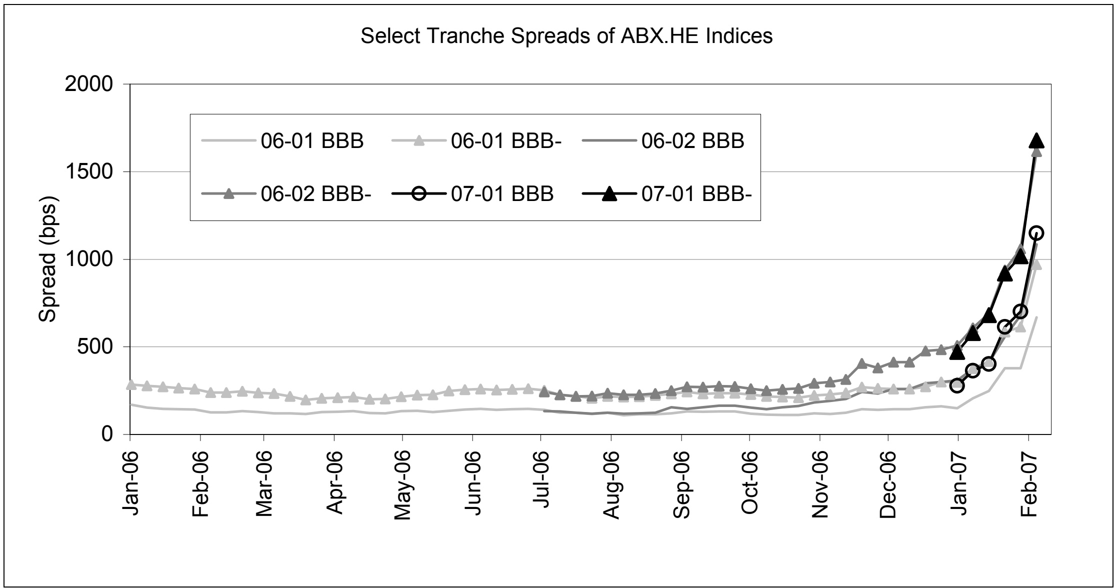
NOMURA

CDO/CDS Update 2/27/07

I. Commentary

As another week passes, we continue to see much of the same story in the derivatives space. Credit index spreads in North America and Europe grind tighter to record lows while home equity index spreads gap to record wides. Inline with the record breaking events of last week, KKR, Texas Pacific Group, and Goldman Sachs announced a plan to purchase TXU Corp., the largest power producer in Texas, in a $45 billion leveraged buyout (LBO). Yesterday, 5-year TXU Corp. CDS moved from 85 bps to 165 bps on the news. This LBO will top Blackstone's $39 billion LBO of Equity Office Properties announced just a few weeks ago and will surpass the November 2006 $33 billion LBO that KKR also participated in to purchase the hospital chain HCA Inc. There is also speculation that Dow Chemical could be the next LBO target with a possible $54 billion bid. As we have stated before, the ease at which private equity buyout firms are able to combine efforts to raise large amounts of capital expands the list of potential LBO targets each day. The 1989 $31 billion LBO of RJR Nabisco stood as the largest LBO for 17 years before being topped 3 times in just the past 4 months. With expectations of event risk and the speculative-grade defaults rate increasing in 2007, it will be interesting to see how long credit index spreads can remain resilient.

Since the start of 2007, the CDX indices continue to display a tightening bias. The CDX.NA IG 7 index tightened just under 1bp last week to 29.7 bps, marking the first time spreads for the index ended the week below 30 bps. The high volatility series 7 index also performed well with tightening of almost 3 bps to 69 bps, bringing spreads under 70 bps for the first time. The North American crossover index tightened 3.6 bps to 109.9 bps during the week. In Europe, the iTraxx series 6 index tightened 1.5 bps to 21 bps after spreads were flat in the previous week-over-week (WoW) comparison. The European high volatility and crossover indices tightened 2-3 bps WoW to 40.3 and 178.4 bps, respectively. Compared to closing levels on February 9, the iTraxx high volatility and crossover indices are tighter by 3 and 6 bps, respectively.



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

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Bloomberg NFIR <go>

Events in the sub-prime mortgage sector continue to provide ammunition towards fears of a deeper market disruption, as another sub-prime originator issued a warning to investors. NovaStar Financial Inc. posted an unexpected fourth quarter loss last week of $0.39 per share compared to expectations of an EPS of $0.79. The company announced that it expects 2007 through 2011 to produce "little, if any" profit from loans that it holds as the sub-prime environment remains challenging. Consequently, NovaStar Financial's market capitalization decreased 37% or $237 million, as the company's stock price closed down $6.41 from the previous day's close of $17.56. According to Bloomberg, over the past five months at least 20 sub-prime lenders have either closed down, scaled back, or been purchased by larger companies. It remains to be seen whether the concerns facing the sub-prime sector have the impact to spill over into other fixed income sectors.

The ABX.HE indices continue to be hit hard from negative sentiment regarding housing and illiquid markets. According to Markit, the 2007-01 BBB- index ended last week at a dollar price of $68.50, which translates to a spread of 1680 bps. As of February 16, the 2007-01 triple-B minus index had a closing price of $82.82 or a spread of 1019 bps. Results were similar for the 2007-01 triple-B and single-A indices, which experienced spread widening of 447 and 125 bps WoW, respectively. Over the past two weeks, spreads are wider by 761 and 536 bps for the 2007-01 triple-B minus and triple-B indices, respectively. Even the 2007-01 triple-A index witnessed significant widening, as spreads moved from 10 bps as of February 9, to 14 bps the next week, to 30 bps as of Friday's close.

CMBX spreads, which have remained range bound during the ABX widening of the past few months, displayed weakness last week. For the first time, the CMBX series 2 BB index closed at a spread above the 200 bps threshold, as it widened 22 bps week-over-week to 212 bps. CMBX BBB- spreads also widened on the week, moving 11 bps to 84 bps. CMBX BBB spreads were 6 bps wider to 52 bps week-over-week. Significant widening in the CMBX has been limited to just the past week, as the two week change in spreads is very similar to the one week change.

S&P places 18 sub-class RMBS deals on CreditWatch Negative. On February 14, Standard and Poor's placed 18 subordinate classes from 11 different 2006 vintage RMBS transaction on CreditWatch with negative implication.[1] These transitions are collateralized by sub-prime, Alt-A, or closed-end second-lien loans. Most of the transactions were issued during the first half of 2006 and reinforce the "early signs of poor performance of the collateral backing these transactions." Of the 11 deals placed on negative CreditWatch, the percentage of loans in each pool that are severely delinquent range from 2.77% (Terwin Mortgage Trust 2006-8) to 13.46% (New Century HEL Trust 2006-S1). The pool with the highest amount of losses thus far is GSAMP trust 2006-S5 with 1.3%. Since these transactions were first issued, **S&P has steadily raised its average triple-B loss coverage level from 7.36% in the first quarter of 2006, 7.83% in the second quarter, 12.10% in the third quarter, and 12.70% in the fourth quarter**. According to S&P, future rating actions will hinge upon the actual realized losses that result from these already severely delinquent mortgages. Although the rating agency can not provide specific details onto which CDOs could be affected by possible RMBS rating downgrades, S&P did mention that the negative CreditWatch status would have no impact on outstanding CDO ratings.

S&P Updates Monthly Corporate Default Rate. S&P forecasts the 12-month trailing speculative grade default rate reaching 2.33% by the end 2007, up from just 1.18% in January.[2] Even with the default rate expected to almost double over the next 11 months, it would still remain well below the long-term (1981-2006) historical average of 4.48%. The global corporate speculative grade default rate has now resided below this long-term level for 36 consecutive months. We expect a gradual increase in credit deterioration as event risk increases and the credit cycle matures. An up-tick in defaults should place pressure on high-yield spreads over the medium-term. However, S&P believes that over the short-run spreads on CDS have the potential to move tighter as a result of strong demand.

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[1] Pollsen, R., E. Warner, S.Mason, and M. Stock, *18 Subprime, Alt-A, Closed-End Second-Lien Ratings From 2006 Vintage Deals Put On Watch Neg* (14 February 2007).

[2] Vazza, D. and D. Aurora, *Global Bond Market' Weakest Links And Monthly Default Rates* (16 February 2007)

II. Recent Pricing and Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
BONY – One Wall Street CLO II	2/23	$400	Hamilton	Loans	MS				
		244.0				A	Aaa/AAA/-	12.1	+25/3mL
		50.0				A2	Aaa/AAA/-	12.1	+25/3mL
		34.0				B	Aa2/AA/-	12.1	+50/3mL
		15.5				C	A2/A/-	12.1	+75/3mL
		16.0				D	Baa2/BBB/-	12.1	+145/3mL
		10.5				E	Ba2/BB/-	12.1	+355/3mL
		30.0				Sub	-/-/-	-	-
Euler ABS CDO I	2/22	$675	Babcok and Brown	MZ SF	ML				
		270.00				A1	Aaa/AAA/-	7.3	Not Offered
		135.00				A2	Aaa/AAA/-	7.3	+45/1mL
		93.75				A3	Aaa/AAA/-	7.4	+48/1mL
		53.00				B	Aa2/AA/-	7.4	+57/1mL
		20.00				C	Aa3/AA-/-	7.4	+63/1mL
		23.50				D	A2/A/-	7.4	+240/1mL
		11.75				E	A3/A-/-	7.4	+275/1mL
		14.50				F	Baa2/BBB/-	7.4	+500/1mL
		16.50				G	Baa3/BBB-/-	7.4	+575/1mL
		15.00				H	Ba2/BB/-	6.8	+750/1mL
		22.00				Pref	-/-/-	-	-
Gale Force 3 CLO	2/22	$617	GSO Cap Partners	Synd Loans	ML				
		300.0				A1	Aaa/AAA/-	7.5	+24/3mL
		143.0				A2	Aaa/AAA/-	7.5	+24/3mL
		32.4				B1	Aa2/AA/-	9.5	+39/3mL
		12.0				B2	Aa2/AA/-	9.5	Fx 5.589%
		26.1				C	A2/A/-	10.0	+70/3mL
		27.6				D	Baa2/BBB/-	10.5	+140/3mL
		21.6				E	Ba2/BB/-	10.9	+350/3mL
		54.1				Pref	-/-/-	-	-
Gallatin CLO III 2007-1	2/22	$425	BSAM	Loans	BS				
		4.8				X	Aaa/AAA/-	3.8	-
		253.0				A1L	Aaa/AAA/-	7.5	+23/3mL
		60.0				A1LR	Aaa/AAA/-	7.5	-
		33.0				A2L	Aa2/AA/-	8.2	+34/3mL
		24.5				A3L	A2/A/-	8.2	+63/3mL
		15.5				B1L	Baa2/BBB/-	8.2	+125/3mL
		15.5				B2L	Ba2/BB/-	8.2	+320/3mL
		27.5				PS	-/-/-	-	-
Gemstone CDO 7	2/22	$1,100	HBK	RMBS	DB				
		644.0				A1	Aaa/AAA/-	3.0	-
		159.0				A2	Aaa/AAA/-	4.9	+47/L
		96.9				B	Aa2/AA/-	5.8	+68/L
		68.3				C	A2/A/-	6.2	+285/L
		55.1				D	Baa2/BBB/-	5.7	+500/L
		18.7				E	Ba1/BB+/-	6.3	-
		59.5				Sub	-/-/-	-	-
Neptune CDO – IV	2/21	$1,000	Chotin Fund Mgmt	MZ SF	CS				
		550.0				A1	Aaa/AAA/-	6.97	Not Offered
		22.5				X	Aaa/AAA/-	3.51	-
		180.0				A2	Aaa/AAA/-	6.97	+56/L
		85.0				B	Aa2/AA/-	6.97	+70/L
		20.0				C	Aa3/AA-/-	6.97	+75/L
		60.0				D	A2/A/-	6.97	+225/L
		45.0				E	Baa2/BBB/-	6.97	+500/L
		47.5				PS	-/-/-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (*M/S/F*)	WAL	Spread
Stone Tower VI	2/16	$1,000	Stone Tower Debt Advisors	Loans	CS				
		140.0				A1	Aaa/AAA/-	8.9	+23/3mL
		550.0				A2A	Aaa/AAA/-	8.7	+22/3mL
		61.0				A2B	Aa1/AAA/-	10.1	+32/3mL
		56.0				A3	Aa2/AA/-	10.1	+36/3mL
		47.0				B	A2/A/-	10.2	+65/3mL
		37.0				C	Baa2/BBB/-	10.3	+135+3mL
		31.0				D	Ba2/BB/-	10.5	+360/3mL
		78.0				Eqty	-/-/-	-	-
Tralee CDO I	2/16	$375	Par IV Cap Mgmt	1st Lien Loans	JPM				
		273.2				A1	Aaa/AAA/-	8.5	+25/3mL
		17.9				A2a	Aa2/AA/-	10.0	+39/3mL
		3.5				A2b	Aa2/AA/-	10.0	+39/Sw
		18.8				B	A2/A/-	10.0	+70/3mL
		19.0				C	Baa2/BBB/-	10.0	+150/3mL
		13.4				D	Ba2/BB/-	10.0	+375/3mL
		29.2				Sub	-/-/-	-	-
Newbury Street CDO	2/16	$2,000	Mass Fin'l Services	HG SF	ML				
		1,800.000				A1	Aaa/AAA/-	7.6	+23/L
		50.625				A2a	Aaa/AAA/-	7.6	+43/L
		59.375				A2	Aaa/AAA/-	7.6	+48/L
		48.000				B	Aa2/AA/-	7.6	+55/L
		15.000				C	A2/A/-	7.6	+165/L
		17.000				D	Baa2/BBB/-	7.2	+380/L
		10.400				PS	-/-/-	-	Not Offered
Octonion I CDO, Ltd.*	2/15	$1,000	Harding Advisory	MZ SF	CITG				
		22.25				S	Aaa/AAA/-	3.9	-
		600.0				A1	Aaa/AAA/-	6.7	-
		150.0				A2	Aaa/AAA/-	6.7	+50/3mL
		88.0				A3	Aa2/AA/-	6.7	+60/3mL
		70.0				B	A2/A/-	6.7	+200/3mL
		40.0				C	Baa2/BBB/-	5.0	+425/3mL
		10.0				D	Baa3/BBB-/-	5.0	+475/3mL
		10.0				E	Ba1/BB+/-	-	+700/3mL
		50.0				Inc	-/-/-	-	-
Ares IIIR/IVR CLO	2/15	$700	Ares Mgmt	Sn Sec Loans	DB/GS				
		50.0				A1	Aaa/AAA/-	8.9	+26/3mL
		446.3				A2	Aaa/AAA/-	8.9	+22/3mL
		42.0				B	Aa2/AA/-	10.0	+37/3mL
		35.0				C	A2/A/-	10.0	+65/3mL
		31.5				D	Baa2/BBB/-	10.0	+135/3mL
		53.2				E	Ba2/BB/-	10.0	+350/3mL
						Eqty	-/-/-	-	-
ACA ABS CDO 2007-1	2/15	$1,500	ACA Mgmt	MZ SF	RBSGC				
		930.0				A1S-VF	Aaa/AAA/-	-	-
		125.0				A1J	Aaa/AAA/-	6.2	+50/L
		198.0				A2	Aa2/AA/-	6.4	+65/L
		72.0				A3	A2/A/-	6.4	+225/L
		30.0				B1	Baa1/BBB+/-	6.4	+490/L
		40.0				B2	Baa2/BBB/-	6.4	+625/L
		22.5				B3	Baa3/BBB-/-	6.4	+625/L
		22.5				C	Ba2/BB/-	-	Not Offered
		60.0				Eqty	-/-/-	-	Not Offered

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
TABS 2007-7	2/15	$2,250	Tricadia CDO	MZ SF	UBS				
		1,310.0				SS	Aaa/AAA/-	-	-
		352.5				A1	Aaa/AAA/-	-	+55/3mL
		240.0				A2	Aa2/AA/-	-	+65/3mL
		80.0				A3	A2/A/-	-	+275/3mL
		20.0				B1	Baa1/BBB+/-	-	+525/3mL
		77.5				B2	Baa2/BBB/-	-	+600/3mL
		47.5				B3	Baa3/BBB-/-	-	+750/3mL
		32.5				C	Ba2/BB/-	-	+800/3mL
		90.0				PS	-/-/-	-	-
Westways X	2/15	$2,400	TCW AM	M-VAL	CITG				
		1,800.00				Repo	-/-/-	-	-
		435.00				A	Aaa/AAA/-	-	+55/1mL
		30.00				B	Aa2/AA/-	-	+65/1mL
		30.00				C	A2/A/-	-	+135/1mL
		30.00				D	Baa2/BBB/-	-	+325/1mL
		77.23				Inc	-/-/-	-	-
South Coast Funding IX*	2/14	$539	TCW AM	MZ SF	ML				
		108.00				A1A	Aaa/AAA/-	5.5	+31/3mL
		250.00				A1B	Aaa/AAA/-	5.5	+46/3mL
		47.00				A2	Aaa/AAA/-	5.5	+58/3mL
		37.50				B	Aa2/AA/-	5.5	+200/3mL
		34.50				C	A2/A/-	5.5	+440/3mL
		24.00				D	Baa2/BBB/-	5.1	+500/3mL
		11.50				E	Baa3/BBB-/-	5.1	+750/3mL
		7.50				F	Ba1/BB+/-	5.1	-
		19.25				Pref	-/-/-	-	
888 Tactical Fund*	2/14	$1,000	Harding Advisory	ABS CDOs	CITG				
		500.0				S	Aaa/AAA/-	-	+34/3mL
		200.0				A1	Aaa/AAA/-	-	-
		120.0				A2	Aaa/AAA/-	-	+55/3mL
		75.0				A3	Aaa/AAA/-	-	+70/3mL
		50.0				A4	Aa2/AA/-	-	+120/3mL
		35.0				B	A2/A/-	-	+300/3mL
		23.5				C	Baa2/BBB/-	-	+550/3mL
						Inc	-/-/-	-	-
Class V Funding III*	2/13	$1,000	-	ABS CDOs	CITG				
		39.2				S	Aaa/AAA/-	-	-
		500.0				A1	Aaa/AAA/-	-	-
		200.0				A2	Aaa/AAA/-	-	-
		120.0				A3	Aaa/AAA/-	-	+0/L
		75.0				A4	Aaa/AAA/-	-	+120/L
		50.0				B	A2/A/-	-	+300/L
		35.0				C	Baa2/BBB/-	-	+525/L
		22.0				Inc	-/-/-	-	-
N-Star Real Estate CDO IX	2/13	$800	NS Advisors	CRE	CITG				
		512.00				A1	Aaa/AAA/AAA	7.7	+25.5/L
		96.00				A2	Aaa/AAA/AAA	10.0	+28/L
		48.00				A3	Aaa/AAA/AAA	10.0	+30/L
		37.28				B	Aa2/AA/AA	10.1	+3/L
		12.80				C	A1/A+/A+	10.1	+52/L
		23.20				D	A2/A/A	10.7	+57/L
		4.80				E	A3/A-/A-	11.9	+68/L
		3.60				F	Baa1/BBB+/BBB+	12.0	+105/L
		14.08				G	Baa2/BBB/BBB	12.0	+130/L
		7.20				H	Baa3/BBB-/BBB-	12.0	+160/L

New Pipeline	Size (mm)	Collateral Manager	Assets	Lead
Blue Mountain CLO III	$450	BlueMountain Capital	Sn Sec Loans	DB
Eaton Vance IX CLO	$500	Eaton Vance	Sn Sec Loans	LB
Emporia Pfd Fndg III	$415	Coen & Co.	Mid Mkt Loans	WS
Golden Knight II	$410	Lord, Abbet & Co.	Sn Sec Loans	ML
Hartshorne CDO I**	$1,000	Zais Group	MZ SF	UBS
IMAC CDO 2007-2*	$500	Ivy Asset Mgmt	CDOs	ML
Kleros Pfd Fndg VI	$3,000	Strategos Capital Mgmt	HG SF	UBS
LCM V CLO	$600	Lyon Capital Mgmt	Loans	BAS
Lexington Capital Funding V*	$601	Harding Advisory	MZ SF	ML
Libertas Pfd Fndg III*	$625	Strategos Cap Mgmt	MZ SF	MS
Maxim HG CDO II	$2,000	Maxim Capital Mgmt	HG SF	ML
NEO CDO I*	$300	Harding Advisory	CDOs	ML
PASA Fndg 2007-1	$3,000	Allianxe Bernstein	HG SF	BAS
Sagittarius CDO I	$1,000	SAI	MZ SF	WS
Silver Marlin	$1,250	Sailfish Structured Inv	HG SF	ML
Symphony CLO III	$410	Symphony AM	Loans	MS
Zing IX*	$358	ZAIS	CDOs	MS

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

III. Spreads

Index Constituent	23-Feb	Last week	Moody's Rating	S&P's Rating
AIG	10	9	Aa2	AA
Alcoa	14	14	A2	BBB+
Altria Group	20	21	Baa1	BBB
Boeing	7	7	A2	A+
CIT Group	26	23	A2	A
Deere & Co	11	13	A2	A
Dow Chemical	15	18	A3	A-
Duke Power Co	8	8	A3	BBB
Fannie Mae	7	6	Aaa	AAA
Ford Motor Credit	230	223	Caa1	CCC+
GE Capital	11	11	Aaa	AAA
GMAC	116	96	Ba1	BB+
IBM	6	8	A1	A+
McDonalds	8	10	A2	A
Time Warner	18	24	Baa2	BBB+
Tyson Foods	69	82	Ba2	BB+
Viacom	44	57	Baa3	BBB
Walt Disney	8	9	A3 /*+	A-
Xerox Corp	57	67	Baa3	BB+
AKZO Nobel N V	26	28	A3	A-
AXA	9	10	A2	A
Brit Telecom PLC	35	38	Baa1	BBB+
Cadbury Schweppes PLC	34	38	Baa2	BBB
Carrefour	16	16	A2	A
DaimlerChrysler AG	38	40	Baa1	BBB
Deutsche Telekom AG	27	30	A3	A-
France Telecom	23	23	A3	A-
GUS PLC	43	45	Baa1	BBB+
Koninklijke Ahold N V	65	66	Ba1	BB
Lafarge	25	25	Baa2	BBB
METRO AG	29	31	Baa2	BBB
Renault	25	27	Baa1	BBB+
Suez	14	15	A2 /*+	A- /*+
Telecom Italia SpA	48	53	Baa2	BBB+
Telenor ASA	20	18	A2	BBB+
Volkswagen AG	20	21	A3	A-

5Y CDS Index	23-Feb	Last week	Change
CDX.NA.IG 7	29.71	30.16	-0.45
CDX.NA.IG HVOL 7	68.95	71.53	-2.57
CDX.NA XO 7	109.93	113.50	-3.57
CDX.NA HY 7	217.03	214.54	+2.49
CDX.EM 6	100.80	102.12	-1.32
iTraxx Europe 6	21.09	22.58	-1.48
iTraxx Europe HVOL 6	40.25	43.43	-3.18
iTraxx Europe X-over 6	178.38	180.88	-2.50
iTraxx CJ Japan 6	19.68	19.55	+0.13
iTraxx Asia ex-Japan 6	37.50	38.34	-0.84
iTraxx Australia 6	30.50	31.17	-0.66
iTraxx SDI-75 3	29.45	29.37	+0.08

CDX IG 7 Widest	23-Feb
Sabre Hldgs Corp	281
Harrahs Oper Co Inc	167
Clear Channel Comms Inc	163
Residential Cap Corp	130
RadioShack Corp	114
CDX IG 7 Tightest	**23-Feb**
Fed Home Ln Mtg Corp	6
Intl Business Machs Corp	6
Amgen Inc.	7
Natl Rural Utils Coop Fin Cc	7
Fed Natl Mtg Assn	7
iTraxx Europe Widest	**23-Feb**
Glencore Intl AG	65
ITV Plc	65
Valeo	65
RENTOKIL INITIAL PLC	61
THOMSON	55
iTraxx Europe Tightest	**23-Feb**
Royal Bk Scotland plc	5
ABN AMRO Bk N V	6
Barclays Bk plc	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 23, 2007)					
	Price	*Spread* (bps)*	*1-week change (bps)*	*2-week change (bps)*	*Coupon (bps)*
ABX.HE.AAA.07-1	99.15	29.58	16.0	19.6	9
ABX.HE.AA.07-1	99.15	38.00	15.7	21.9	15
ABX.HE.A.07-1	92.50	298.19	124.4	128.2	64
ABX.HE.BBB.07-1	75.21	1,149.12	447.1	536.1	224
ABX.HE.BBB-.07-1	68.50	1,679.35	661.3	760.5	389
CMBX.NA Index (as of February 23, 2007)					
	Spread (bps)		*1-week change (bps)*	*2-week change (bps)*	*Coupon (bps)*
CMBX.NA.AAA.06-2	4.08		0.24	-0.08	7
CMBX.NA.AA.06-2	10.42		1.67	1.53	15
CMBX.NA.A.06-2	14.92		1.96	0.24	25
CMBX.NA.BBB.06-2	51.92		6.21	4.92	60
CMBX.NA.BBB-.06-2	83.67		10.67	9.53	87
CMBX.NA.BB.06-2	212.17		22.24	21.74	180

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

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