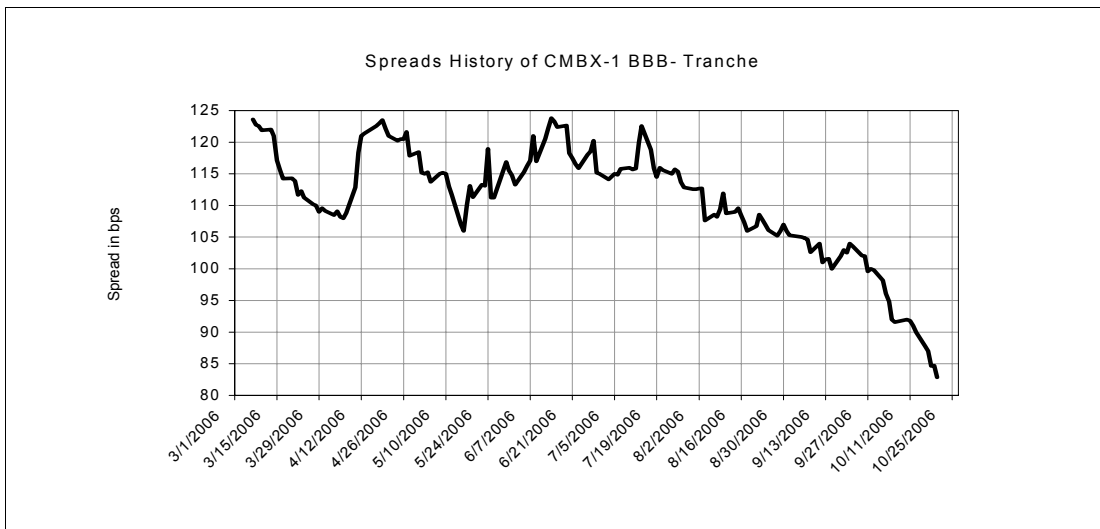


CDO/CDS Update 10/24/06

I. Commentary

The week kicked off with Ford Motor Company reporting a third quarter loss of \$5.8 billion, largely related to massive job reduction and asset write-downs undertaken. Excluding these one time costs, the third quarter loss was \$1.2 billion or \$0.62 per share, just below consensus estimates of a \$0.61 per share loss. Auto sales continue to slump as well, North America operations posted an 8.6% sales decline year-over-year. The company also announced that it would have to restate the past five years of earnings due to changes in derivatives accounting, which it expects to be finalized by its regulatory filing deadline in November. Once again, Ford Motor Credit reported positive quarterly results with net income of \$262 million, down from \$577 million last year. Despite the losses at the parent company, the cost of FMCC 5-year CDS widened just 3 bps yesterday to close at 368 bps. It appears that investors expected the worst and were relieved to finally know the extent of the restructuring costs. However increased cash burn and declining market share problems still remain.

Credit index spreads compressed last week in North America and Europe. The CDX IG Series 7 index tightened almost 1 bp week-over-week to close Friday at 36.8 bps. The CDX HVOL index tightened almost 2 bps to close at 81.2 bps and the CDX XO index tightened about 3 bps to 160.7 bps. The CDX HY index led the way, as spreads were 8 bps tighter to close at 295.4 bps. Across the Atlantic, the iTraxx Europe and HVOL indices were about 1 bp tighter to end the week at 27.2 and 51.4 bps, respectively. The iTraxx European crossover index witnessed the most volatility with compression of almost 5 bps to 253.7 bps.



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The CMBX.NA index is set to roll to Series 2 tomorrow and with it comes the addition of a double-B tranche that will function identically to the other classes. The BB index will allow investors to move further down the credit curve for increased exposure. The chart above illustrates the performance of the BBB- tranche of the current CMBX index since its start in March. While there have been some spikes in spreads, the class has performed well overall as spreads have narrowed from 124 bps to 84 bps. Market players believe this is due largely to the strength of the CRE CDO sector. Over the past week, the ABX.HE Series 2 index has also witnessed its credit curve flatten. Week-over-week, BBB-spreads tightened almost 14 bps to 262 bps while BBB spreads compressed 11 bps to 153 bps.

3Q CDO issuance up 30% YoY According to data compiled by the Bond Market Association, third quarter global CDO issuance totaled \$117.8 billion, a 30% increase from last year's third quarter.¹ Year-to-date primary activity now stands at \$322 billion, almost 30% more than 2005's full year total of \$249 billion. The continued strong fundamentals of U.S. corporates and increased derivative product liquidity has helped fuel the expanding investor base for CDOs. During the quarter, cash flow and hybrid CDOs accounted for 77% or \$90 billion of CDO structures used. In terms of purpose, arbitrage CDOs made up 90% or \$106 billion of volume, with the remainder falling into the balance sheet CDO category. Structured finance products, such as RMBS, CMBS, ABS, CDOs, and CDS, made up the bulk of collateral used in third quarter deals, totaling \$76 billion or 65%. The second most popular collateral type was high yield loans, which accounted for \$34 billion or 29% of third quarter deals.

Structured securities credit quality improves S&P has released its rating transitions study on global structured securities for the first three quarters of 2006.² On average, structured security credit ratings have improved 6.8% of a notch over the past nine months; this positive trend has been present since 2004. Overall, the upgrade-to-downgrade ratio was 2.9x, lower than the 5.6x for the same period in 2005. The downgrade ratio also crept up slightly to 1.61%, an increase from the 1.11% rate witnessed in the first three quarters of 2005. For upgrades the average number of notches change was 2.41 while the downgrade average notch change was 2.75. The global CMBS sector posted one of the most notable improvements with an upgrade percentage of 11.22%. S&P also noted that structured finance credit spreads continue to decline, which they believe suggests the "market's anticipation of positive credit trends in the near future."

Update on FAS 140 On October 18, FASB held a meeting regarding FAS 140 to decide whether it should amend the isolation criteria.³ The board ruled that legal isolation analysis will depend on the continuing involvement with the transferred financial assets. The board decided that the required legal analysis of bankruptcy remoteness must treat guarantees by affiliates **as if** they were made directly by the transferor. Under these stricter legal isolation criteria, it will be more difficult for parent companies to avoid consolidating their transfer company assets. The board did not decide on a timeframe or strategy to implement these changes.

¹ See http://www.bondmarkets.com/assets/files/TBMA_Global_CDO_Issuance_Data_3q2006.pdf

² Erturk, E. and T. Gills, *Rating Transitions Q1-Q3 2006: Average Credit Quality of Global Structured Securities Rises*, Standard & Poor's Research (October 19, 2006).

³ See http://www.fasb.org/board_handouts/10-11-06.pdf

II. Recent Pricing and Pipeline

| Issue | Date | Size (mm) | Collateral Manager | Assets | Lead | Class | Rating (M/S/F) | WAL | Spread |
|------------------------|-------|------------|-----------------------|----------|---------|--------|----------------|-------|-------------|
| Katonah IX CLO | 10/11 | \$425.00 | Katonah Debt Advisors | Loans | BS | | | | |
| | | 6.0 | | | | X | Aaa/AAA/- | 3.80 | - |
| | | 221.0 | | | | A-1L | Aaa/AAA/- | 7.48 | - |
| | | 100.0 | | | | A-1LV | Aaa/AAA/- | 7.48 | - |
| | | 23.0 | | | | A-2 | Aa2/AA/- | 8.23 | +43/3ML |
| | | 26.0 | | | | A-3L | A2/A/- | 8.23 | +72/3ML |
| | | 15.0 | | | | B-1L | Baa2/BBB/- | 8.23 | +140/3ML |
| | | 15.0 | | | | B-2L | Ba2/BB/- | 8.23 | +350/3ML |
| | | 29.0 | | | | Equity | -/- | - | - |
| Harbourview CLO 2006-1 | 10/11 | \$400.00 | Harbourview AM | Loans | CS | | | | |
| | | 337.0 | | | | A-1 | Aaa/AAA/- | 9.10 | +25/3ML |
| | | 23.0 | | | | A-2 | Aa2/AA/- | 10.60 | +38/3ML |
| | | 25.0 | | | | B | A2/A/- | 10.60 | +70/3ML |
| | | 16.0 | | | | C | Baa2/BBB/- | 10.70 | +145/3ML |
| | | 14.0 | | | | D | Ba2/BB/- | 11.10 | +370/3ML |
| | | 35.0 | | | | Equity | -/- | - | - |
| Freeport 2006-1 | 10/13 | \$425.25 | - | MM Loans | CITG | | | | |
| | | 210.000 | | | | A-1A | Aaa/AAA/- | 5.53 | +24/3ML |
| | | 86.625 | | | | A-1B | Aaa/AAA/- | 5.89 | +37/3ML |
| | | 24.937 | | | | B | Aa2/AA/- | 6.02 | +45/3ML |
| | | 77.438 | | | | C | A2/A/- | 6.02 | +75/3ML |
| | | 26.250 | | | | D | Baa2/BBB/- | 6.02 | +165/3ML |
| | | 99.750 | | | | E | -/- | - | - |
| Wasatch CLO 2006-1 | 10/13 | \$650.00 | Invesco | Loans | JPM/UBS | | | | |
| | | 489.0 | | | | A-1 | Aaa/AAA/- | 8.4 | +24/3ML |
| | | 24.5 | | | | A-2 | Aa2/AA/- | 10.0 | +33/3ML |
| | | 42.5 | | | | B | A2/A/- | 10.0 | +65/3ML |
| | | 29.0 | | | | C | Baa3/BBB/- | 10.0 | +155/3ML |
| | | 13.0 | | | | D | Ba2/BB/- | 8.6 | +350/3ML |
| | | 52.0 | | | | Sub | -/- | - | - |
| Airlie LCDO-I | 10/16 | \$400.00 | The Airlie Group | Loans | LB | | | | |
| | | 275.0 | | | | A | Aaa/AAA/- | - | Unfunded |
| | | 70.5 | | | | B | Aaa/AAA/- | - | +25/3ML |
| | | 14.5 | | | | C | A2/A/- | - | +95/3ML |
| | | 12.0 | | | | D | Baa2/BBB/- | - | +190/3ML |
| | | 28.0 | | | | PS | -/- | - | - |
| RAIT CRE CDO I | 10/17 | \$1,000.00 | RAIT Inv. Tust | CRE | UBS | | | | |
| | | 475.0 | | | | A1 | Aaa/AAA/AAA | - | Not Offered |
| | | 90.0 | | | | A2 | Aaa/AAA/AAA | - | +35/1ML |
| | | 115.0 | | | | B | Aa2/AA/AA | - | +451ML |
| | | 41.5 | | | | C | A1/A+/A+ | - | +60ML |
| | | 25.0 | | | | D | A2/A/A | - | +70ML |
| | | 16.0 | | | | E | A3/A-/A- | - | +85/1ML |
| | | 22.0 | | | | F | Baa1/BBB+/BBB+ | - | +130L |
| | | 15.5 | | | | G | Baa2/BBB/BBB | - | +170L |
| | | 18.0 | | | | H | Baa3/BBB-/BBB- | - | +225L |
| | | 40.0 | | | | I | Ba2/BB/BB | - | Not Offered |
| | | 160.0 | | | | PS | -/- | - | Not Offered |

| Issue | Date | Size (mm) | Collateral Manager | Assets | Lead | Class | Rating (M/S/F) | WAL | Spread |
|-------------------------|-------|------------|----------------------|---------|------|--------|----------------|-----|-------------|
| AMAC – I | 10/18 | \$400.00 | Charter Mac | CRE | BAS | | | | |
| | | | | | | A-1 | Aaa/AAA/AAA | 8.8 | +27.5/1ML |
| | | | | | | A-2 | Aaa/AAA/AAA | 8.8 | +30/1ML |
| | | | | | | B | Aa2/AA/AA | 9.9 | +38/1ML |
| | | | | | | C | A2/A/A | 9.9 | +58/1ML |
| | | | | | | D-1 | Baa2/BBB/BBB | 9.9 | +130/1ML |
| | | | | | | D-2 | Baa2/BBB/BBB | 9.9 | +130/1ML |
| | | | | | | E | Baa3/BBB-/BBB- | 9.9 | +150/1ML |
| | | | | | | F | -/- | - | - |
| | | | | | | PS | -/- | - | - |
| Cannington Funding Ltd. | 10/18 | \$450.00 | Silvermine Capital | Loans | CITG | | | | |
| | | | | | | A-1 | Aaa/AAA/- | - | +25/L |
| | | | | | | A-2 | Aa2/AA/- | - | +42/L |
| | | | | | | B | A2/A/- | - | +75/L |
| | | | | | | C | Baa2/BBB/- | - | +147/L |
| | | | | | | D | Ba2/BB/- | - | +355/L |
| | | | | | | Inc N | -/- | - | - |
| G-Square Finance 2006-2 | 10/19 | \$1,000.00 | Wharton AM | HG ABS | DB | | | | |
| | | | | | | A-1 | Aaa/AAA/- | 7.4 | Not Offered |
| | | | | | | A-2 | Aaa/AAA/- | 7.4 | +42/3ML |
| | | | | | | B | Aa2/AA/- | 7.4 | +49/3ML |
| | | | | | | C | A2/A/- | 7.4 | +135/3ML |
| | | | | | | D | Baa2/BBB/- | 7.4 | +337/3ML |
| | | | | | | E | Ba1/BB+/- | 7.4 | Retained |
| Equity | -/- | - | Retained | | | | | | |
| Sorin Real Estate CDO V | 10/19 | \$600.00 | Sorin Capital Mgmt | RMBS | UBS | | | | |
| | | | | | | SS | Aaa/AAA/- | - | - |
| | | | | | | A1 | Aaa/AAA/- | - | +44/1ML |
| | | | | | | A2 | Aa2/AA/- | - | +53/1ML |
| | | | | | | A3 | A2/A/- | - | +150/1ML |
| | | | | | | B1 | Baa2/BBB/- | - | +325/1ML |
| | | | | | | B2 | Ba2/BB/- | - | - |
| | | | | | | PS | -/- | - | - |
| | | | | | | | | | |
| Pine mountain CDO – II | 10/20 | \$500.00 | Smith Breeden Assoc. | MZ RMBS | DBS | | | | |
| | | | | | | A | Aaa/AAA/- | 5.9 | +30/3ML |
| | | | | | | B | Aa2/AA/- | 6.2 | +52/3ML |
| | | | | | | C | A2/A/- | 6.2 | +135/3ML |
| | | | | | | D | Baa2/BBB/- | 6.2 | +325/3ML |
| | | | | | | E | Ba1/BB+/- | 6.2 | +600/3ML |
| | | | | | | Equity | -/- | - | Not Offered |

| New Pipeline | Size (mm) | Collateral Manager | Assets | Lead |
|---------------------------------|-----------|--------------------------|----------------------|--------|
| ACA ABS CDO 2006-2 | \$750.0 | ACA Mgmt | ABS | BS |
| Ansonia CDO 2006-1 | \$806.7 | ING Clarion Capital | CMBS | ML/DBS |
| Arca Funding 2006-II | \$500.0 | (static) | RMBS | MS |
| Caldecott CDO 1 | \$500.0 | Seneca Capital Mgmt | SF | ML |
| ColumbusNova CLO Ltd 2006 – II | \$500.0 | Columbus Nova Credit | Loans | MS |
| GLC Credit Opportunity | \$400.0 | GLC | - | ML |
| Grayson CLO | \$1,300.0 | Highland Capital Mgmt | Loans | CS |
| Hamlet – 2 | \$500.0 | Octagon Credit investors | Snr. Sec. Loans | JPM |
| Kleros Preferred Funding IV | \$1,996.0 | Strategos Capital Mgmt | HG SF | ML |
| Magnolia Finance II* | \$186.0 | - | ABX | CS |
| Mantoloking CDO 2006-1 | \$765.0 | (static) | CLOs/ CDOs | ML |
| Newcastle RE CDO VIII | \$950.0 | Newcastle Inv. Corp. | ABS | CS |
| Osprey CDO 2006-1A | \$300.0 | Brightwater Capital Mgmt | Lev. Loans/ ABS CDOs | BS |
| Prima CRE Securitization 2006-1 | \$557.0 | Prima Capital Advisors | ABS | DB/LB |
| Sierra CLO II | \$400.0 | Centre Pacific | Snr. Sec. Loans | BS |
| Tahoma CDO Ltd. | \$1,000.0 | Bear Stearns AM | ABS CDOs | JPM |
| Vela CBO** | \$1,500.0 | Mkp Capital Mgmt | MZ ABS | LB |
| West Trade II | \$1,503.0 | NIR Capital | RMBS | ML |

* denotes synthetic; ** denotes hybrid deals.

Source: MCM, IFR, Bloomberg

III. Spreads

| Index Constituent | 20-Oct | Last week | Moody's Rating | S&P's Rating |
|-----------------------|--------|-----------|----------------|--------------|
| Fannie Mae | 7 | 8 | Aaa | AAA |
| Boeing | 13 | 13 | A2 | A |
| IBM | 14 | 14 | A1 | A+ |
| Deere & Co | 16 | 16 | A3 | A- |
| GE Capital | 11 | 11 | Aaa | AAA |
| AIG | 10 | 9 | Aa2 | AA |
| Dow Chemical | 19 | 18 | A3 | A- |
| Alcoa | 20 | 20 | A2 | A- |
| CIT Group | 25 | 25 | A2 | A |
| Duke Power Co | 19 | 21 | A3 | BBB |
| McDonalds | 14 | 14 | A2 | A |
| Walt Disney | 16 | 17 | A3 | A- |
| Viacom | 49 | 54 | Baa3 | BBB |
| Time Warner | 36 | 38 | Baa2 | BBB+ /*- |
| Xerox Corp | 90 | 89 | Ba1 | BB+ |
| Altria Group | 34 | 35 | Baa2 /*+ | BBB |
| Tyson Foods | 114 | 109 | Ba2 | BB+ |
| Ford Motor Credit | 365 | 357 | B3 | B /*- |
| GMAC | 149 | 153 | Ba1 /*- | BB /* |
| Carrefour | 13 | 13 | A2 | A |
| AXA | 11 | 12 | A2 | A |
| AKZO Nobel N V | 23 | 23 | A3 | A- |
| Suez | 14 | 14 | A2 /*+ | A- /*+ |
| GUS PLC | 42 | 42 | Baa1 | BBB+ |
| Cadbury Schweppes PLC | 31 | 33 | Baa2 | BBB |
| Renault | 38 | 37 | Baa1 | BBB+ |
| Brit Telecom PLC | 41 | 42 | Baa1 | BBB+ |
| Lafarge | 37 | 37 | Baa2 | BBB |
| Deutsche Telekom AG | 43 | 42 | A3 | A- |
| METRO AG | 30 | 30 | Baa2 | BBB |
| France Telecom | 34 | 35 | A3 | A- |
| Telecom Italia SpA | 65 | 69 | Baa2 | BBB+ /*- |
| Volkswagen AG | 26 | 26 | A3 | A- |
| DaimlerChrysler AG | 58 | 56 | Baa1 /*- | BBB |
| Telenor ASA | 28 | 28 | A2 | BBB+ |
| Koninklijke Ahold N V | 125 | 124 | Ba1 | BB |

| 5Y CDS Index | 20-Oct | Last week | Change |
|------------------------|--------|-----------|--------|
| CDX.NA.IG 7 | 36.80 | 37.71 | -0.91 |
| CDX.NA.IG HVOL 7 | 81.21 | 82.95 | -1.74 |
| CDX.NA.XO 7 | 160.71 | 163.88 | -3.17 |
| CDX.NA.HY 7 | 295.44 | 303.64 | -8.20 |
| CDX.EM 6 | 129.57 | 132.18 | -2.61 |
| iTraxx Europe 6 | 27.16 | 27.97 | -0.81 |
| iTraxx Europe HVOL 6 | 51.40 | 52.19 | -0.79 |
| iTraxx Europe X-over 6 | 256.72 | 261.60 | -4.88 |
| iTraxx CJ Japan 6 | 23.00 | 23.76 | -0.76 |
| iTraxx Asia ex-Japan 6 | 58.67 | 60.76 | -2.09 |
| iTraxx Australia 6 | 28.75 | 29.35 | -0.60 |
| iTraxx SDI-75 3 | 32.93 | 33.21 | -0.28 |

| CDX IG 7 Widest | 20-Oct |
|--|--------|
| Harrahs Oper Co Inc | 226 |
| Starwood Hotels & Resorts ¹ | 142 |
| RadioShack Corp | 122 |
| R R Donnelley & Sons Co | 112 |
| EXPEDIA INC | 109 |

| CDX IG 7 Tightest | 20-Oct |
|---------------------|--------|
| Wells Fargo & Co | 7 |
| Fed Natl Mtg Assn | 7 |
| Wal Mart Stores Inc | 9 |
| Amern Intl Gp Inc | 10 |
| Target Corp | 11 |

| iTraxx Europe Widest | 20-Oct |
|----------------------|--------|
| ITV Plc | 112 |
| Glencore Intl AG | 94 |
| Valeo | 84 |
| THOMSON | 70 |
| GKN Hldgs plc | 67 |

| iTraxx Europe Tightest | 20-Oct |
|------------------------|--------|
| Royal Bk Scotland plc | 6 |
| ABN AMRO Bk N V | 6 |
| Barclays Bk plc | 7 |
| SAN PAOLO IMI S p A | 8 |
| Munich Re | 8 |

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

| ABX.HE Index (as of October 20, 2006) | | | | |
|---------------------------------------|--------|---------------------|---------------|--------------|
| | Price | Weekly change (bps) | Spread* (bps) | Coupon (bps) |
| ABX.HE.AAA.06-2 | 100.10 | - 0.01 | 8.63 | 11 |
| ABX.HE.AA.06-2 | 100.11 | - 0.59 | 13.88 | 17 |
| ABX.HE.A.06-2 | 99.87 | - 5.75 | 47.99 | 44 |
| ABX.HE.BBB.06-2 | 99.37 | - 11.08 | 153.38 | 133 |
| ABX.HE.BBB-.06-2 | 99.41 | - 13.73 | 261.63 | 242 |

| CMBX.NA Index (as of October 20, 2006) | | | |
|--|--------|---------------------|--------------|
| | Spread | Weekly change (bps) | Coupon (bps) |
| CMBX.NA.AAA.06-1 | 6.57 | - 1.14 | 10 |
| CMBX.NA.AA.06-1 | 14.29 | - 0.21 | 25 |
| CMBX.NA.A.06-1 | 22.86 | - 0.18 | 35 |
| CMBX.NA.BBB.06-1 | 56.14 | - 0.86 | 76 |
| CMBX.NA.BBB-.06-1 | 82.86 | - 7.14 | 134 |

Source: Markit * assuming 35% CPR.
Source: Nomura Securities International

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