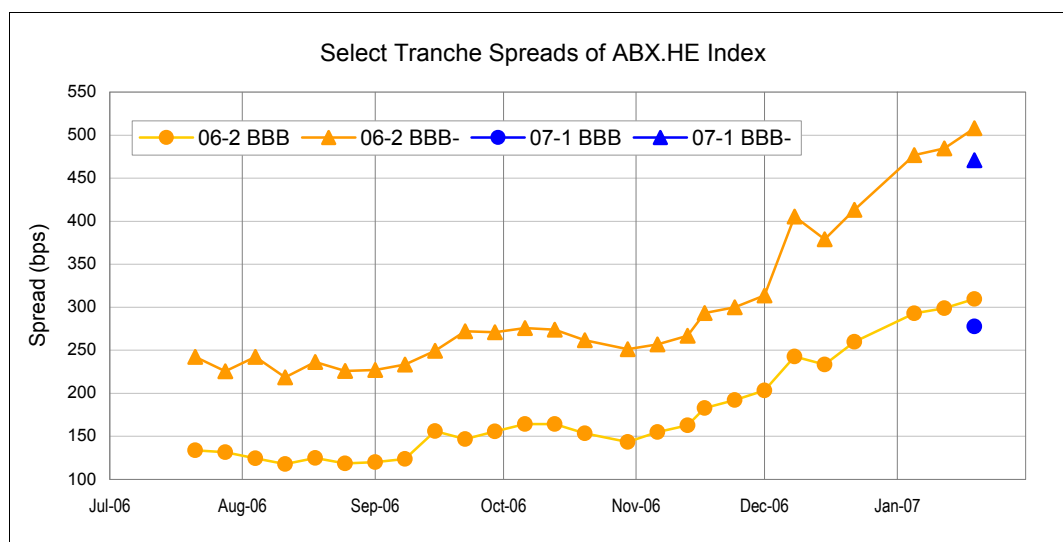


CDO/CDS Update 1/23/07

I. Commentary

Only three CDOs priced over the past two weeks. Most of the recently announced deals will likely remain in the pipeline until after the Asset Securitization Forum (ASF) 2007 conference, which begins January 28 in Las Vegas. According to ASF, the conference is expected to draw over 6000 market participants from more than 25 countries. However, before the events starts, the National Association of Realtors will release existing home sales for December on Thursday, followed by the U.S. Census Bureau's new homes sales figure on Friday. If the housing numbers are weak, concern over the housing sector will be at the forefront of investor minds and may continue to push HEL spreads wider.



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

ABX Rolls into 2007-1 Series. While ASF 2007 may have delayed a few CDOs from pricing, there has been no shortage of activity in the ABX index. As expected, the ABX.HE index rolled into the new 2007-1 series on January 19 without any reported complications. Initial spreads on the new on-the-run series were tighter than the 2006-2 series for all available tranches. The BBB- index of the 2007-1 series had a closing spread of 471 bps, compared to a spread of 508 bps for the corresponding index of the 2006-2 series. The spread on the BBB index of the 2007-1 series was 33 bps tighter at 278 bps. It is believed that tranche trading, which involves tranching the risk on a specific index (e.g. the BBB index) into various classes, should begin sometime in February.

Looking at the performance of the ABX 2006-2 series, the story appears to be the same as it has been for the past few months. Once again, there was minimal spread change in the AAA to A indices, while the BBB and BBB- indices saw significant widening. For the first time, the BBB- index breached the 500 bps threshold as spreads have gapped over 30 bps in the past two weeks and nearly 25 bps in the last week alone to 508 bps. BBB spreads are 17 bps wider from early January and are 11 bps wider over the past week to 310 bps. The belief that the new 2007-1 series should

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contain deals with tighter underwriting standards than the last series should help to keep 2007-1 spreads tighter than 2006-2 going forward.

After displaying little volatility for the past few weeks, CMBX spreads tightened from mid-January levels. Over the past week, BB and BBB- spreads are each 11 bps tighter to 185 and 75 bps, respectively. The BBB index has tightened 5 bps in the past week to 49 bps, while the A index is just 1 bp tighter to 17 bps over the same period. Spreads on the AAA and AA indices remain tight at just 5.5 and 12 bps, respectively, unchanged week-over-week.

Corporate credit spreads in North America and Europe tightened after a benign start to January and ahead of the start to earnings season for the latest fiscal quarter. The CDX IG 7 index was almost 2 bps tighter on the week to a close of 32.1 bps. The North American crossover and high yield indices were tighter by 7 and 11 bps, respectively, to 131 and 237 bps as of the end of last week. It was a similar result for the European credit indices as the iTraxx Europe index tightened almost 1 bp to 23 bps. At the same time the iTraxx Europe crossover index tightened 12 bps to a spread of 202 bps.

Fitch: 2006 speculative default rate at historic low. According to a recent Fitch press release, the U.S. high yield default rate at the end of 2006 stood at just 0.8%, down from 3.1% in 2005 and significantly below the long term average rate of 5%.¹ To further illustrate the historically strong credit environment, recovery rates reached a new high of 64% of par, up from 58% in the prior year and well above the long term average recovery of 40%. For 2006, a total of eighteen issuers defaulted on an aggregate amount of \$5.8 billion. The auto sector defaults of Dana Corp. and Dura Automotive accounted for half of the defaulted notional amount. Fitch believes the historic low default rate is not sustainable and should creep upwards in 2007, yet remain below the long term average rate. The rating agency attributes the robust funding conditions and not specifically credit quality for the minimal defaults witnessed last year. Fitch expects to complete and release its full 2006 default study in February.

2006Q4 Structured Finance Trends. Standard & Poor's released its 2006Q4 global structured finance performance trends report which shows that ratings activity continues to demonstrate a positive bias.² The strongest sector during the quarter was North American CMBS, which generated an upgrade-to-downgrade ratio of 11.5 to 1. U.S. RMBS also continued to show positive results, although the number of upgrades remains on the decline, the upgrade ratio was 1.6 to 1 during the quarter. U.S. ABS transactions set a new record with 97 upgrades during the record, bringing the full year total to 255, up from 219 in 2005. Partially offsetting the record upgrades were 222 lowered rating actions for the year, which brought the full year ratio to 1.15 to 1. U.S. cash flow and synthetic CDOs posted their strongest upgrade ratio of the year, as the CDO sector witnessed 40 upgrades and 41 downgrades for a ratio of 0.97 to 1. For the full year, the U.S. CDO upgrade ratio moved to 0.79 to 1. The bulk of downgrades were attributed to the synthetic CDO space. Synthetic CDOs accounted for 29 or 71% of total CDO downgrades in the quarter and 125 or 66% of downgrades for the full year.

Moody's releases reports on MBS. Moody's has released a series of reports covering various mortgage products. The report topics include a review and outlook for jumbo RMBS, alt-A RMBS, and home equity ABS as well as early defaults in mortgage securitizations.³ The four reports

¹ Verde, M., P. Mancuso, and E. Rosenthal, *Fitch: U.S. Speculative Grade Issuers Living on Borrowed Money*, *Time* (10 January 2007).

² Anderberg, S., R. Buendia, and E. Campbell, *Fourth-Quarter 2006 Global Structured Finance Performance Trends* (16 January 2007).

³ Chatterjee, D., W. Frankowicz, and D. Kothari, *2006 Review and 2007 Outlook: Home Equity ABS, 2006 Was Tough – Will 2007 Be Even More Challenging?* (22 January 2007); Fellows, E., K. Gabay, and K. Ramallo, *2006 Review and 2007 Outlook: Alternative-A RMBS Still Riding the Affordability Product Wave* (19 January 2007); Markowitz, M., A. DeShetler, and T. Swanson, *2006 Review and 2007 Outlook: Private-Label Jumbo RMBS, Steady for Now in the Face of Broader Market Uncertainty* (23 January 2007); Rocco, J., *Early Defaults Rise in Mortgage Securitizations* (18 January 2007).

gravitate towards a similar conclusion that housing sector data demonstrated weakness in 2006 and that conditions may not be more favorable in 2007. Overall, 2005 and 2006 vintage MBS products have had higher foreclosure, REO and loss rates than other vintages with similar seasoning. Higher interest rates have made housing less affordable, which in turn has led to a decline in prime securitization volumes. As a result, there has been a surge in alt-A and sub-prime issuance which has weakened the overall credit quality of mortgage securitizations. According to Moody's, the alt-A and sub-prime sectors accounted for 87% of 2006 new non-agency issuance, up from 50% in 2001.

II. Recent Pricing and Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Acacia CDO 11	1/22	\$500.00	Redwood Trust	RMBS	LB				
		398.0				A	Aaa/AAA/-	5.5	+30/3mL
		35.0				B	Aa2/AA/-	8.0	+47/3mL
		16.0				C	A2/A/-	8.0	+125/3mL
		16.0				D	Baa2/BBB/-	8.0	+315/3mL
35.0	Sub	-/-	-	-					
Matrix 2007-1*	1/22	\$1,000.00	Faxtor	RMBS	DB				
		100.00				A	Aaa/AAA/-	-	-
		40.00				B-1	Aa2/AA/-	5.3	-
		25.00				B-2	Aa3/AA/-	5.3	+80/L
		41.00				C	A2/A+/-	5.6	+150/L
		17.75				D	A3/A/-	5.7	+230/L
		11.70				E	Baa2/BBB+/-	5.8	+400/L
		7.80				F	Baa3/BBB/-	5.9	+480/L
		22.50				G	Ba2/BB/-	6.0	-
		30.00				Sub	-/-	-	Not Offered
Fort Denison Funding	1/10	\$500.00	Basis Capital	RMBS	GS				
		225.0				A1	Aaa/AAA/-	5.0	-
		60.0				A2a	Aaa/AAA/-	3.1	-
		80.0				A2b	Aaa/AAA/-	6.5	+55/1mL
		41.0				B	Aa2/AA/-	6.0	+65/1mL
		64.0				C	-/-	-	-
30.0	IN	-/-	-	-					

New Pipeline	Size (mm)	Collateral Manager	Assets	Lead
ABCDs 2006-1*	\$400	Alliance Bernstein	RMBS	RBCCM
Alpha Mezz CDO 2007-1*	\$500	Countrywide Alt Assets	RMBS	MS
Apidos CDO V	\$400	Apidos Capital Mgmt	Loans	JPM
Babson CLO 2007-I	\$600	Babson Capital Mgmt	Loans	CITG
Bantry Bay CDO	\$250	Investec Principal Finance	Mezz ABS	BAS
Blue Mountain CLO III	\$450	Blue Mountain Capital	Sn Sec Loans	DBS
Broderick CDO	\$1,500	Seneca Capital	HG ABS	ML
Cent CDO 14	\$400	River Source Investments	Sn Sec Loans	MS
Cherry Creek CDO-II*	\$500	Surge Capital Mgmt	Mezz ABS	UBS
CIFC Funding 2007-1	\$400	CIFC	Loans	BS
Eastland CLO	\$800	Highland Capital	Loans	CITG
GSC Group CDO-8	\$350	GSC Group	Loans	CITG
Kingsland – IV	\$425	Kingsland	Loans	JPM
Kleros Real Estate CDO IV	\$1,000	Strategos Capital Mgmt	RMBS	ML
Liberty Harbour II CDO	\$3,350	250 Capital LLC	HG SF	BC
Madison park Funding IV	\$500	Credit Suisse Alt Capital	Loans	GS
Mesa West 2007-1	\$600	Mesa West Capital	CRE	RBSGC
Millennium Park CDO	\$2,000	Vanderbilt Capital Adv	-	GS/HVB
Navigare Funding II CLO	\$300	Navigare Partners	Sn Sec Loans	WS
Nomura CRE CDO 2007-1	\$950	Nomura Credit Capital	CRE	WS
Norma CDO I	\$1,500	NIR Capital Mgmt	Mezz ABS	ML
Pampelonne CDO II	\$2,000	Vertical Capital	HG SF	BC
Octonion I CDO	\$1,000	Harding Advisor	RMBS	CITG
Primoris CDO 2007-1*	-	State Street	Corp	DB
Pyxis 2007-1	\$1,500	Putnam	Mezz SF	
Stoney Lane Funding I	\$500	Hillmark Caoital Mgmt	Sn Sec Loans	JPM
TABS 2007-7**	\$2,250	Tricadia CDO Mgmt	Mezz ABS	UBS
Tralee CDO I	\$350	Par IV Capital	Loans	JPM
Trapeza CDO XII	\$415	Trapeza Capital Mgmt	TruPs	JPM

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

III. Spreads

Index Constituent	19-Jan	Last week	Moody's Rating	S&P's Rating	5Y CDS Index	19-Jan	Last week	Change
AIG	9	9	Aa2	AA	CDX.NA.IG 7	32.09	33.52	-1.43
Alcoa	14	15	A2	BBB+	CDX.NA.IG HVOL 7	77.25	80.25	-3.00
Altria Group	23	23	Baa1	BBB	CDX.NA.XO 7	130.61	137.39	-6.78
Boeing	8	8	A2	A+	CDX.NA.HY 6	236.99	247.89	-10.90
CIT Group	24	26	A2	A	CDX.EM 6	109.41	111.68	-2.27
Deere & Co	15	16	A3	A	iTraxx Europe 6	23.03	23.62	-0.59
Dow Chemical	21	14	A3	A-	iTraxx Europe HVOL 6	45.69	46.53	-0.84
Duke Power Co	13	14	A3	BBB	iTraxx Europe X-over 6	201.75	212.90	-11.15
Fannie Mae	6	7	Aaa	AAA	iTraxx CJ Japan 6	20.00	21.35	-1.35
Ford Motor Credit	260	277	Caa1	CCC+	iTraxx Asia ex-Japan 6	40.13	41.58	-1.45
GE Capital	11	11	Aaa	AAA	iTraxx Australia 6	34.50	34.19	+0.31
GMAC	97	102	Ba1	BB+	iTraxx SDI-75 3	29.83	30.82	-0.99
IBM	8	8	A1	A+	CDX IG 7 Widest	19-Jan		
McDonalds	12	13	A2	A	Sabre Hldgs Corp	302		
Time Warner	28	30	Baa2	BBB+	Clear Channel Comms Inc	205		
Tyson Foods	99	101	Ba2	BB+	Harrahs Oper Co Inc	157		
Viacom	68	75	Baa3	BBB	RadioShack Corp	154		
Walt Disney	10	11	A3 /*+	A-	The Gap Inc	150		
Xerox Corp	76	65	Baa3	BB+	CDX IG 7 Tightest	19-Jan		
AKZO Nobel N V	29	27	A3	A-	Amgen Inc.	5		
AXA	10	11	A2	A	Wells Fargo & Co	6		
Brit Telecom PLC	41	43	Baa1	BBB+	Wal Mart Stores Inc	6		
Cadbury Schweppes PLC	38	40	Baa2	BBB	Fed Natl Mtg Assn	6		
Carrefour	12	13	A2	A	Boeing Cap Corp	8		
DaimlerChrysler AG	52	54	Baa1 /*-	BBB	iTraxx Europe Widest	19-Jan		
Deutsche Telekom AG	32	33	A3	A-	Valeo	82		
France Telecom	25	27	A3	A-	Glencore Intl AG	82		
GUS PLC	45	47	Baa1	BBB+	ITV Plc	71		
Koninklijke Ahold N V	69	74	Ba1	BB	RENTOKIL INITIAL PLC	69		
Lafarge	28	30	Baa2	BBB	THOMSON	64		
METRO AG	29	30	Baa2	BBB	iTraxx Europe Tightest	19-Jan		
Renault	30	32	Baa1	BBB+	Royal Bk Scotland plc	4		
Suez	20	25	A2 /*+	A- /*+	Barclays Bk plc	6		
Telecom Italia SpA	59	62	Baa2	BBB+	ABN AMRO Bk N V	6		
Telenor ASA	17	18	A2	BBB+	Aviva plc	7		
Volkswagen AG	25	26	A3	A-	Allianz AG	7		

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

ABX.HE Index (as of January 19, 2007)				
	Price	Weekly change (bps)	Spread* (bps)	Coupon (bps)
ABX.HE.AAA.07-1	100.03	-	8.27	9
ABX.HE.AA.07-1	100.04	-	13.95	15
ABX.HE.A.07-1	100.01	-	63.71	64
ABX.HE.BBB.07-1	98.30	-	277.52	224
ABX.HE.BBB-.07-1	97.50	-	470.95	389
CMBX.NA Index (as of January 19, 2007)				
	Spread	Weekly change (bps)	Coupon (bps)	
CMBX.NA.AAA.06-2	5.50	unch	7	
CMBX.NA.AA.06-2	12.00	unch	15	
CMBX.NA.A.06-2	16.89	-1.11	25	
CMBX.NA.BBB.06-2	48.50	-4.67	60	
CMBX.NA.BBB-.06-2	74.50	-10.58	87	
CMBX.NA.BB.06-2	184.50	-10.50	180	

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

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