructuring of the Sovereign's — i.e., the government's — debt, taken in its capacity as a sovereign."

The court also ruled that GSIS' refusal to honor the surety bond was not a "failure to pay" within the meaning of the Aon/SocGen CDS. The reference entity for that CDS was the Republic of the Philippines and the reference obligation was a specific Philippines government bond. The court ruled that the neither GSIS nor other agencies of the Philippines government were reference entities under the contract. Interestingly, the court looked to Philippines law in reaching that conclusion. According to the court, if Aon and SocGen wanted to include GSIS and other Philippines government agencies as additional reference entities, they could have done so with explicit language.

Altogether, we draw four essential lessons from the case:

- Hedged is not the same as flat. Aon used the Aon/SocGen CDS to hedge its exposure under the BSIL/Aon CDS. However, the hedge was imperfect. Credit events under the two contracts had correlation of less than 100%.

- Courts will enforce CDS strictly according to their terms. This is the key holding of the case and it's what makes the case beneficial for the credit derivatives market.

- Differences matter in language defining credit events. Market participants should not assume that facts constituting a credit event under one CDS will also constitute a credit event under another CDS unless the contractual language is ***exactly the same***.

- Specification of reference entities matters. Market participants should not assume that affiliated reference entities under separate CDS contracts embody the same risk. In particular, specifying a sovereign government does not automatically include all of its agencies and instrumentalities.

II. Recent Pricing and Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Eastland CLO	2/9	$1,500	Highland Capital	Loans	CITG				
		100.0				A1	Aaa/AAA/-	-	+25/L
		825.6				A2a	Aaa/AAA/-	-	+23/L
		206.0				A2b	Aa1/AAA/-	-	+33/L
		78.5				A3	Aa2/AA/-	-	+40/L
		81.5				B	A2/A/-	-	+70/L
		68.5				C	Baa2/BBB/-	-	+150/L
		48.0				D	Ba2/BB/-	-	+360/L
		123.5				PS	-/-/-	-	-
COLTS 2007-1 MML	2/9	$400	Structured Asset Investors	Mid Mkt Loans	WS				
		260.00				A	Aaa/AAA/AAA	6.41	+23/L
		22.25				B	Aa2/AA/AA	8.20	+45/L
		40.00				C	A2/A/A	8.81	+80/L
		21.22				D	Baa2/BBB/BBB	9.51	+145/L
		22.25				E	Ba2/BB/BB	10.11	+365/L
		44.75				PS	-/-/-	-	-
Cedarwoods CRE CDO II	2/9	$400	Angelo Gordon	CRE	BAS				
		390.00				A1	Aaa/AAA/-	8.5	+27/1mL
		78.00				A2	Aaa/AAA/-	9.7	+29/1mL
		28.50				A3	Aaa/AAA/-	9.9	+31/1mL
		29.25				B	Aa2/AA/-	10.0	+38/1mL
		20.25				C	A2/A/-	10.0	+60/1mL
		19.50				D	Baa2/BBB/-	10.0	+13/1mL
		6.00				E	Baa3/BBB-/-	10.0	+160/1mL
		10.50				F	Ba2/BB/-	10.0	+320/1mL
		18.00				Inc	-/-/-	-	-
Adams Square Funding II	2/9	$1,000	CSAM	MZ ABS	CITG				
		15.2				S	Aaa/AAA/-	3.3	+29/L
		600.0				A1	Aaa/AAA/-	6.7	-
		95.0				A2	Aaa/AAA/-	6.7	+50/L
		140.0				A3	Aa2/AA/-	6.7	+60/L
		50.0				B	A2/A/-	6.7	+200/L
		49.0				C	Baa2/BBB/-	5.7	+425/L
		20.0				D	Baa3/BBB-/-	5.7	+475/L
		10.0				E	Ba1/BB+/-	-	+700/L
		42.9				Inc	-/-/-	-	-
Cent CDO 14	2/8	$500	River Source Inv	Sn Sec Loans	MS				
		110.000				A1	Aaa/AAA/-	14.1	+24/3mL
		236.250				A2A	Aaa/AAA/-	14.1	+23/3mL
		26.250				A2B	Aa1/AAA/-	14.1	+33/3mL
		33.750				B	Aa2/AA/-	14.1	+36/3mL
		24.3750				C	A2/A/-	14.1	+70/3mL
		18.750				D	Baa2/BBB/-	14.1	+130/3mL
		12.500				E	Ba2/BB/-	14.1	+335/3mL
		38.125				Equity	-/-/-	-	-
Broderick CDO 3	2/8	$1,500	SCM Advisors	HG ABS	ML				
		750.00				A1S	Aaa/AAA/-	7.1	+21.75/1mL
		543.75				A1	Aaa/AAA/-	7.1	+25.45/1mL
		56.25				A2	Aaa/AAA/-	7.1	+42/3mL
		92.00				A3	Aaa/AAA/-	7.1	+45/3mL
		28.00				B	Aa2/AA/-	7.1	+51/3mL
		10.00				C	A2/A/-	7.1	+165/3mL
		10.00				D	Baa2/BBB/-	6.9	+380/3mL
		4.00				E	Ba1/BB+/-	6.9	+675/3mL
		6.00				Pref	-/-/-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (*M/S/F*)	WAL	Spread
Apidos CDO V	2/2	$400	Apidos Capital Mgmt	1st Lien Loans	JPM				
		130.0				A1	Aaa/AAA/-	8.7	+24/L
		150.0				A1S	Aaa/AAA/-	8.5	+23/L
		17.0				A1J	Aa1/AAA/-	10.1	+33/L
		19.0				A2	Aa2/AA/-	10.1	+39/L
		21.0				B	A2/A/-	10.1	+70/L
		18.0				C	Baa2/BBB/-	10.1	+145/L
		12.0				D	Ba2/BB/-	10.1	+355/L
		33.0				Pref	-/-/-	-	-
Kingsland IV CLO	2/2	$425	Kingsland Capital Mgmt	Loans	WS				
		308.1				A1	Aaa/AAA/-	8.65	Not Offered
		18.0				A1R	Aaa/AAA/-	8.65	Not Offered
		22.9				B	Aa2/AA/-	10.24	+40/L
		25.0				C	A2/A/-	10.49	+65/L
		18.0				D	Baa3/BBB-/-	10.74	+145/L
		14.9				E	Ba2/BB/-	10.93	+335/L
		36.1				Inc	-/-/-	-	-
Libertas-II	2/2	$506	Strategos Capital	SF	BS				
		6.0				X	Aaa/AAA/-	1.71	-
		325.0				A1	Aaa/AAA/-	6.59	-
		75.0				A2	Aaa/AAA/-	6.59	+51/3mL
		21.0				B	Aa2/AA/-	6.59	+55/3mL
		29.5				C	A2/A/-	6.59	+195/3mL
		13.5				D	Baa2/BBB/-	6.10	+400/3mL
		9.0				E	Baa3/BBB-/-	6.10	+550/3mL
		10.5				F	Ba2/BB/-	6.10	+725/3mL
		23.0				P/S	-/-/-	-	-
Alpha Mezz CDO 2007-1**	2/2	$500	Countrywide Alternative Assets	RMBS	MS				
		325.0				SSr	-/-/-	-	-
		70.0				II	Aaa/AAA/-	7.1	+44/3mL
		30.0				III	Aa2/AA/-	7.1	+55/3mL
		5.0				IV	Aa3/AA-/-	7.1	+62/3mL
		23.0				V	A2/A/-	7.1	+160/3mL
		22.5				VI	Baa2/BBB/-	7.1	+400/3mL
		7.0				VII	Ba1/BB+/-	7.1	+700/3mL
		17.5				Sub	-/-/-	-	-
Avenue CLO V	2/2	$669	Avenue Cap Mgmt	Loans	BAS				
		499.6				A	Aaa/AAA/-	9.0	+24/3mL
		6.6				X-IO	Aaa/AAA/-	2.6	+29/Sw
		65.3				B	A2/A/-	10.1	+80/3mL
		16.0				C1	Baa2/BBB/-	10.1	+139/3mL
		5.5				C2	Baa2/BBB/-	10.1	+139/Sw
		24.1				D1	Ba2/BB/-	10.1	+345/3mL
		1.5				D2	Ba2/BB/-	10.1	+345/Sw
		50.4				Sub	-/-/-	-	-
Babson CLO 2007-1	2/2	$600	Babson Capital Mgmt	Bank Loans	CITG				
		298.0				A1	Aaa/AAA/-	-	+22.5/L
		220.0				A2a	Aaa/AAA/-	-	+21.5/L
		55.0				A2b	Aa1/AAA/-	-	+26.5/L
		42.5				A3	Aa2/AA/-	-	+33/L
		36.5				B1	A2/A/-	-	+55/L
		6.0				B2	A2/A/-	-	Fx 5.851%
		25.0				C	Baa2/BBB/-	-	+125/L
		21.0				D1	Ba2/BB/-	-	+325/L
		4.0				D2	Ba2/BB/-	-	Fx 8.556 %
		59.7				Sub	-/-/-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Gulf Stream-Atlantic 2007-1	2/1	$500	GS Structured Advisors	MZ ABS	RBSGC				
		300.0				A1	Aaa/AAA/-	3.7	+20/3mL
		93.0				A2	Aaa/AAA/-	3.9	+46/3mL
		35.0				B	Aa2/AA/-	3.9	+56/3mL
		25.0				C	A2/A/-	3.9	+150/3mL
		11.0				D	Baa1/BBB+/-	3.9	+300/3mL
		9.0				E	Baa2/BBB/-	3.9	+350/3mL
		7.5				F	Baa3/BBB-/-	3.9	+400/3mL
		5.0				G	Ba1/BB+/-	3.9	+725/3mL
		14.5				Sub	-/-/-	-	-
Longride ABS CDO II	1/31	$500	ZS Structured Credit Cap.	MZ ABS	RBSGC				
		275.0				A1S	Aaa/AAA/-	-	Not Offered
		85.0				A1J	Aaa/AAA/-	6.0	+47/3mL
		45.0				A2S	Aa2/AA/-	6.0	+56/3mL
		16.5				A2J	Aa3/AA-/-	6.0	+70/3mL
		15.0				A3S	A2/A/-	6.0	+175/3mL
		10.0				A3J	A3/A-/-	6.0	+220/3mL
		6.0				B1	Baa1/BBB+/-	6.0	+325/3mL
		12.5				B2	Baa2/BBB/-	6.0	+375/3mL
		10.0				B3	Baa3/BBB-/-	6.0	+450/3mL
		5.0				C	Ba1/BB+/-	6.0	+725/3mL
		20.0				Sub	-/-/-	-	-
Galaxy VIII CLO	1/31	$500	AIG Global Inv. Group	Sn Sec Loans	MS				
		372.50				A	Aaa/AAA/-	8.2	+24/3mL
		33.75				B	Aa2/AA/-	10.6	+36/3mL
		24.40				C	A2/A/-	11.0	+63/3mL
		18.70				D	Baa2/BBB/-	11.4	+130/3mL
		12.50				E	Ba2/BB/-	11.6	+335/3mL
		38.15				Sub	-/-/-	-	-
Foothill CLO I	1/31	$500	Foothill Group	1st Lien Loans	DB				
		357.0				A	Aaa/AAA/-	8.1	+24/3mL
		30.0				B	Aa2/AA/-	10.0	+41/3mL
		28.0				C	A2/A/-	10.0	+71/3mL
		25.0				D	Baa2/BBB/-	10.0	+145/3mL
		19.0				E	Ba2/BB/-	10.0	+350/3mL
		41.0				Eq	-/-/-	-	-
Madison Park Fndg-4	1/26	$500	Credit Suisse	Sn Sec Loans	GS				
		200.00				A-1a	Aaa/AAA/-	8.4	+30/3mL
		50.00				A-1b	Aaa/AAA/-	9.9	+23/3mL
		110.00				A-2	Aaa/AAA/-	8.7	+37/3mL
		31.25				B	Aa2/AA/-	10.0	+65/3mL
		30.00				C	A2/A/-	10.0	+143/3mL
		20.00				D	Baa2/BBB/-	10.0	+360/3mL
		21.00				E	Ba2/BB/-	9.9	-
		37.75				Sub	-/-/-	-	-
Kleros Real Estate CDO IV	1/26	$1,000	Strategos Capital Mgmt	RMBS	ML				
		300.0				A1	Aaa/AAA/-	6.6	+20/L
		300.0				A1	Aaa/AAA/-	7.0	+22/L
		290.0				A1	Aaa/AAA/-	7.0	+30/L
		12.0				A4	Aaa/AAA/-	7.0	+45/L
		21.0				B	Aa2/AA/-	7.0	+52/L
		47.0				C	Aa3/AA-/-	7.0	+64/L
		9.0				D	Baa2/BBB/-	7.0	-
		9.0				E	Ba2/BB/-	7.0	-
		12.0				Pref	-/-/-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Mesa West 2007-1	1/26	$600	Mesa West Capital	CRE	RBSGC				
		330.00				A1	Aaa/AAA/-	6.78	+26/L
		91.50				A2	Aaa/AAA/-	7.49	+29/L
		34.50				B	Aa2/AA/-	7.70	+35/L
		24.00				C	A1/A+/-	7.80	+49/L
		11.25				D	A2/A/-	7.85	+54/L
		13.50				E	A3/A-/-	7.89	+69/L
		12.75				F	Baa1/BBB+/-	7.89	+95/L
		13.50				G	Baa2/BBB/-	7.98	+115/L
		10.50				H	Baa3/BBB-/-	8.02	+147/L
		7.50				J	Ba2/BB/-	-	Not Offered
		7.50				K	B2/B/-	-	Not Offered
		43.50				PS	-/-/-	-	Not Offered
CIFC Funding 2007-1	1/26	$400	Commercial Industrial Fin Corp	Loans	BS				
		100.0				A-1LAT	Aaa/AAA/-	7.95	-
		75.0				A-1LAR	Aaa/AAA/-	7.67	-
		77.8				A1LA	Aaa/AAA/-	7.67	-
		38.2				A1LB	Aa1/AAA/-	9.55	+34/3mL
		24.0				A-2L	Aa2/AA/-	9.55	+40/3mL
		25.0				A-3L	A2/A/-	9.98	+75/3mL
		17.0				B-1L	Baa2/BBB/-	10.19	+150/3mL
		17.0				B-2L	Ba2/BB/-	10.19	+390/3mL
		34.6				Equity	-/-/-	-	-
Draco 2007-1*	1/26	$2,000	Declaration Mgmt & Research	MZ SF	UBS				
		1,250.0				SS	Aaa/AAA/-	-	Not Offered
		282.0				A1	Aaa/AAA/-	-	+48/3mL
		120.0				A2	Aa2/AA/-	-	+58/3mL
		125.0				A3	A2/A/-	-	+225/3mL
		23.0				B1	Baa1/BBB+/-	-	+325/3mL
		65.0				B2	Baa2/BBB/-	-	+425/3mL
		25.0				B3	Baa3/BBB-/-	-	+525/3mL
		8.0				C1	Baa3/BB-/-	-	-
		52.0				C2	Ba1/BB+/-	-	-
		50.0				PS	-/-/-	-	-
Trapeza CDO XII	1/26	$518	Trapeza Capital	TruPs	JPM				
		250.0				A1	Aaa/AAA/AAA	8.7	+29/L
		68.0				A2	Aaa/AAA/AAA	10.1	+35/L
		19.0				A3	Aaa/-/AAA	10.1	+46/L
		49.0				B	Aa2/-/AA	10.1	+56/L
		38.0				C1	A3/-/A	10.1	+115/L
		9.0				C2	A3/-/A	10.1	+115/L
		15.0				D1	-/-/A-	10.1	+135/L
		10.0				D2	-/-/A-	10.1	+135/L
		20.0				E1	-/-/BBB	10.1	+240/L
		5.0				E2	-/-/BBB	10.1	+240/L
		10.0				F	-/-/BB	10.1	+450/L
		25.0				Sub	-/-/-	-	-
Norma CDO I	1/26	$1,500	NIR Capital	MZ SF	ML				
		975.0				A1	Aaa/AAA/-	5.8	Not Offered
		150.0				A2	Aaa/AAA/-	6.2	+47/3mL
		86.0				B	Aa2/AA/-	6.2	+55/3mL
		50.0				C	Aa3/AA-/-	6.3	+66/3mL
		74.0				D	A2/A/-	6.3	+220/3mL
		65.0				E	Baa2/BBB/-	6.2	+440/3mL
		12.0				F	Baa3/BBB-/-	6.2	+480/3mL
		3.0				G	-	-	Not Offered
		35.0				H	-	-	Not Offered
		50.0				P/S	-	-	Not Offered

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Stanfield Daytona	1/26	$550	Stanfield Capital	Lev Loans	BS				
		8.25				X	Aaa/AAA/-	3.8	-
		358.00				A1L	Aaa/AAA/-	7.6	-
		50.00				A1LV	Aaa/AAA/-	7.6	-
		33.00				A2L	Aa2/AA/-	9.3	+40/L
		33.00				A3L	A2/A/-	9.8	+67/L
		20.00				B1L	Baa2/BBB/-	10.3	+135/L
		21.00				B2L	Ba2/BB/-	10.8	+340/L
		43.80				Inc	-/-/-	-	-
Camber 7	1/25	$900	Cambridge Place Inv Mgmt	MZ SF	BC				
		485.00				A1	Aaa/AAA/-	7.4	-
		100.00				A1	Aaa/AAA/-	7.4	+40/1mL
		72.00				A2	Aaa/AAA/-	7.4	+43/1mL
		81.00				B	Aa2/AA/-	7.6	+55/1mL
		78.30				C	A2/A/-	7.6	+200/1mL
		45.45				D	Baa2/BBB/-	6.9	+400/1mL
		11.25				E	Ba1/BB+/-	7.1	+600/1mL
		27.00				Inc	-/-/-	-	-
NovaStar ABS – I	1/23	$347.2	NovaStar AM	RMBS	RBSGC				
		243.7				A1	-/AAA/AAA	-	+32/L
		34.9				A2	-/AAA/AAA	-	+46/L
		28.5				B	-/AA/AA	-	+65/L
		24.4				C	-/A/A	-	+225/L
		15.7				D	-/BBB/BBB	-	+400/L
		-				Equity	-	-	Not Offerd

New Pipeline	Size (mm)	Collateral Manager	Assets	Lead
888 Tactical Fund**	$1,000	Harding Advisory	CDOs	CITG
ACA ABS CDO 2007-1	$1,500	ACA Mgmt	MZ SF	RBSGC
Ares IIIR/IVR CLO	$700	Ares Mgmt	Sn Sec Loans	DB/GS
BONY – One Wall Street CLO II	$400	Hamilton Loan AM	Loans	MS
ColumbusNova CLO 2007-1	$500	Columbus Nova Credit	Loans	MS
ECO 2007-1	$600	(static)	ABS CDOs	UBS
Gale Force 3 CLO	$514	GSO Capital Partners	Loans	ML
Gallatin CLO III 2007-1	$425	BSAM	Loans	BS
Gemstone CDO 7	$1,100	HBK	RMBS	DB
G-Square Finance 2007-1	$1,700	Wharton Asset Mgmt	HG SF	Cal
Kinney Hill Credit Opportunities Fund	$500	Ore Hill Partners	MZ SF	MS
Laguna Seca Funding I	$500	GSC Group	MZ SF	CITG
LNR V Series 2007-1	$761	LNR Partners	CRE	DBS/GS
Loan Star CLO 2006-1	$400	-	Loans	DB
Neptune IV	$1,000	Chotin Fund Mgmt	MZ SF	CS
Newbury Street CDO	$2,000	Mass Fin Services	HG SF	ML
N-Star RE CDO IX	$800	NS Advisors	CRE	CITG
Plettenberg Bay CDO	$500	Investec Principal Finance	MZ SF	CITG
Sandelman Realty CRE CDO I	$500	Sandelman Partners	CRE	CITG/GS
Sorin Real Estate CDO VI	$600	Sorin Capital	RMBS	BS
South Coast Funding IX**	$542	TCW AM	MZ SF	ML
Stone Tower VI	$1,000	Stone Tower Debt Adv	Loans	CS
Tahoma CDO – II*	$500	BSAM	ABS CDOs	JPM

* denotes synthetic; ** denotes hybrid deals.
Source: IFR, MCM, Bloomberg

III. Spreads

Index Constituent	9-Feb	Last week	Moody's Rating	S&P's Rating
AIG	9	9	Aa2	AA
Alcoa	14	15	A2	BBB+
Altria Group	21	21	Baa1	BBB
Boeing	7	8	A2	A+
CIT Group	23	23	A2	A
Deere & Co	13	13	A2	A
Dow Chemical	18	18	A3	A-
Duke Power Co	8	9	A3	BBB
Fannie Mae	6	6	Aaa	AAA
Ford Motor Credit	223	237	Caa1	CCC+
GE Capital	11	11	Aaa	AAA
GMAC	96	96	Ba1	BB+
IBM	8	8	A1	A+
McDonalds	10	10	A2	A
Time Warner	24	26	Baa2	BBB+
Tyson Foods	82	84	Ba2	BB+
Viacom	57	56	Baa3	BBB
Walt Disney	9	10	A3 /*+	A-
Xerox Corp	67	71	Baa3	BB+
AKZO Nobel N V	26	27	A3	A-
AXA	10	10	A2	A
Brit Telecom PLC	40	39	Baa1	BBB+
Cadbury Schweppes PLC	38	39	Baa2	BBB
Carrefour	14	12	A2	A
DaimlerChrysler AG	47	49	Baa1 /*-	BBB
Deutsche Telekom AG	33	32	A3	A-
France Telecom	23	23	A3	A-
GUS PLC	45	45	Baa1	BBB+
Koninklijke Ahold N V	66	66	Ba1	BB
Lafarge	26	27	Baa2	BBB
METRO AG	31	30	Baa2	BBB
Renault	29	30	Baa1	BBB+
Suez	17	17	A2 /*+	A- /*+
Telecom Italia SpA	60	61	Baa2	BBB+
Telenor ASA	19	18	A2	BBB+
Volkswagen AG	22	23	A3	A-

5Y CDS Index	9-Feb	Last week	Change
CDX.NA.IG 7	30.43	30.78	-0.36
CDX.NA.IG HVOL 7	74.31	74.52	-0.21
CDX.NA XO 7	120.54	124.50	-3.96
CDX.NA HY 6	227.49	233.57	-6.08
CDX.EM 6	108.73	107.77	+0.96
iTraxx Europe 6	22.58	22.83	-0.25
iTraxx Europe HVOL 6	43.60	44.25	-0.65
iTraxx Europe X-over 6	184.13	193.13	-9.00
iTraxx CJ Japan 6	19.75	20.44	-0.68
iTraxx Asia ex-Japan 6	38.59	39.67	-1.08
iTraxx Australia 6	32.50	32.55	-0.05
iTraxx SDI-75 3	29.48	29.55	-0.07

CDX IG 7 Widest	9-Feb
Sabre Hldgs Corp	317
Clear Channel Comms Inc	187
Harrahs Oper Co Inc	172
RadioShack Corp	125
EXPEDIA INC	125
CDX IG 7 Tightest	**9-Feb**
Wal Mart Stores Inc	5
Fed Natl Mtg Assn	6
Wells Fargo & Co	7
Boeing Cap Corp	7
Natl Rural Utils Coop Fin Cc	7
iTraxx Europe Widest	**9-Feb**
Glencore Intl AG	83
Valeo	77
ITV Plc	71
RENTOKIL INITIAL PLC	66
Telecom Italia SpA	60
iTraxx Europe Tightest	**9-Feb**
Royal Bk Scotland plc	5
Barclays Bk plc	6
ABN AMRO Bk N V	6
Aviva plc	6
Assicurazioni Generali S p A	6

Single-name CDS spreads are on a "XR" basis (without restructuring) for North America.
Source: Markit and Bloomberg

ABX.HE Index (as of February 9, 2007)					
	Price	*Spread* (bps)*	*1-week change (bps)*	*2-week change (bps)*	*Coupon (bps)*
ABX.HE.AAA.07-1	99.96	9.96	1.68	2.39	9
ABX.HE.AA.07-1	99.96	16.07	2.14	2.94	15
ABX.HE.A.07-1	99.50	169.95	76.84	91.14	64
ABX.HE.BBB.07-1	88.50	613.07	211.73	250.01	224
ABX.HE.BBB-.07-1	85.22	918.87	237.47	339.65	389
CMBX.NA Index (as of February 9, 2007)					
		Spread (bps)	*1-week change (bps)*	*2-week change (bps)*	*Coupon (bps)*
CMBX.NA.AAA.06-2		4.16	-0.16	-0.80	7
CMBX.NA.AA.06-2		8.89	-0.25	-2.73	15
CMBX.NA.A.06-2		14.68	-0.32	-2.40	25
CMBX.NA.BBB.06-2		47.00	-0.29	0.08	60
CMBX.NA.BBB-.06-2		74.14	1.57	2.56	87
CMBX.NA.BB.06-2		190.43	7.29	4.60	180

Note: * assuming 35% CPR,
Source: Markit and Nomura Securities International

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