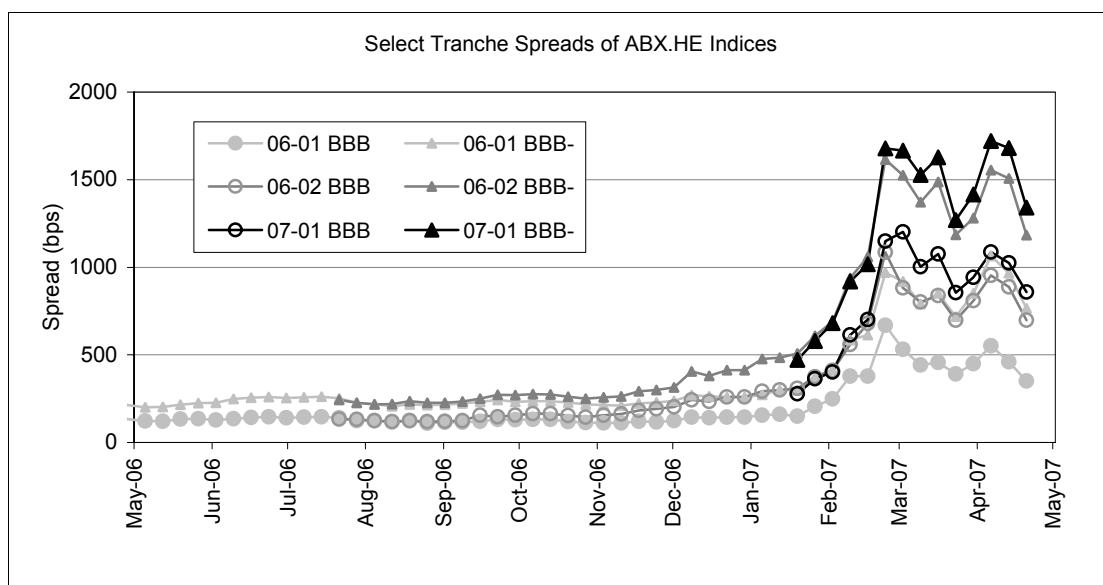


CDO/CDS Update 4/24/07

I. Commentary

The health of the US economy and the impact of inflation remain hot topics of debate among economists. However, if M&A and LBO activity continue at this torrid pace investors may be more concerned about potential takeover targets than the possible direction of the Fed's next move. On Monday, Barclay's announced that it had offered over \$90 billion to purchase ABN Amro in a move that would make it the largest financial takeover in history. Following this announcement, Bank of America then reportedly offered \$21 billion in cash for ABN Amro's Chicago based LaSalle Bank. Although earnings season is well underway and some investors are concerned about profitability, it appears that corporations are finding more and more ways to expand their businesses and maintain their bottom line.



The triple-B and triple-B minus ABX 2007-01 index spreads, while remaining volatile, have tightened considerably over the past few weeks.¹ Triple-B minus spreads closed yesterday at 1,325 bps, down 245 bps from the week prior and 415 bps from two weeks ago. Triple-B spreads performed similarly with tightening of 119 bps from last week to 876 bps, which is tighter by 209 bps on a two week basis. During the past week single-A and above index spreads have traded between a 1 to 2 bps band. However, over the past two weeks, ABX 2007-01 single-A index spreads are 45 bps tighter to 249 bps.

CMBX spreads continue to weaken as double-B spreads of the 2006-02 index widened 45 bps to 424 bps last week. Two weeks ago triple-B minus CMBX spreads breached the 200 bps plateau and

¹ Please see *Nomura: ABX Index – Constituent Breakdown (4/19/2007)* for our analysis of the collateral underlying the three ABX.HE series.

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reached a wide of 226 bps before compressing to 215 bps as of yesterday. Even single-A CMBX spreads have been affected with widening of 15.5 bps over the past two weeks to 50.3 bps. Triple-A and double-A CMBX spreads widened about 1 bp each last week to 6.1 bps and 21.6 bps, respectively.

Credit index spreads in North America and Europe have experienced moderate tightening over the past two weeks. The investment-grade CDX series 8 index tightened almost 2 bps, to 34.5 bps. At the same time the CDX high volatility and crossover indices tightened 4.4 bps and 9.5 bps, respectively, to 87.3 bps and 143.8 bps. The high-yield index has also compressed with tightening of 12 bps last week to 255.6 bps. Across the Atlantic, iTraxx Europe series 7 spreads were almost 1 bp tighter to 22.5 bps as of yesterday's close. The iTraxx high-volatility and crossover indices were tighter by 3.7 bps and 8.0 bps, respectively, to 42.1 bps and 195.3 bps.

Moody's Sub-prime Mortgage Update. As stated in Moody's April 2007 sub-prime mortgage update, the level of seriously delinquent sub-prime loans included in 2006 securitizations remains significantly worse than loans used in securitizations from 2002 to 2005.² In addition, early defaults (defaults within the first six months after securitization) continue to rise sequentially for loans securitized in the first, second, and third quarters of 2006. For example, after six months, second quarter securitized loans had an early default rate of 2.5%, compared to 3.0% for loans securitized in the third quarter of 2006. Moody's also expects an increase in the use of loan modifications in order to assist borrowers facing higher interest rates when their loans reset. Servicers will have to determine if modifying a loan will help avoid foreclosure. If foreclosure is inevitable, an increase in loan modifications may simply delay defaults. In last month's mortgage sector update, Moody's estimated 2006 vintage cumulative losses between 5.5% and 6%, a significant increase from 2003's 4% to 4.5% loss expectation. Moody's now expects cumulative losses for loans backing 2006 sub-prime securitizations to increase to a range of 6% to 8%. However, Moody's believes that "particularly strong or poor performing pools may fall outside of this range." In addition, based on the revised expectation of cumulative losses, Moody's expects "greater volatility" of ratings on tranches initially rated in the "Baa" or "Ba" generic rating categories. Moody's does not expect a significant number of downgrades of bonds rated in the "A" category or higher.

Fitch publishes case study on first generation CPDOs. Derivative Fitch has analyzed numerous first generation constant proportion debt obligations (CPDOs), which are defined as CPDOs with 15x initial leverage and referencing 10-year on-the-run investment grade CDS indices.³ The performance parameters utilized in this analysis were spread volatility, roll-down benefit, bid/offer levels, and default risk. According to this study, CPDO transactions' "performance and ratings are sensitive to even a minor amendment of the key performance parameters." Higher rated CPDOs are more sensitive to changes in assumptions, which can quickly lead to rating changes of several notches. Another key result was that scenario analysis "showed that many of the more common CPDO structures would probably not have been able to withstand high investment grade stresses." Fitch is currently reviewing second generation CPDOs, as these structures are believed to have addressed some of the shortcomings that make the first generation so dependent on mark-to-market valuations.

CDS volume surges to \$34.5 TRILLION! According to ISDA's year-end 2006 market survey, the notional principal outstanding amount of credit default swaps (CDS) increased 33% in the second half of 2006 from \$26.0 trillion to \$34.5 trillion.⁴ While this growth rate is substantial, first half 2006 CDS volume had increased 52% from \$17.1 trillion at year-end 2005. 2006 full-year CDS growth volume was 102%, similar to the pace experienced in 2005, which had growth of 103%. ISDA's market survey measures single-name CDS, baskets, and portfolios of credit and index trades.

² Chatterjee, D. and J. Snailer, *US Subprime Mortgage Market Update: April 2007* (April 20 2007)

³ Linden, A., M. Neugebauer, J. Schiavetta, and R. Hardee, *First Generation CPDO: Case Study on Performance and Ratings* (April 18, 2007).

⁴ Marra, S. and L. Dobbs, *News Release: ISDA Publishes Year-End 2006 Market Survey* (April 18, 2007).

II. Recent Pricing and Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Avenue CLO – 6	4/23	\$500	Avenue Capital	Lev Loans	MS				
		336.0				A	Aaa/AAA	7.7	+22.5/3mL
		37.0				A2	Aa1/AAA	9.0	+35/3mL
		33.0				B	Aa2/AA	9.2	+45/3mL
		24.0				C	A2/A	9.5	+80/3mL
		19.0				D	Baa2/BBB	9.7	+251/3mL
		13.0				E	Ba2/BB	9.9	+425/3mL
		38.0				Sub	-	-	-
Saturn CLO	4/20	\$500	AIG Global	Sn Sec Loans	JPM				
		208.0				A1S	Aaa/AAA	8.3	+21.5/3mL
		135.5				A1	Aaa/AAA	8.5	+22.5/3mL
		24.0				A1J	Aa1/AAA	10.0	+32/3mL
		27.5				A2	Aa2/AA	10.0	38/3mL
		25.0				B	A2/A	10.0	+70/3mL
		20.0				C	Baa2/BBB	10.0	+190/3mL
		20.0				D	Ba2/BB	10.0	+400/3mL
40.0	Sub	-	-	-					
Squared CDO	4/20	\$1,100	GSC Group	HG ABS	JPM				
		935.0				A1	Aaa/AAA	6.6	-
		70.0				A2a	Aaa/AAA	6.9	+100/L
		10.0				A2b	Aaa/AAA	6.9	Fx 6.35%
		37.0				B	Aa2/AA	6.9	+200/L
		21.0				C	A2/A	6.9	+500/L
		5.0				D	A3/A-	6.9	+600/L
		6.0				E	Baa2/BBB	6.9	+900/L
16.0	Sub	-	-	-					
Halcyon ABS CDO	4/19	\$500	Halcyon	RMBS	DB				
		300.0				A1	Aaa/AAA	6.7	-
		82.5				A2	Aaa/AAA	7.0	+100/3mL
		36.0				B	Aa2/AA	7.0	+175/3mL
		27.5				C	A2/A	7.0	+425/3mL
		21.5				D1	Baa2/BBB	6.1	+775/3mL
		6.0				D2	Baa3/BBB-	6.5	+900/3mL
		4.0				E	Ba1/BB+	6.5	+1200/3mL
22.5	Sub	-	-	-					
Lancer Funding II**	4/18	\$1,000	ACA Mgmt	HG ABS	UBS				
		600.0				A1S	Aaa/AAA	-	-
		275.0				A1J	Aaa/AAA	-	+100/3mL
		38.0				A2	Aa2/AA	-	+150/3mL
		42.0				A3	A2/A	-	+700/3mL
		27.0				B	Baa2/BBB	-	+100/3mL
18.0	PS	-	-	-					
Katonah X CLO	4/17	\$500	Katonah Debt Advisors	Lev Loans	GS				
		94.0				A1a	Aaa/AAA	7.6	+22.5/3mL
		23.5				A1b	Aaa/AAA	9.4	+30/3mL
		50.0				A2a	Aaa/AAA	7.9	+26/3mL
		187.5				A2b	Aaa/AAA	7.9	+24/3mL
		40.0				B	Aa2/AA	10.0	+37/3mL
		25.0				C	A2/A	10.0	+85/3mL
		22.5				D	Baa2/BBB	10.0	+200/3mL
		20.0				E	Ba2/BB	10.0	+400/3mL
		37.5				Sub	-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Rockwall CDO II	4/13	\$1,000	Highland Capital	Loans	BS				
		635.0				A1La	Aaa/AAA	8.5	-
		115.0				A1Lb	Aaa/AAA	9.2	+55/3mL
		76.0				A2L	Aa2/AA	9.2	+70/3mL
		48.0				A3L	A2/A	9.2	+100/3mL
		36.0				B1L	Baa2/BBB	9.2	+225/3mL
		26.0				B2L	Ba2/BB	9.2	+425/3mL
		86.0				PS	-	-	-
Tenorite-1**	4/13	\$1,000	Blackrock	MZ ABS	Bar Cap				
		550.0				A	Aaa/AAA	6.0	-
		200.0				B	Aaa/AAA	7.4	+60/3mL
		90.0				C	Aaa/AAA	7.8	+85/3mL
		60.0				D	Aa2/AA	8.0	+125/3mL
		32.0				E	A2/A	8.0	+325/3mL
		32.0				F	Baa2/BBB	8.0	+700/3mL
		36.0				IN	-	-	-
Tazlina Funding – II	4/12	\$1,500	Terwin-Winter Group	HG ABS	ML				
		900.0				A1	Aaa/AAA	6.6	+19/3mL
		450.0				A2	Aaa/AAA	6.6	+34/3mL
		105.0				A3	Aaa/AAA	6.6	+55/3mL
		17.5				B	Aa2/AA	6.6	+85/3mL
		2.5				C	Aa3/AA-	6.6	+95/3mL
		16.0				D	A2/A	6.6	+225/3mL
		6.0				E	Baa2/BBB	6.6	+700/3mL
3.0	PS	-	-	-					
Lightpoint VII	4/12	\$450	Lightpoint Capital Mgmt	Sn Sec Loans	CS				
		335.25				A1	Aaa/AAA	8.89	+23/L
		21.25				A2	Aa2/AA	9.96	+38/L
		25.00				B	A2/A	10.02	+70/L
		18.00				C	Baa2/BBB	10.25	+190/L
		17.00				D	Ba2/BB	10.42	+400/L
		33.50				EQ	-	-	-
Western Springs CDO	4/12	\$496	Deerfield Capital	MZ SF	ML				
		200.00				A1	Aaa/AAA	5.8	+20/1mL
		125.00				A2	Aaa/AAA	5.8	+55/1mL
		64.00				A3	Aaa/AAA	5.8	+60/1mL
		20.00				B	Aa2/AA	5.8	+75/1mL
		9.50				C	Aa3/AA-	5.8	+82/1mL
		28.00				D	A2/A	5.8	+300/1mL
		14.50				E	Baa2/BBB	5.3	+600/1mL
		16.25				F	Baa3/BBB-	5.3	+725/1mL
18.35	PS	-	-	-					
Schiller Park CLO	4/11	\$400	Deerfield Capital	Loans	LB				
		200.0				A1a	Aaa/AAA	9.6	-
		50.0				A1b	Aaa/AAA	10.0	+30/3mL
		54.0				A2	Aaa/AAA	9.7	+24/3mL
		16.0				B	Aa2/AA	10.0	+37/3mL
		27.0				C	A2/A	10.0	+73/3mL
25.0	D	-	10.0	+175/3mL					
Point Pleasant 2007-1*	4/10	\$1,000	Dillon Read	CDOs	GS				
		403.40				S Sn	Aaa/AAA	5.6	Not Offered
		254.93				A1	Aaa/AAA	6.1	+125/DM
		170.00				A2	Aaa/AAA	6.1	+200/DM
		100.00				B	Aa1/AA	6.8	+300/DM
		28.00				C	Aa3/A	7.1	+700/DM
		32.00				D	Baa1/BBB	6.4	+1000/DM
		20.00				IN	-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Mountain View CLO III	4/5	\$508	Seix Advisors	Sn Sec Loans	DB				
		299.7				A1	Aaa/AAA	8.6	+21.5/L
		75.0				A2	Aa1/AAA	10.0	+34/L
		25.0				B	Aa2/AA	10.0	+45/L
		31.0				C	A2/A	10.0	+73/L
		24.0				D	Baa2/BBB	10.0	+150/L
		14.0				E	Ba2/BB	10.0	+365/L
39.3	EQ	-	-	-					
Capital Source CLO 2007-1	4/5	\$800	(static)	Loans	CITG JPM				
		586.0				A	Aaa/AAA/AAA	2.94	+13/1mL
		20.0				B	Aa2/AA/AA	3.36	+31/1mL
		84.0				C	A2/-/A	3.53	+65/1mL
		48.0				D	Baa2/-/BBB	3.78	+150/1mL
		34.0				E	Ba1/-/BB+	3.99	Retained
		28.0				F	-/-/-	-	Retained
Bantry Bay CDO I*	4/4	\$250	Investec Principal	CDOs	BAS				
		127.0				A1	Aaa/AAA	-	-
		29.0				A2	Aaa/AAA	-	+100/3mL
		28.0				A3	Aaa/AAA	-	+115/3mL
		31.5				B	Aa2/AA	-	-
		11.5				C	A2/A	-	-
		9.0				D	Baa2/BBB	-	-
14.0	SN	-	-	-					

New Pipeline	Size (mm)	Collateral Manager	Assets	Lead
Abacus 2007-18	\$1,000	(static)	CRE CDO	GS
Acacia Option ARM CDO I	\$500	Redwood AM	HG SF	UBS
Amherst CLO	\$750	Highland Capital	Loans	LB
Apidos Cinco	\$350	Apidos Capital	Sn Sec Loans	CS
Ashfield CDO*	\$500	Dynamic Credit Partners	ABS CDOs	ML
BSIS – 5	\$500	Blackrock	Lev Loans	MS
Clifton	\$1,500	Investec	HG SF	Fortis
Dalton CDO**	\$400	Dynamic Credit partners	CDOs	DB
Denali Capital CLO VII	\$800	DC Funding Partners	Loans	BS
Fore CLO	\$500	Fore Research & Mgmt	Sn Sec Loans	MS
Green Creek Funding	\$450	Silvermine Capital	Bank loans	CITG
HIMCO 2007 Synthetic CDO*	-	HIMCO	MZ ABS	CITG
KKR Financial CLO 07-1	\$3,000	KKR Financial	Lev Loans	JPM/MS
LCM VI	\$400	Lyon Capital	Loans	BAS
Legg Mason RE CDO II	\$500	Legg Mason REI	CRE CDO	BAS
Logan III CDO	\$1,500	RBC Principal Finance	HG SF	RBCCM
Markov	\$2,000	State Street	HG SF	Bar Cap
MSC 2007- XLC1	\$826.8	(static)	CRE CDO	MS
Neptune – 5	\$350	Chotin Fund Mgmt	MZ SF	BS
New Castle CDO IX	\$825	New Castle Inv Corp	CRE CDO	DB
Northwoods VIII	\$500	Angelo, Gordon, & Co.	Sn Sec Loans	JPM
Petra 2007-1	\$1,000	Petra Cap Mgmt	CRE CDO	GS/RBSGC
Pinnacle Pt2	\$2,000	Blackrock	HG SF	BAS
RAIT CRE CDO	\$766.7	RAIT Partnership	CRE CDO	Cohen/JPM
Robeco HG CDO – I	\$1,100	Robeco	HG SF	ML
Slate CDO 2007-1	\$600	Petra Capital	CMBS	UBS
Summer St 2007-1	\$406	GEAM	MZ SF	CS
Summer St. 2007-1	\$406	GEAM	RMBS	CS
Telos CLO 2007-2	\$412.5	Tricadia	MM Loans	UBS
US Cap Funding VI	\$771	Stone Castle Advisors	TruPs	ML

* denotes synthetic; ** denotes hybrid deals.

Source: IFR, MCM, Bloomberg

III. Spreads

Index Constituent	23-Apr	Last week	Moody's Rating	S&P's Rating	5Y CDS Index	23-Apr	Last week	Change
AIG	11	13	Aa2	NR	CDX.NA.IG 8	34.54	36.39	-1.85
Alcoa	22	24	A2	BBB+	CDX.NA.IG HVOL 8	87.34	91.75	-4.41
Altria Group	26	26	Baa1	BBB	CDX.NA.XO 8	143.82	153.33	-9.51
Boeing	8	9	A2	A+	CDX.NA.HY 8	255.59	267.59	-12.00
CIT Group	44	61	A2	A	CDX.EM 7	100.17	106.11	-5.94
Deere & Co	15	14	A2	A	iTraxx Europe 7	22.50	23.27	-0.77
Dow Chemical	34	47	A3	A-	iTraxx Europe HVOL 7	42.05	45.73	-3.68
Fannie Mae	11	11	Aaa	AAA	iTraxx Europe XO 7	195.30	203.25	-7.95
First Data Corp	243	242	A2 /*-	A	iTraxx Japan 80	18.80	19.14	-0.34
Ford Motor Credit	296	310	Caa1	CCC+	iTraxx CJ Japan 7	19.40	19.61	-0.21
GE Capital	13	13	Aaa	AAA	iTraxx Asia ex-Japan 7	37.87	40.26	-2.39
GMAC	158	165	Ba1	BB+	iTraxx Australia 7	29.90	31.24	-1.34
IBM	7	9	A1	A+	CDX IG 7 Widest	23-Apr		
McDonalds	9	11	A2	A	1st Data Corp	243		
Residential Capital	160	166	Baa3	BBB	Residential Cap LLC	160		
Time Warner	32	34	Baa2	BBB+	Centex Corp	131		
Tyson Foods	70	80	Ba2	BB+	Pulte Homes Inc	124		
Viacom	52	56	Baa3	BBB	EXPEDIA INC	112		
Walt Disney	11	12	A3 /*+	A-	CDX IG 7 Tightest	23-Apr		
AKZO Nobel NV	30	32	A3	A-	Intl Business Machs Corp	7		
AXA	10	10	A2	A	Boeing Cap Corp	8		
Brit Telecom PLC	33	34	Baa1	BBB+	Lockheed Martin Corp	8		
British Airways	80	84	Ba2	BB- /*+	Bristol Myers Squibb Co	8		
Cadbury Schweppes PLC	41	43	Baa2 /*	BBB /*	Natl Rural Utils Coop Fin Corp	8		
Carrefour	24	25	A2	A	iTraxx Europe Widest	23-Apr		
DaimlerChrysler AG	32	31	Baa1	BBB	ALLIANCE BOOTS PLC	173		
Deutsche Telekom AG	24	25	A3	A-	Valeo	84		
France Telecom	20	21	A3	A-	ALTADIS SA	75		
Koninklijke Ahold NV	63	65	Ba1	BB	Kingfisher PLC	59		
Lafarge	24	24	Baa2	BBB	Glencore Intl AG	53		
METRO AG	30	32	Baa2	BBB	iTraxx Europe Tightest	23-Apr		
Renault	22	22	Baa1	BBB+	BNP Paribas	6		
Suez	12	12	A2 /*+	A- /*+	Royal Bk Scotland plc	6		
Telecom Italia SpA	38	38	Baa2	BBB+	Bca Monte dei Paschi di Siena S p	7		
Telenor ASA	19	20	A2	BBB+	ELECTRICITE DE FRANCE	7		
Volkswagen AG	17	18	A3	A-	Intesa Sanpaolo SpA	7		

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

ABX.HE Index (as of April 23, 2007)					
	Price	Spread* (bps)	1-week change (bps)	2-week change (bps)	Coupon (bps)
ABX.HE.AAA.07-1	99.50	19	-1	-1	9
ABX.HE.AA.07-1	99.50	32	-2	-6	15
ABX.HE.A.07-1	93.75	249	+1	-45	64
ABX.HE.BBB.07-1	78.11	876	-119	-209	224
ABX.HE.BBB-.07-1	68.61	1325	-245	-415	389
CMBX.NA Index (as of April 23, 2007)					
	Spread (bps)	1-week change (bps)	2-week change (bps)	Coupon (bps)	
CMBX.NA.AAA.06-2	6.1	-0.3	+0.1	7	
CMBX.NA.AA.06-2	21.6	+1.2	+3.9	15	
CMBX.NA.A.06-2	50.3	+8.5	+15.5	25	
CMBX.NA.BBB.06-2	140.4	+5.4	+25.4	60	
CMBX.NA.BBB-.06-2	214.6	+14.0	+36.6	87	
CMBX.NA.BB.06-2	423.6	+45.4	+52.8	180	

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

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