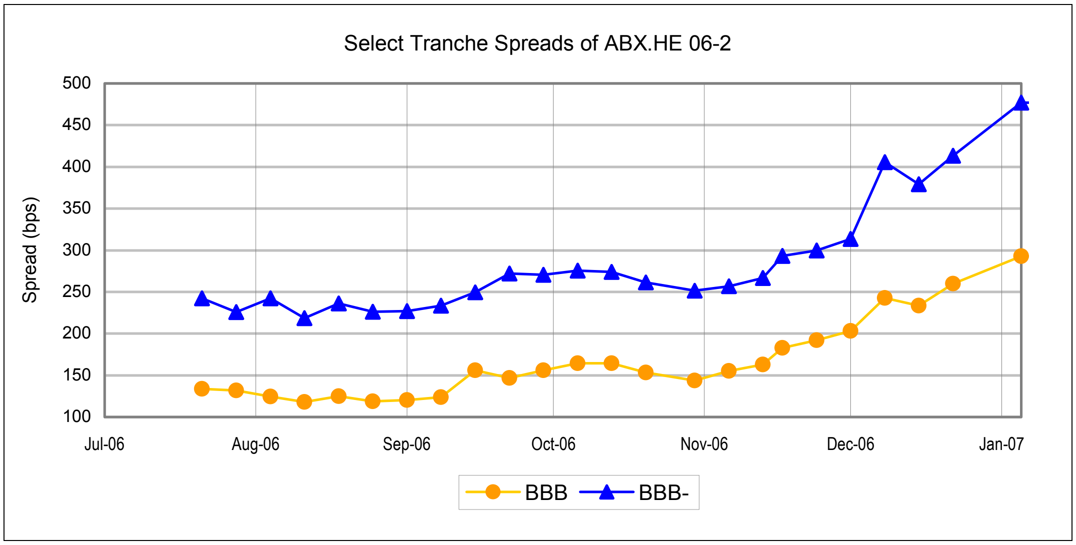
CDO/CDS Update 1/9/07

I. Commentary

As the first week of 2007 came to an end, the lower-rated tranches of the ABX continued their late 2006 trend of spread widening. After surging to a level above 400 bps in early December, the BBB- tranche briefly compressed about 30 bps to 380 bps in mid-December before ending the year at 413 bps. In the first week of the New Year, amid continued negative sentiment towards the home equity sector, BBB- spreads widened to 477 bps, a 64 bps change in one week. The BBB tranche has also felt similar pressure, as spreads moved 33 bps wider to 292 bps since the end of December. As we move further up the credit curve, volatility has been modest in the single-A tranche, widening about 5 bps since mid-December to 73 bps. The double-A and triple-A tranches have proven resilient to those looking to take a short position on the HEL ABS sector with spreads essentially flat over the past few weeks at 14.3 and 8.9 bps, respectively.



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

Looking at the commercial mortgage sector, CMBX spreads remain relatively stable despite the increased volatility in the residential market. Spreads across the entire CMBX index were flat to end December and since then there has only been some slight widening in the BB tranche. Since the end of the year, CMBX BB spreads are about 3 bps wider to 195 bps, while BBB tranche spreads are less than 1 bp wider to 86 bps. All of the CMBX tranches from triple-B to triple-A have traded within a narrow range of less than 1 bp since mid-December.

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With the holiday slowdown over the past few weeks, corporate credit spreads in North America and Europe remained stable to end the year. Since then, spreads have revealed a slight widening basis although within a very narrow band. The CDX investment grade index was wider by 0.6 bps to 34.2 bps over the past week. For the same period, both the CDX high volatility and crossover indices were wider by just less than 2 bps to 82 bps and 143 bps, respectively. Performance was similar for the high yield index as spreads moved less than1 bp wider to 263 bps. Across the Atlantic, the iTraxx Europe index traded about half a basis point wider week-over-week to 23.9 bps. Similar to North America, the European high volatility and crossover indices were less than 1 bp wider on the week to 47 bps and 221 bps, respectively. Emerging market index spreads are almost 2 bps tighter than they were in mid-December, but widened slightly to 112 bps last week.

Fitch releases Global CDO Outlook for 2007. Derivative Fitch released a special report providing its review and outlook on CDOs in the U.S., Europe, and Asia.[1] According to the rating agency, “cross-pollination of ideas between continents” continues as traditional cash investors grow more comfortable with the synthetic markets. Globally, rating performance remained strong, as 367 CDO tranches were upgraded and 188 tranches were downgraded (1.95:1) as of the end of October. According to Fitch, U.S. cash flow and synthetic CDO issuance reached $281 billion as of 2006Q3, up 36% year-over-year. In Europe, CDO issuance was €80 billion for the first three quarters of 2006, compared to €101 billion for all of 2005.

In the U.S., Fitch has a positive ratings outlook on CRE and Trust Preferred CDOs while it maintains a negative rating sentiment towards Mezzanine RMBS and Diversified Structured Finance CDOs with vintages earlier than 2003. In Europe, Fitch expects Structured Finance and SME CDOs to demonstrate stable to positive rating trends and for the underlying asset performance to also remain stable in 2007. On a global basis, the underlying asset performance of leveraged loan, investment-grade bond, and high-yield bond CDOs is expected to decline, although ratings are forecasted to remain stable to positive due to a build up of excess spread and seasoning. The agency notes that 2007 will be a year that tests the “structural soundness” of the many different CDO asset types and that CPPI and CPDO vehicles should continue to attract investors around the globe.

S&P Sub-prime Mortgage Trends 2006Q3. Standard & Poor’s has released its sub-prime mortgage trends report for 2006Q3 at the end of December.[2] The report shows that S&P’s rated volume of sub-prime securities was $100.6 billion in the third quarter 2006, a 15.8% decrease from the previous quarter and a 13.4% drop year-over-year. However, the number of securities remained inline with previous totals showing that average deal size balances are decreasing. Year-to-date, deal volume was $337 billion, up 6% from the $317 billion rated in the same period last year. S&P anticipates 2006Q4 volume remaining stable as longer-term mortgage products are used to help maintain borrower affordability. In addition, trimmed profit margins for originators and servicers have helped to spur consolidation between sub-prime companies.

S&P attributes higher mortgage rates after resets, energy costs, a slowdown in home prices in select regions, and looser underwriting standards as the primary reasons for an increase in early payment defaults and delinquencies on 2006 vintages. **While delinquencies have increased for the both 2005 and 2006 vintages, S&P has raised its weighted average credit enhancement level over the past year from roughly 7% for triple-B rated fixed-rate loans to 12.5% as of the end of the third quarter.** According to the report, lending practices appear to be getting tighter for longer-term loans, interest only products, and first liens with simultaneous seconds, as FICO scores for these products moved higher. However, purchase-money first liens with simultaneous seconds did not show the application of a tightened lending policy. Overall, the third-quarter showed mixed results and S&P believes that the result of tighter lending practices will take more time to show improvement.

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[1] Kendra K., A. Kabahar, J. Cromartie, and R. Hardee, *2007 Global CDO and Credit Derivatives Outlook,* Derivative Fitch Special Report (13 December 2006).

[2] Ahn L., J. Grundy, E. Arne, and M. Perelmuter, *RMBS Trends: Results Mixed for Tightened Underwriting in U.S. Subprime Securitization Market*, Standard & Poor’s (26 December 2006).

S&P Publishes U.S. Corporate Bonds Outlook. According to S&P's recently released 2007 corporate bond outlook, full-year 2006 corporate bond issuance was $886 billion, up 35% from 2005.[3] Investment-grade issuance in 2006 was $764 billion, up 32% year-over-year and high-yield issuance was $122 billion, up 53% year-over-year. Strong demand for corporate paper has allowed the increased issuance to be absorbed without widening spreads. Looking to 2007, S&P believes issuance could top the $900 billion mark as M&A activity may continue to grow. However, one factor that may slow corporate primary activity is the effect of a rising interest environment that may have motivated many companies to preemptively fund their borrowing costs.

S&P expects corporate credit quality to gradually deteriorate and for a macroeconomic slowdown to begin to squeeze profitability. S&P anticipates the Fed not taking any action on interest rates through mid-2007 and for strong foreign demand to keep long-term rates low, which should keep the yield curve flat. Although the downgrade to upgrade ratio for 2006 appears inline with 2005's result, 25% of issuers currently have a negative outlook or negative creditwatch status. There is also a strong divide in issuer ratings with negative implications, as 18% of high grade companies compared to 29% of high-yield issuers have a negative rating status. S&P forecasts the speculative grade default rate reaching 2.5%-3.0% by late 2007, up from just 1.33% in November. An up-tick in defaults should place pressure on high-yield spreads. S&P expects high-yield spreads to widen from their tight of 347 bps on December 15, 2006 to a forecasted value of 400 bps in late 2007. Although the default rate is expected to creep upwards by year-end and credit quality is expected to weaken over the medium-term, S&P believes that over the short-run spreads on CDS have the potential to move tighter as a result of strong demand.

[3] Vazza D., P. Jain, and C. Miller, *Outlook for U.S. Corporate Bonds: 2007 Credit Twist*, Standard & Poor's (21 December 2006).

II. Recent Pricing and Pipeline

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Niagara CDO	1/4	$500.00	Waterfall AM	ABS	IXIS				
		410.0				A	Aa2/AA/-	3.0	+70/3ML
		90.0				Pref	-/-/-	-	-
Fiorente Funding	12/28	$850.00	VERO Capital	HG ABS	RBS				
		722.500				Senior	-/-/-	-	-
		63.750				A	Aaa/AAA/-	8.9	+43/3ML
		34.000				B	Aa2/AA/-	8.9	+53/3ML
		14.450				C	A2/A/-	8.9	+135/3ML
		8.075				D	Baa2/BBB/-	8.7	+320/3ML
		7.225				Eq	-/-/-	-	-
Highridge ABS CDO	12/22	$1,500.00	ZS Structured Credit	HG SF	ML				
		1,297.5				A1	Aaa/AAA/-	7.0	+23/1ML
		52.5				A2	Aaa/AAA/-	7.1	+43/3ML
		85.5				A3	Aaa/AAA/-	7.1	+47/1ML
		13.0				B	Aa2/AA/-	7.1	+52/3ML
		14.0				C	Aa3/AA-/-	7.1	+62/3ML
		14.5				D	A2/A/-	7.1	+155/3ML
		15.0				E	Baa2/BBB/-	6.8	+350/3ML
		7.7				Pref	-/-/-	-	-
Tricadia CDO 2006-7	12/22	$513.55	Tricadia CDO Mgmt	ABS CDO	BAS				
		7.70				A-X	Aaa/AAA/-	3.9	-
		-				A-1F	Aaa/AAA/-	8.0	-
		328.50				A-1U	Aaa/AAA/-	8.0	+30/3ML
		65.00				A-2	Aaa/AAA/-	8.0	+70/3ML
		43.00				B	Aa2/AA/-	8.0	+90/3ML
		25.00				C	A2/A/-	8.0	+210/3ML
		19.00				D	Baa2/BBB/-	8.0	+380/3ML
		7.20				E	Baa3/BBB-/-	8.0	+500/3ML
		7.00				F	Ba2/BB/-	8.0	+700/3ML
		11.15				SN	-/-/-	-	Not Offered
Black Diamond 2006-1	12/22	$1,000.00	Black Diamond	Loans	BS				
		15.0				X	Aaa/AAA/-	3.8	-
		500.0				A-D	Aaa/AAA/-	7.1	+25/3ML
		61.5				A-E	Aaa/AAA/-	7.6	-
		75.8				A-R	Aaa/AAA/-	7.6	-
		90.0				B	Aa2/AA/-	8.1	+39/3ML
		48.0				C	A2/A/-	8.1	+69/3ML
		55.0				D	Baa2/BBB/-	8.1	+145/3ML
		45.0				E	Ba2/BB/-	8.1	+350/3ML
		89.0				PS	-/-/-	-	-
Lexington Capital Funding III	12/22	$1,212.18	Harding Advisory	MZ SF	ML				
		480.000				A1	Aaa/AAA/-	5.8	+10/3ML
		240.000				A2	Aaa/AAA/-	6.1	+40/3ML
		160.500				A3	Aaa/AAA/-	6.1	+43/3ML
		70.725				B	Aa2/AA/-	6.1	+52/3ML
		50.200				C	Aa3/AA-/-	6.1	+65/3ML
		40.000				D	A2/A/-	6.1	+180/3ML
		35.650				E	A3/A-/-	6.1	+200/3ML
		47.850				F	Baa2/BBB/-	5.7	+350/3ML
		12.000				G	Baa3/BBB-/-	5.7	+400/3ML
		75.250				Pref	-/-/-	-	-

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Silver Point SPF – I	12/21	$795.00	Silver Point	Loans	IXIS				
		250.0				A Rev	Aaa/AAA/-	6.0	+33/3ML
		245.0				A Trm	Aaa/AAA/-	6.0	+28/3ML
		45.0				B	Aa2/AA/-	7.4	+52/3ML
		45.0				C	A2/A/-	7.7	+95/3ML
		45.0				D	Baa2/BBB/-	8.1	+225/3ML
		165.0				Eq	-/-/-	-	-
STACK 2006-2	12/21	$900.00	TCW AM	MZ MBS	MS				
		585.0				SS	-/-/-	-	-
		75.0				II	Aaa/AAA/-	6.6	+52/3ML
		105.0				III	Aa2/AA/-	6.8	+60/3ML
		21.0				IV	Aa3/AA-/-	7.0	+70/3ML
		27.0				V	A2/A/-	7.0	+175/3ML
		42.0				VI	Baa2/BBB/-	7.0	+400/3ML
		11.0				VII	Ba1/BB+/-	7.1	+725/3ML
		19.0				Eq	-/-/-	-	-
Citation-1	12/21	$1,100.00	Highland Financial	HG ABS	CS				
		940.5				A1	Aaa/AAA/-	7.0	-
		105.5				A2	Aaa/AAA/-	7.0	+43/1ML
		23.0				B1	Aa2/AA/-	7.0	+52/1ML
		12.0				B2	Aa3/AA-/-	7.0	+63/1ML
		4.5				C	A2/A/-	7.0	+145/1ML
		11.0				D	Baa2/BBB/-	5.9	+345/1ML
		8.0				Eq	-/-/-	-	-
Attentus CDO III	12/20	$506.00	Attentus Mgmt	REIT TruPs	ML				
		150.0				A1A	Aaa/AAA/AAA	7.8	+32/3ML
		100.0				A1B	Aaa/AAA/AAA	9.9	+40/3ML
		100.0				A2	Aaa/AAA/AAA	9.9	+45/3ML
		34.0				B	Aa2/AA/AA	9.9	+70/3ML
		16.0				C1	A2/A/A	9.9	+135/3ML
		15.0				C2	A2/A/A	9.9	Fx 6.312%
		10.0				D	-/A-/A-	9.9	Fx 6.612%
		15.0				E1	-/BBB/BBB	9	+295/3ML
		7.0				E2	-/BBB/BBB	9	Fx 7.982%
		3.0				F1	-/BB/BB	9	+450/3ML
		21.0				F2	-/BB/BB	9	Fx 9.532%
		35.0				Pref	-/-/-	-	-
Shasta CLO 2006	12/20	$450.00	Churchill Pacific	Loans	BS				
		7.00				X	Aaa/AAA/-	3.8	-
		296.00				A-1L	Aaa/AAA/-	7.7	-
		45.00				A-1LV	Aaa/AAA/-	7.7	-
		38.00				A-2L	Aa2/AA/-	8.2	+40/3ML
		26.00				A-3L	A2/A/-	8.2	+69/3ML
		18.00				B-1L	Baa2/BBB/-	8.2	+140/3ML
		18.00				B-2L	Ba2/BB/-	8.1	+355/3ML
		35.66				Eq	-/-/-	-	-
Guggenheim 2006-4	12/20	$500.00	Guggenheim Partners	CRE	DB/BS				
		265.000				A1	Aaa/-/AAA	5.9	+28/1ML
		36.250				A2	Aaa/-/AAA	6.5	+32/1ML
		43.375				B	Aa2/-/AA	7.0	+40/1ML
		26.875				C	A1/-/A+	7.4	+55/1ML
		14.375				D	A2/-/A	7.6	+65/1ML
		13.375				E	A3/-/A-	7.8	+80/1ML
		13.375				F	Baa1/-/BBB+	7.8	+105/1ML
		15.000				G	Baa2/-/BBB	7.8	+130/1ML
		10.625				H	Baa3/-/BBB-	7.8	+175/1ML
		10.625				J	-	-	Retained
		23.750				K	-	-	Retained
		26.250				PS	-	-	Retained
		6.000				S	Aaa/-/AAA	2.6	+35/Sw

Issue	Date	Size (mm)	Collateral Manager	Assets	Lead	Class	Rating (M/S/F)	WAL	Spread
Grant Grove CLO	12/20	$300.00	Tall Tree	Loans	GS				
		220.50				A	Aaa/AAA/-	8.1	+25/3ML
		18.00				B	Aa2/AA/-	10.1	+45/3ML
		15.75				C	A2/A/-	10.8	+70/3ML
		14.25				D	Baa2/BBB/-	11.2	+150/3ML
		9.00				E	Ba2/BB/-	11.8	+375/3ML
		22.50				Sub	-/-/-	-	-
Crystal River Re-Sec 2006-1	12/19	$327.884	Hyperion Brookfield	CMBS	DB				
		222.5				A	Aaa/AAA/AAA	9.19	+36/L
		35.1				B	Aa2/AA/AA	10.01	+50/L
		17.6				C	A1/A+/A+	10.02	+67/L
		19.5				D	A3/A-/A-	10.12	+85/L
		10.7				E	Baa1/BBB+/BBB+	10.51	+140/L
		9.3				F	Baa2/BBB/BBB	11.33	+190/L
		4.4				G	Baa3/BBB-/BBB-	11.35	+220/L
		5.9				H	-/BBB-/BBB-	11.43	-
Sherwood Funding-3	12/18	$500.00	Church Tavern Adv	MZ ABS	MS/ JPM				
		323.0				SS	-/-/-	-	-
		59.0				A1	Aaa/AAA/-	-	+43/3ML
		551.0				A2	Aa2/AA/-	-	+53/3ML
		18.0				A3	A2/A/-	-	+155/3ML
		24.0				B	Baa2/BBB/-	-	+335/3ML
		7.0				C	Ba2/BB/-	-	+675/3ML
		18.0				Eq	-/-/-	-	-

New Pipeline	Size (mm)	Collateral Manager	Assets	Lead
Acacia CDO 11	$500.00	Redwood Asset mgmt	RMBS	LB
Camber 7*	$900.00	Cambridge Place	MZ SF	BarCap
DMR Draco 2007-1**	$2,000.00	Declaration Mgmt & Research	MZ ABS	UBS
Foothill CLO I	$500.00	Foothill Group	Loans	DB
Gulf Stream-Atlantic 2007-1	$500.00	Gulf Stream Strucutred Advisors	RMBS	RBSGC
Latitude CLO	$300.00	Lufkin Advisors	Loans	BarCap
Libertas Preferred Funding II*	$506.00	Strategos Capital	SF	BS
Longride ABS CDO II*	$500.00	ZS Structured Credit Cap Mgmt	RMBS	RBSGC
Stanfield Daytona Ltd.	$550.00	Stanfield Capital Partners	Loans	BS
Symphony COF	$500.00	Symphony Asset Mgt	Loans/HY/Converts	MS

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

III. Spreads

Index Constituent	5-Jan	Last week	Moody's Rating	S&P's Rating
AIG	9	9	Aa2	AA
Alcoa	16	16	A2	A-
Altria Group	23	24	Baa1	BBB
Boeing	9	9	A2	A+
CIT Group	26	27	A2	A
Deere & Co	17	18	A3	A
Dow Chemical	13	16	A3	A-
Duke Power Co	16	16	A3	BBB
Fannie Mae	7	7	Aaa	AAA
Ford Motor Credit	283	285	Caa1	CCC+
GE Capital	12	12	Aaa	AAA
GMAC	99	97	Ba1	BB+
IBM	9	9	A1	A+
McDonalds	13	13	A2	A
Time Warner	31	31	Baa2	BBB+
Tyson Foods	102	98	Ba2	BB+
Viacom	68	69	Baa3	BBB
Walt Disney	11	11	A3	A-
Xerox Corp	59	58	Baa3	BB+
AKZO Nobel N V	28	26	A3	A-
AXA	11	11	A2	A
Brit Telecom PLC	48	49	Baa1	BBB+
Cadbury Schweppes	40	39	Baa2	BBB
Carrefour	12	12	A2	A
DaimlerChrysler AG	53	53	Baa1 /*-	BBB
Deutsche Telekom AG	37	38	A3	A-
France Telecom	28	29	A3	A-
GUS PLC	44	45	Baa1	BBB+
Koninklijke Ahold N V	82	79	Ba1	BB
Lafarge	31	32	Baa2	BBB
METRO AG	29	28	Baa2	BBB
Renault	32	32	Baa1	BBB+
Suez	25	19	A2 /*+	A- /*+
Telecom Italia SpA	63	63	Baa2	BBB+
Telenor ASA	19	20	A2	BBB+
Volkswagen AG	26	27	A3	A-

5Y CDS Index	5-Jan	Last week	Change
CDX.NA.IG 7	34.18	33.57	+0.61
CDX.NA.IG HVOL 7	81.51	79.71	+1.80
CDX.NA XO 7	142.33	140.95	+1.38
CDX.NA HY 6	262.96	262.43	+0.53
CDX.EM 6	111.53	111.13	+0.40
iTraxx Europe 6	23.88	23.41	+0.47
iTraxx Europe HVOL 6	47.06	46.19	+0.87
iTraxx Europe X-over 6	220.70	219.83	+0.87
iTraxx CJ Japan 6	21.60	21.69	-0.09
iTraxx Asia ex-Japan 6	38.88	39.63	-0.75
iTraxx Australia 6	31.87	31.87	+0.00
iTraxx SDI-75 3	30.83	30.81	+0.02

CDX IG 7 Widest	5-Jan
Sabre Hldgs Corp	302
Clear Channel Comms Inc	251
RadioShack Corp	204
Harrahs Oper Co Inc	184
The Gap Inc	133
CDX IG 7 Tightest	**5-Jan**
Wells Fargo & Co	6
Amgen Inc.	7
Fed Natl Mtg Assn	7
Wal Mart Stores Inc	7
Baxter Intl Inc	8
iTraxx Europe Widest	**5-Jan**
Glencore Intl AG	85
ITV Plc	75
RENTOKIL INITIAL PLC	74
Valeo	69
Koninklijke KPN N V	68
iTraxx Europe Tightest	**5-Jan**
Royal Bk Scotland plc	4
ABN AMRO Bk N V	6
Barclays Bk plc	6
Aviva plc	7
Assicurazioni Generali S p A	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 5, 2007)				
	Price	*Weekly change (bps)*	*Spread* (bps)*	*Coupon (bps)*
ABX.HE.AAA.06-2	100.09	-0.01	8.85	11
ABX.HE.AA.06-2	100.09	unch	14.31	17
ABX.HE.A.06-2	99.12	+4.89	72.57	44
ABX.HE.BBB.06-2	95.42	+33.18	292.76	133
ABX.HE.BBB-.06-2	93.53	+64.33	476.91	242
CMBX.NA Index (as of January 5, 2007)				
	Spread	*Weekly change (bps)*	*Coupon (bps)*	
CMBX.NA.AAA.06-2	5.50	+0.85	7	
CMBX.NA.AA.06-2	12.00	unch	15	
CMBX.NA.A.06-2	18.92	unch	25	
CMBX.NA.BBB.06-2	52.00	-0.14	60	
CMBX.NA.BBB-.06-2	85.67	+0.74	87	
CMBX.NA.BB.06-2	194.83	+3.26	180	

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

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