

Structured Finance CDO Ratings Review

October 30, 2007

Fitch Rated CDOs of ABS

Summary

Global Structured Finance CDO Portfolio Statistics

- > 431 Global SF CDOs backed primarily by RMBS assets
 - 58% (250 of 431) SF CDOs from the U.S.
 - 41% (177 of 431) SF CDOs from Europe
 - 1% (4 of 431) SF CDOs from Asia

- 61% (262 of 431) cash and hybrid
- 39% (169 of 431) synthetic

Of Cash & Hybrid

- 61% (159 of 262) mezzanine SF CDOs
- 17% (44 of 262) high-grade SF CDOs
- 23% (59 of 262) not exposed to US SubPrime

SF CDO Review – Major points

- > Our review is Global and complete
- > Review comprises 431 transactions with current outstanding of \$300 billion
- > 609 classes from 159 transactions totalling \$36.8 billion on RWN
- > \$23.9 billion of AAA on RWN
 - \$12.6 billion (53%) from US subprime mezzanine deals issued 2006/07 and CDO-squared deals
 - > Severe downgrades of 1 - 5 rating categories expected
 - \$9.1 billion from earlier vintage mezzanine deals and all vintages of high-grade deals
 - > Downgrades of 1 - 4 rating categories expected
 - \$2 billion from synthetic deals
 - > Downgrades of 1 - 2 rating categories likely

SF CDO Weak Performance Attributes

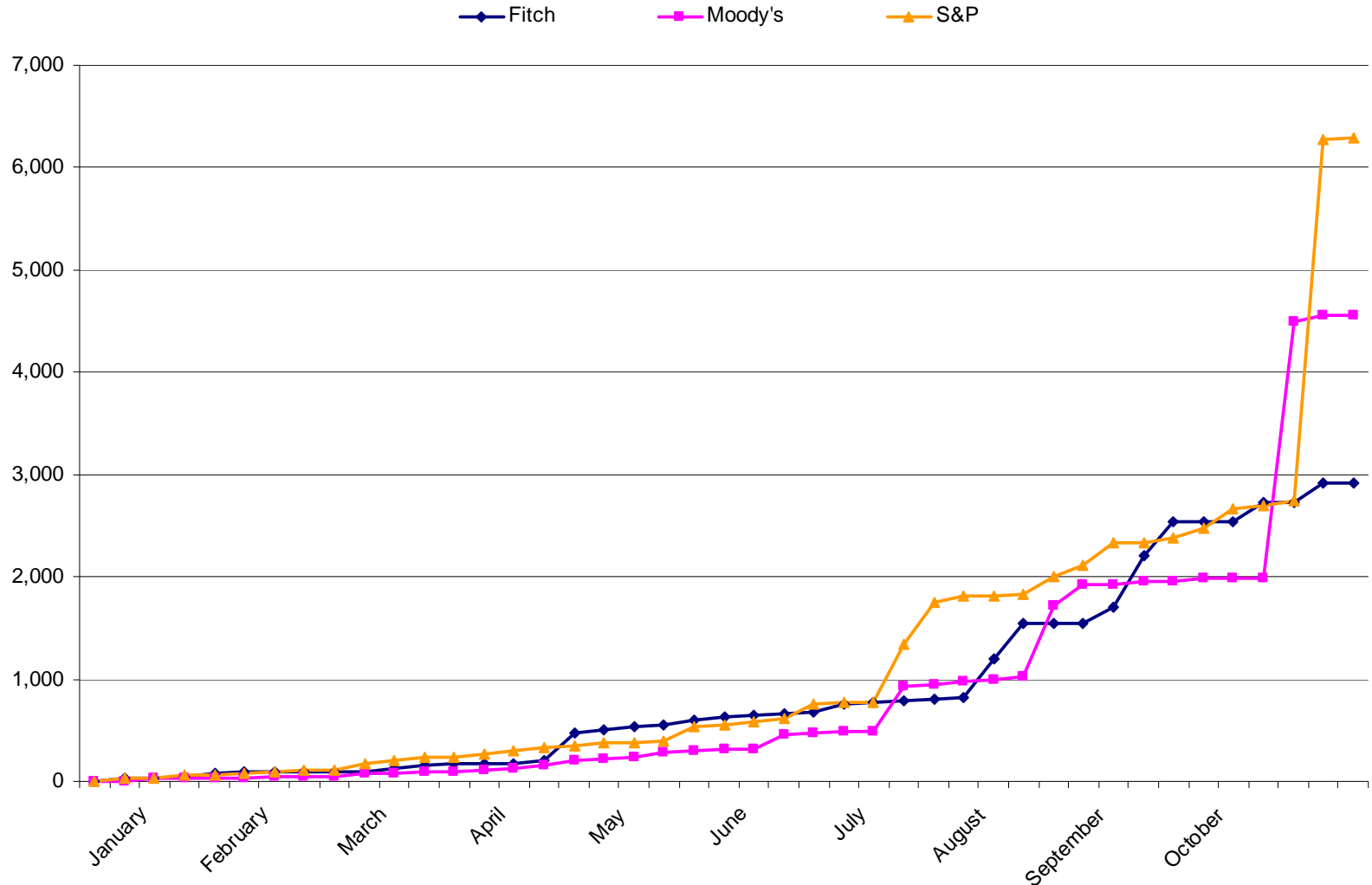
- > Poor performance is concentrated in SF CDOs with high allocation to mezzanine subprime RMBS bonds.
 - Allocation to 2006/2007 vintage subprime RMBS is the most significant risk determinant
 - Allocation to other recent vintage SF CDOs are a significant additional risk factor
- > Different CDO structural features (cash redirection triggers) impact the resilience of the higher rated CDO classes
- > Recent vintage Mezzanine SF CDOs and SF CDO², followed by older vintage Mezzanine and recent vintage High Grade SF CDOs display the poorest credit attributes

Agenda

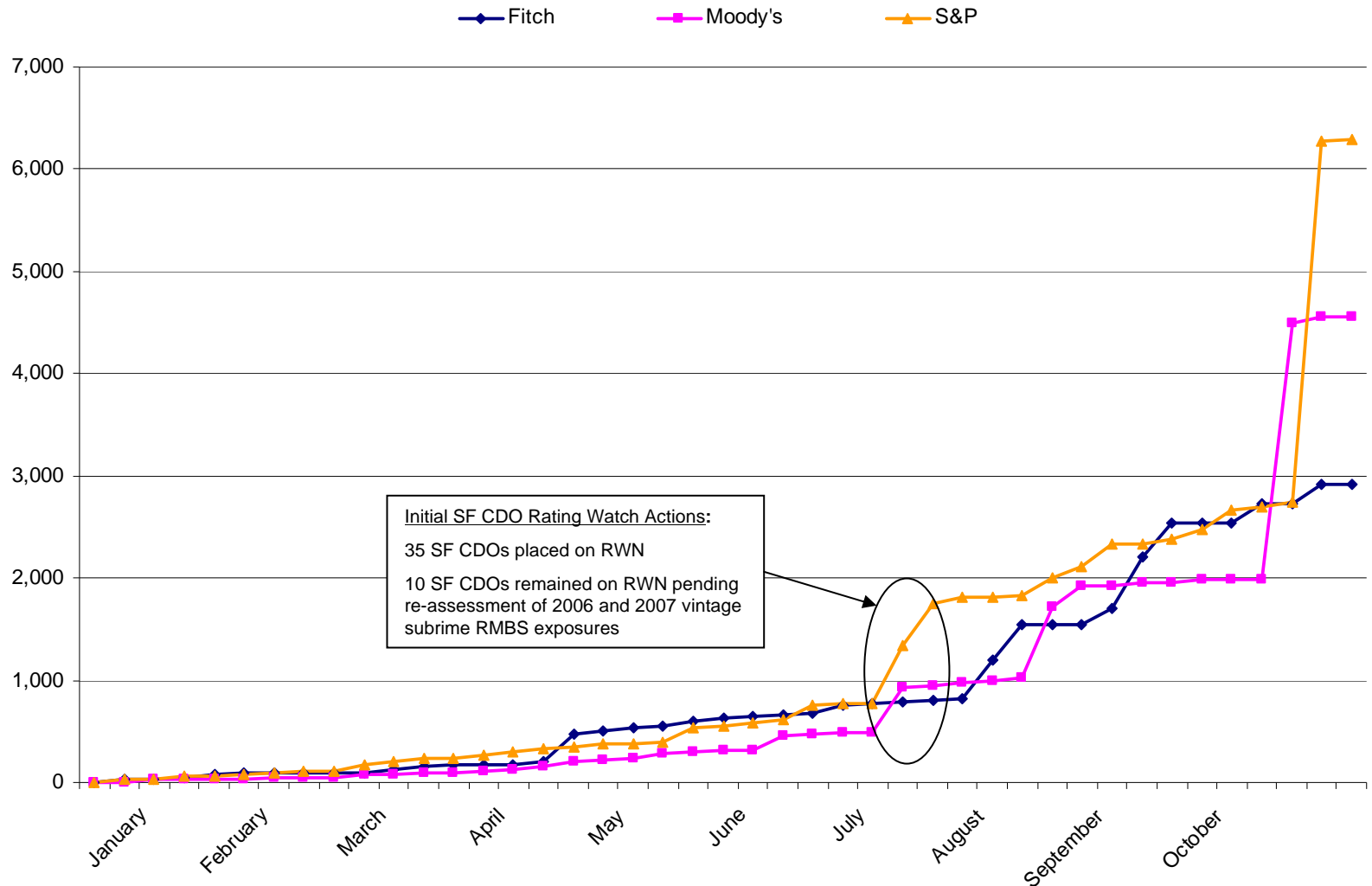
- > Recent subprime RMBS rating actions
- > CDO rating methodology changes
 - VECTOR assumptions
 - Cash flow modeling
- > SF CDO portfolio/cohort analysis
 - CDO risk concentrations
 - CDO risk determinants
 - Expected severity of CDO rating actions
- > Summary and timeline for next steps

RMBS Downgrades and Implications for SF CDOs

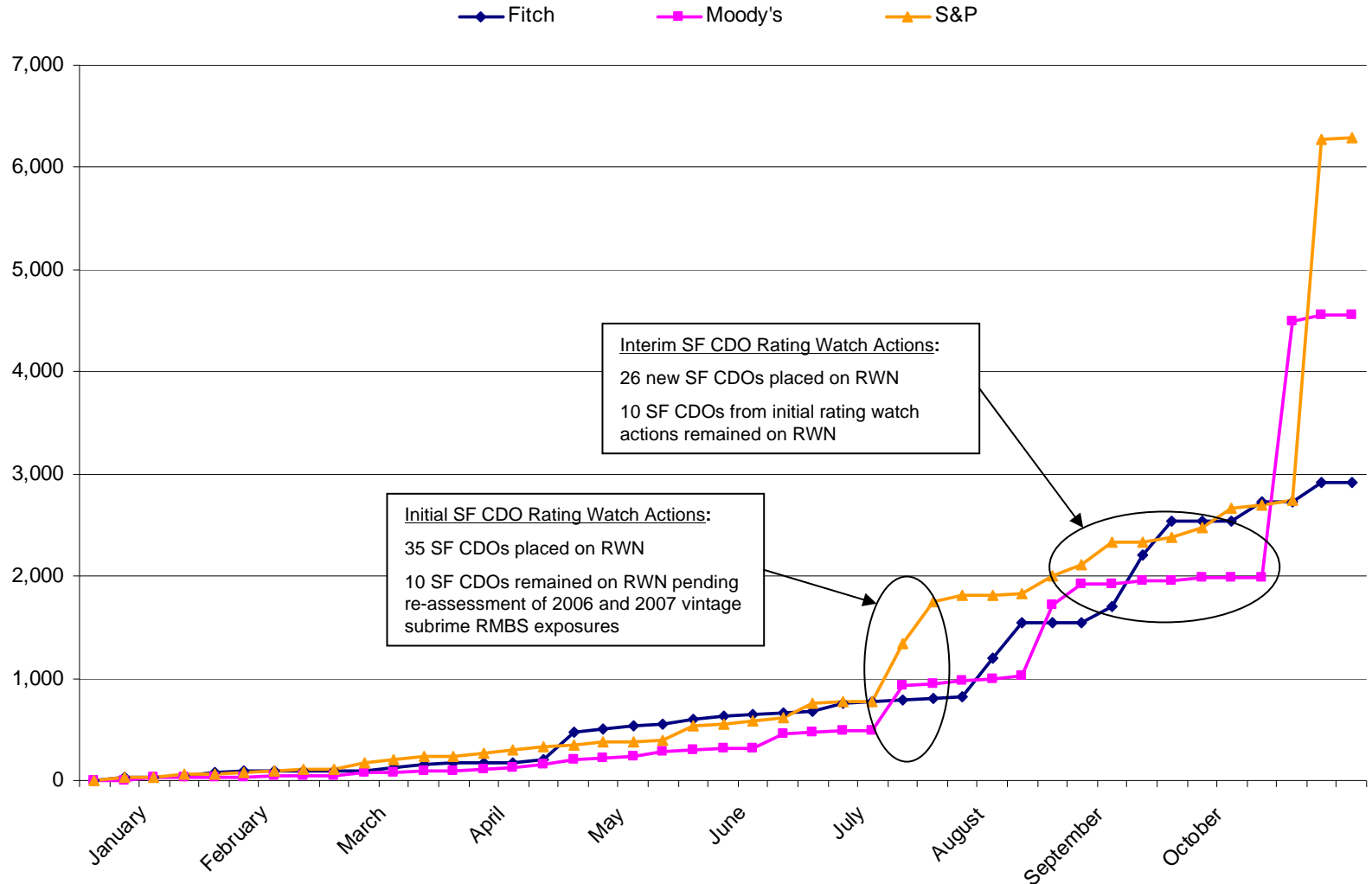
Cumulative RMBS Downgrade Activity by Week



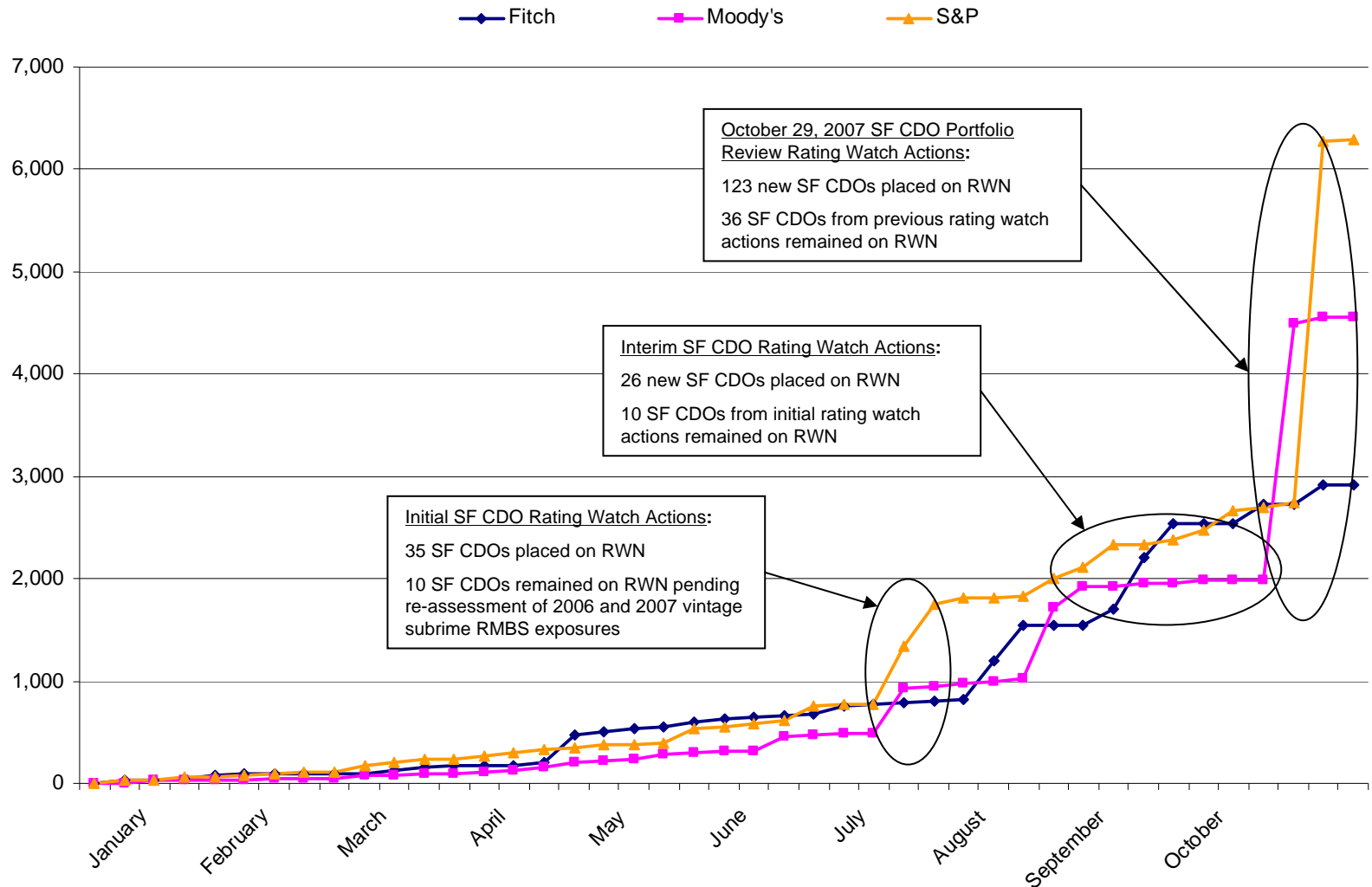
Cumulative RMBS Downgrade Activity by Week



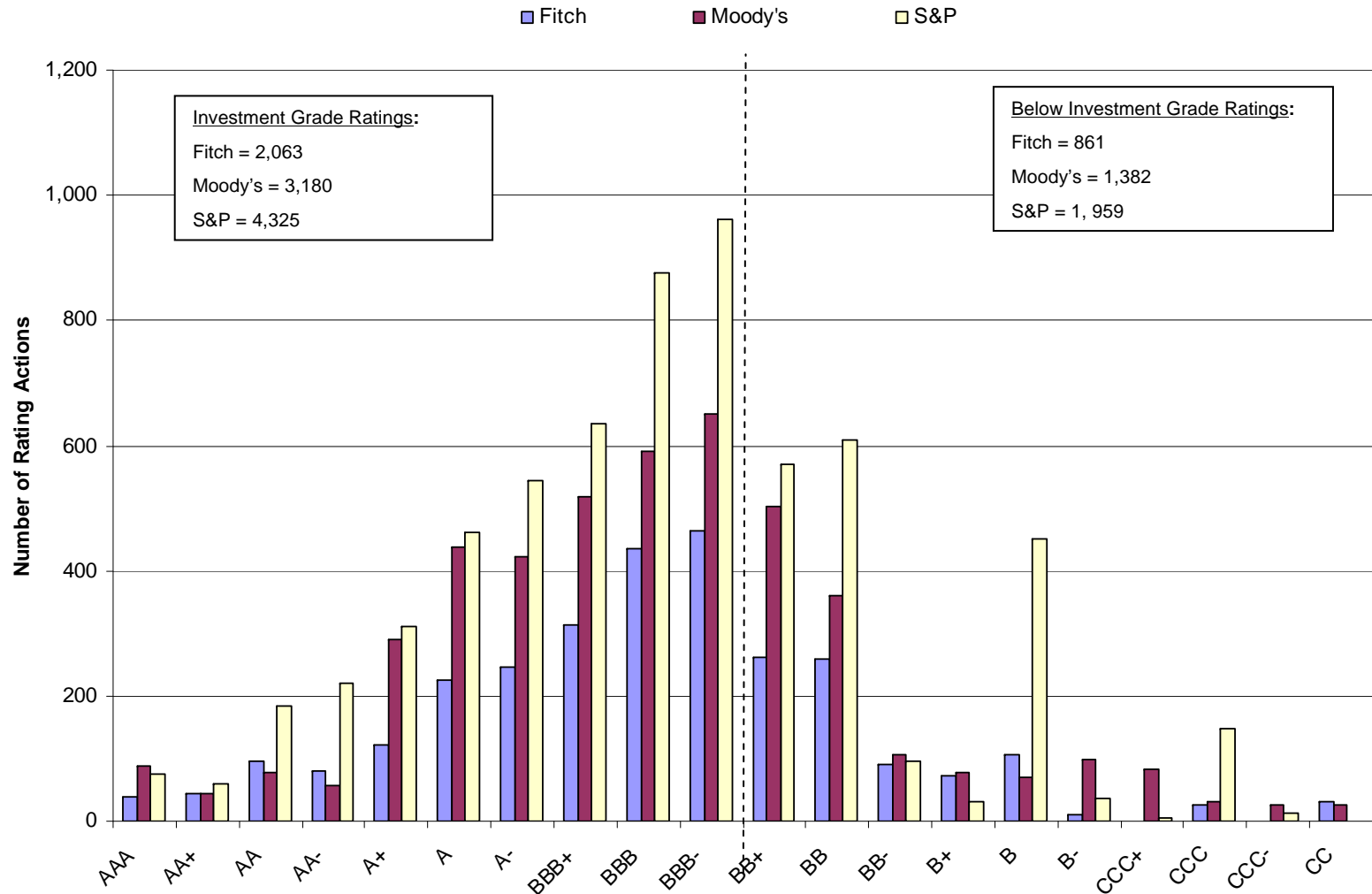
Cumulative RMBS Downgrade Activity by Week



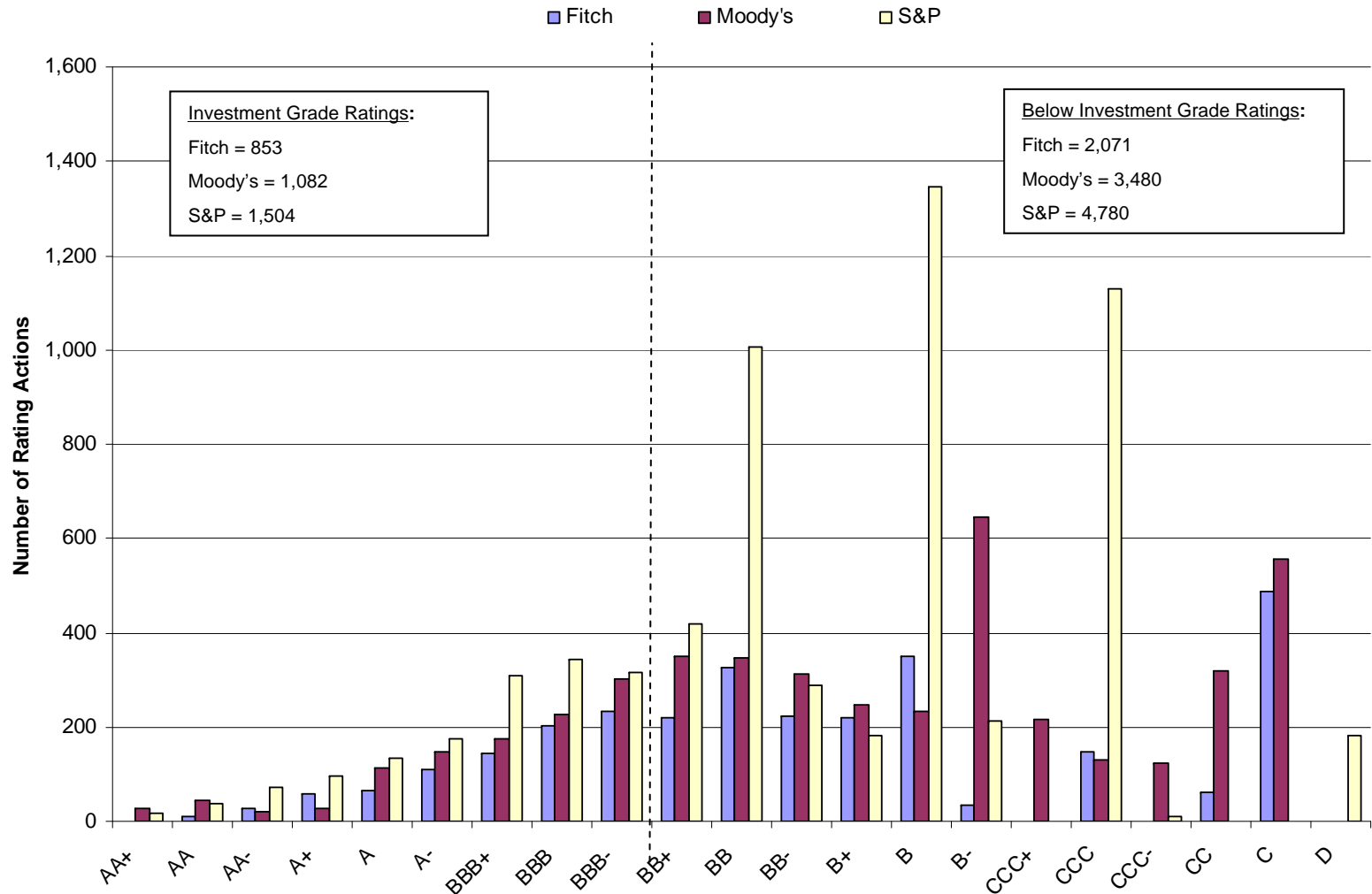
Cumulative RMBS Downgrade Activity by Week



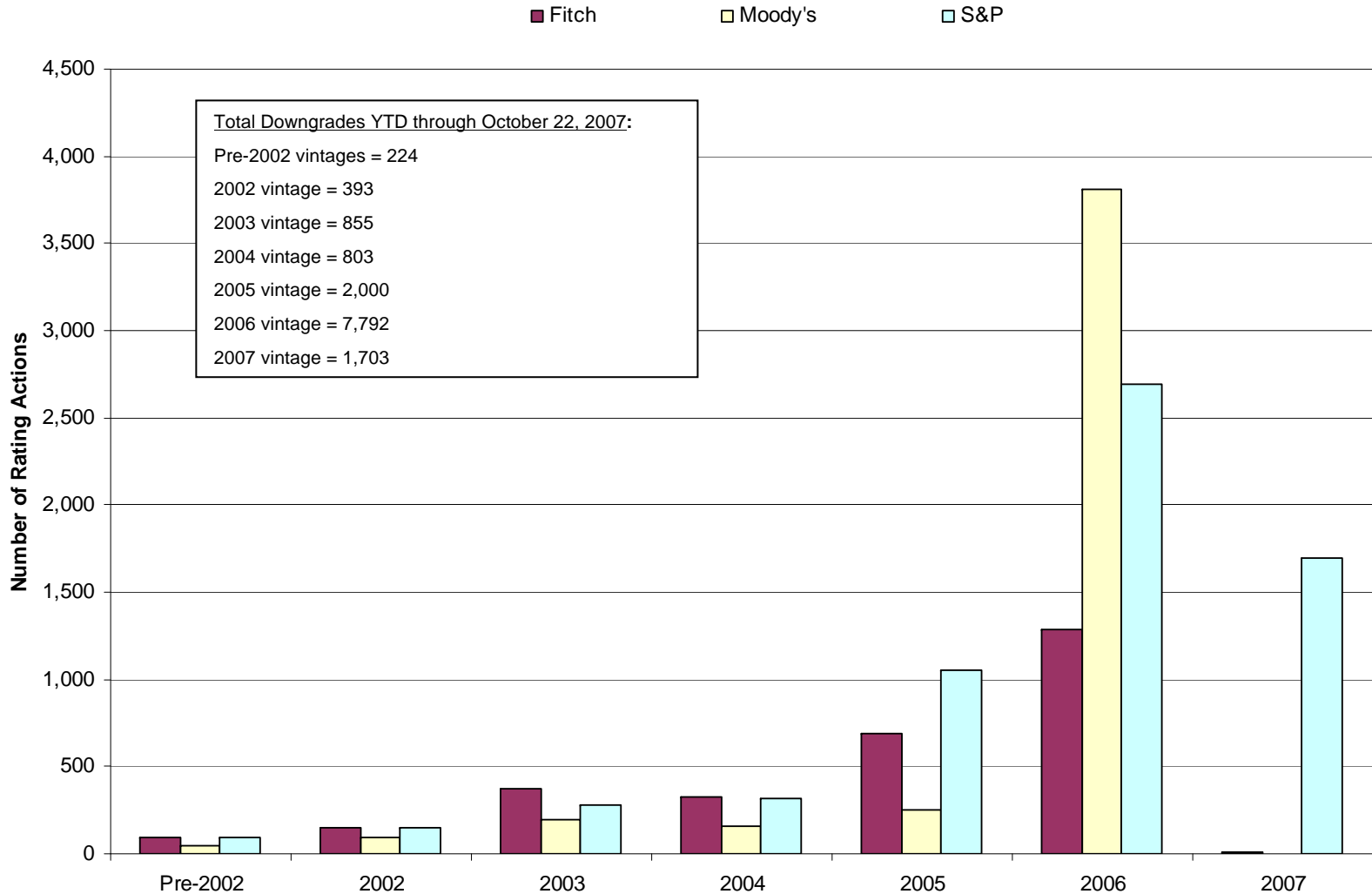
RMBS Downgrade Activity by Previous Rating



Current Rating of Downgraded RMBS Bonds



RMBS Downgrade Activity by RMBS Vintage



Average Notches for 2006 Vintage RMBS Downgrades

Rating	Fitch	Moody's	S&P	Average
AAA	-6.97	-2.24	-3.34	-3.49
AA Category	-5.73	-3.75	-4.32	-4.60
A Category	-4.34	-4.39	-4.98	-4.54
BBB Category	-4.12	-5.67	-4.93	-5.15
BB Category	-5.00	-6.41	-4.51	-5.46
B Category	-5.53	-5.49	-2.94	-4.10
Average	-4.67	-5.19	-4.56	-4.89

SF CDO Review

Methodology

SF CDO Review – Methodology Overview

- > New Methodology to be announced week of 5 November
- > Maintain Rating Methodology Framework
- > Update VECTOR assumptions to reflect:
 - Heightened default risk
 - Rapidly evolving credit story in underlying RMBS assets
 - Reduced propensity for RMBS recoveries
 - Increased credit co-movement
- > Cash Flow model adjustments

SF CDO Review –Methodology Framework

- > VECTOR: Multi-step Monte-Carlo stochastic credit modelling tool
- > VECTOR generates for each rating stress level
 - RDR: Rating Default Rate
 - RRR: Rating Recovery Rate
 - RLR: Rating Loss Rate
- > VECTOR output becomes input for scenario-based cash flow model that considers transaction waterfall and structural features
- > ‘Break-even’ default levels generated which are compared against VECTOR output.
- > The lowest break-even threshold determines the appropriate rating level

SF CDO Review – Revised Assumptions

- > Updated Probability of Default Table
- > Probability of Default indicator
 - Fitch rating
 - Lower of S&P/Moody's if not rated by Fitch
 - Preference for most recent rating
- > Reduced Recovery assumptions
- > Increased Correlation
 - Base correlation level
 - Add-on for subprime and SF CDOs
 - Further add-on for vintage concentrations

SF CDO Review – Cash Flow Modelling

- > Typical 27 Scenarios with various assumptions regarding
 - Prepayment Speed
 - Default Timing
 - Interest Rate Scenario
- > Simplified Cash Flow runs
 - Reduced to 9, eliminating Fast and Slow prepay assumptions
 - Model-generated default timing replaced with assumptions consistent with current RMBS projections
- > Discounted treatment of ‘Interest Rate Up’ scenarios
- > Specific transaction waterfall features considered

SF CDO Review – Structural Features

- > ‘Trigger-less’ structures
- > Principal for Interest Features
- > Events of Default

Portfolio Review of SF CDO Rating Watch Candidates

Global Structured Finance CDO Portfolio

Primary CDO Asset Types	Global Cash and Hybrid Structured Finance CDOs							
	Pre-2003	2003	2004	2005	1H 2006	2H 2006	2007	Total
Mezzanine Subprime RMBS	31	17	24	21	13	8	10	124
High-Grade Subprime RMBS	0	4	8	11	6	1	5	35
Mezzanine Prime/Alt-A RMBS	7	0	3	4	0	4	2	20
High-Grade Prime/Alt-A RMBS	1	0	1	0	0	0	1	3
Mezzanine CDO	8	1	1	0	0	1	4	15
High-Grade CDO	1	1	2	0	0	0	2	6
European Cash CDO of ABS	8	6	14	11	5	4	11	59
Total	56	29	53	47	24	18	35	262

Primary Synthetic Structures	Global Synthetic Structured Finance CDOs							
	Pre-2003	2003	2004	2005	1H 2006	2H 2006	2007	Total
US Single Tier ABS CDOs	4	1	2	20	11	1	8	47
European Single Tier ABS CDOs	7	8	13	13	3	5	14	63
European CDO ² Master Level ABS	5	16	10	7	2	0	1	41
European CDO ² Inner CDOs of ABS	14	0	0	0	0	0	0	14
Asia synthetic CDOs	0	0	2	1	0	1	0	4
Total	30	25	27	41	16	7	23	169

Global Cash Flow and Hybrid SF CDO Heat Map

Primary CDO Asset Types	Global Cash and Hybrid Structured Finance CDOs							
	Pre-2003	2003	2004	2005	1H 2006	2H 2006	2007	Total
Mezzanine Subprime RMBS	22.6% (7 of 31)	58.8% (10 of 17)	66.7% (16 of 24)	71.4% (15 of 21)	92.3% (12 of 13)	100% (8 of 8)	100% (10 of 10)	62.9% (78 of 124)
High-Grade Subprime RMBS		25.0% (1 of 4)	0% (0 of 8)	9.1% (1 of 11)	50.0% (3 of 6)	100% (1 of 1)	100% (5 of 5)	31.4% (11 of 35)
Mezzanine Prime/Alt-A RMBS	14.3% (1 of 7)		0% (0 of 3)	25.0% (1 of 4)		50.0% (2 of 4)	50.0% (1 of 2)	25.0% (5 of 20)
High-Grade Prime/Alt-A RMBS	0% (0 of 1)		0% (0 of 1)				100% (1 of 1)	33.3% (1 of 3)
Mezzanine CDO	12.5% (1 of 8)	100% (1 of 1)	0% (0 of 1)			100% (1 of 1)	75.0% (3 of 4)	40.0% (6 of 15)
High-Grade CDO	100% (1 of 1)	0% (0 of 1)	0% (0 of 2)				0% (0 of 2)	16.7% (1 of 6)
European Cash CDO of ABS	0% (0 of 8)	0% (0 of 6)	0% (0 of 14)	0% (0 of 11)	0% (0 of 5)	0% (0 of 4)	0% (0 of 11)	0% (0 of 59)
Total	17.9% (10 of 56)	41.4% (12 of 29)	30.2% (16 of 53)	36.2% (17 of 47)	62.5% (15 of 24)	66.7% (12 of 18)	57.1% (20 of 35)	38.9% (102 of 262)

Global Synthetic SF CDO Heat Map

Primary CDO Asset Types	Global Synthetic Structured Finance CDOs							
	Pre-2003	2003	2004	2005	1H 2006	2H 2006	2007	Total
U.S. Single Tier ABS CDOs	25.0% (1 of 4)	0% (0 of 1)	50% (1 of 2)	80.0% (16 of 20)	100% (11 of 11)	0% (0 of 1)	0% (0 of 8)	61.7% (29 of 47)
European Single Tier ABS CDOs	14.3% (1 of 7)	50.0% (4 of 8)	61.5% (8 of 13)	38.5% (5 of 13)	33.3% (1 of 3)	80.0% (4 of 5)	21.4% (3 of 14)	41.3% (26 of 63)
European CDO^2 Master Level ABS	0% (0 of 5)	0% (0 of 16)	0% (0 of 10)	0% (0 of 7)	0% (0 of 2)		100% (1 of 1)	2.4% (1 of 41)
European CDO^2 Inner CDOs of ABS	0% (0 of 14)							0% (0 of 14)
Asia CDOs			0% (0 of 2)	0% (0 of 1)		100% (1 of 1)		25.0% (1 of 4)
Total	6.7% (2 of 30)	16.0% (4 of 25)	33.3% (9 of 27)	51.2% (21 of 41)	71.4% (12 of 16)	71.4% (5 of 7)	17.4% (4 of 23)	33.7% (57 of 169)

Summary of Fitch's SF CDO Cohort Composition

Selected Cohort Summaries	1	2	3	4	5	6	7	8	9	10*
Issuance Type	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	Synthetic	Synthetic	Mixed
Issuance Domicile	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	Europe	Europe	U.S.	Asia
Collateral Seniority Level	Mezzanine	Mezzanine	Mezzanine or High Grade	High Grade	High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade
Synthetic Structure Type	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Single Tier	Single Tier	Mixed
Primary Asset Type	Subprime RMBS	Subprime RMBS	CDOs	Subprime RMBS	Subprime RMBS	Prime/ Alt-A RMBS	Various SF Assets	Various SF Assets	Various SF Assets	Various SF Assets
CDO Vintage	2006-2007	Pre-2006	All Vintages	2006-2007	Pre-2006	All Vintages	All Vintages	All Vintages	All Vintages	All Vintages
Number of CDOs in Cohort	31	93	21	12	23	23	59	118	47	4
Number of CDOs in Cohort on RWN	30	48	7	9	2	6	0	27	29	1

*Asia SF CDO cohort contains one high-grade US subprime SF CDO on RWN. Based on the deal characteristics, the performance expectations are similar to that of cohort 4

Summary of Fitch's SF CDO Cohort Collateral Distribution

Selected Cohort Summaries

	1	2	3	4	5	6	7	8	9	10
Issuance Type	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	Synthetic	Synthetic	Mixed
Issuance Domicile	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	Europe	Europe	U.S.	Asia
Collateral Seniority Level	Mezzanine	Mezzanine	Mezzanine or High Grade	High Grade	High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade
Primary Asset Type	Subprime RMBS	Subprime RMBS	CDOs	Subprime RMBS	Subprime RMBS	Prime/Alt-A RMBS	Various SF Assets	Various SF Assets	Various SF Assets	Various SF Assets
CDO Vintage	2006-2007	Pre-2006	All Vintages	2006-2007	Pre-2006	All Vintages	All Vintages	All Vintages	All Vintages	All Vintages

Average Underlying
Collateral Distribution

RMBS - Prime	7.4%	16.2%	4.0%	33.0%	25.4%	41.8%	31.9%	22.1%	5.7%	16.3%
RMBS - Subprime	81.4%	43.3%	15.1%	46.2%	43.5%	15.3%	10.7%	23.6%	59.6%	7.3%
SF CDO	2.9%	2.9%	17.5%	18.0%	13.7%	4.5%	3.4%	11.3%	6.3%	8.8%
Other SF including other CDO	8.3%	37.6%	63.3%	2.9%	17.4%	38.3%	53.9%	43.1%	28.5%	67.7%

Summary of Fitch's SF CDO Cohort Vintage Exposures

Selected Cohort Summaries	1	2	3	4	5	6	7	8	9	10
Issuance Type	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	CF / Hybrid	Synthetic	Synthetic	Mixed
Issuance Domicile	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	Europe	Europe	U.S.	Asia
Collateral Seniority Level	Mezzanine	Mezzanine	Mezzanine or High Grade	High Grade	High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade	Mezzanine or High Grade
Primary Asset Type	Subprime RMBS	Subprime RMBS	CDOs	Subprime RMBS	Subprime RMBS	Prime/Alt-A RMBS	Various SF Assets	Various SF Assets	Various SF Assets	Various SF Assets
CDO Vintage	2006-2007	Pre-2006	All Vintages	2006-2007	Pre-2006	All Vintages	All Vintages	All Vintages	All Vintages	All Vintages

Average Underlying Collateral Vintage Distribution

2007 Exposures	3.3%	2.1%	6.2%	0.0%	5.0%	3.4%	15.7%	3.1%	0.0%	0.0%
2006 Exposures	38.4%	6.1%	13.3%	28.3%	6.0%	10.0%	29.7%	23.0%	1.9%	23.5%
2005 Exposures	44.8%	19.7%	4.4%	64.7%	32.0%	19.8%	19.2%	27.4%	33.4%	26.3%
Pre-2005 Exposures	13.5%	72.1%	76.1%	6.9%	56.9%	66.8%	35.1%	42.0%	64.7%	50.2%

Recent Vintage Mezzanine Subprime CDOs & CDO² (cohorts 1 & 3)

Cohorts 1 and 3	Expected Rating after Downgrade Actions							
	AAA	AA Category	A Category	BBB Category	BB Category	B Category	CCC Category	CC or Lower
AAA		→						
AA Category			→					
A Category				→				
BBB Category					→			

> Mezzanine subprime RMBS CDOs:

- Average 81% total subprime allocation
- Average 41% 2006 -2007 vintage exposure
- 63% of 'AAA' securities on RWN; over 90% of other securities on RWN

> CDO²:

- Recent vintage CDO² predominantly allocated to 2005-2007 SF CDOs

Recent Vintage High Grade SF CDOs (cohorts 4 & 10)

Cohorts 4 and 10

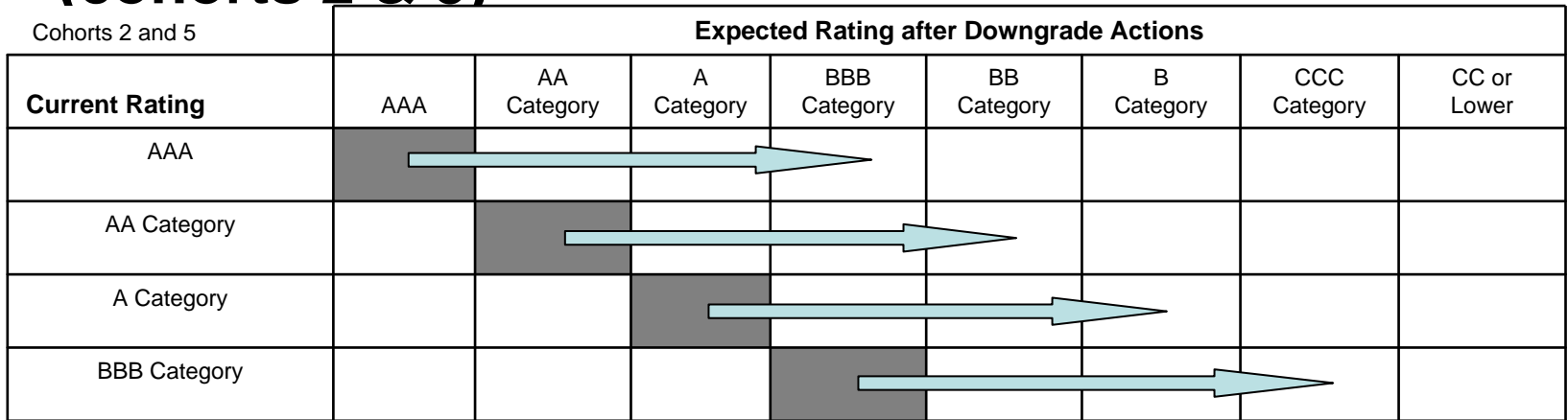
Current Rating	Expected Rating after Downgrade Actions							
	AAA	AA Category	A Category	BBB Category	BB Category	B Category	CCC Category	CC or Lower
AAA		→						
AA Category			→					
A Category				→				
BBB Category					→			

- > Higher leverage than Mezzanine SF CDOs
- > Average 46% total subprime allocation
- > Average 28% 2006 -2007 vintage exposure
- > Average 18% SF CDO allocation (includes Mezz and High Grade SF CDOs)
- > 26% of 'AAA' securities on RWN; over 70% of other securities on RWN

Pre-2006 Mezz. Subprime & High Grade SF CDOs (cohorts 2 & 5)

Cohorts 2 and 5

Current Rating	Expected Rating after Downgrade Actions							
	AAA	AA Category	A Category	BBB Category	BB Category	B Category	CCC Category	CC or Lower
AAA								
AA Category								
A Category								
BBB Category								



> Mezzanine subprime RMBS CDOs:

- Average 43% total subprime allocation and 8% 2006/7 vintage exposure
- Additional risk from earlier vintage original 'BBB' subprime RMBS
- 10% of 'AAA' securities on RWN; over 50% of other securities on RWN

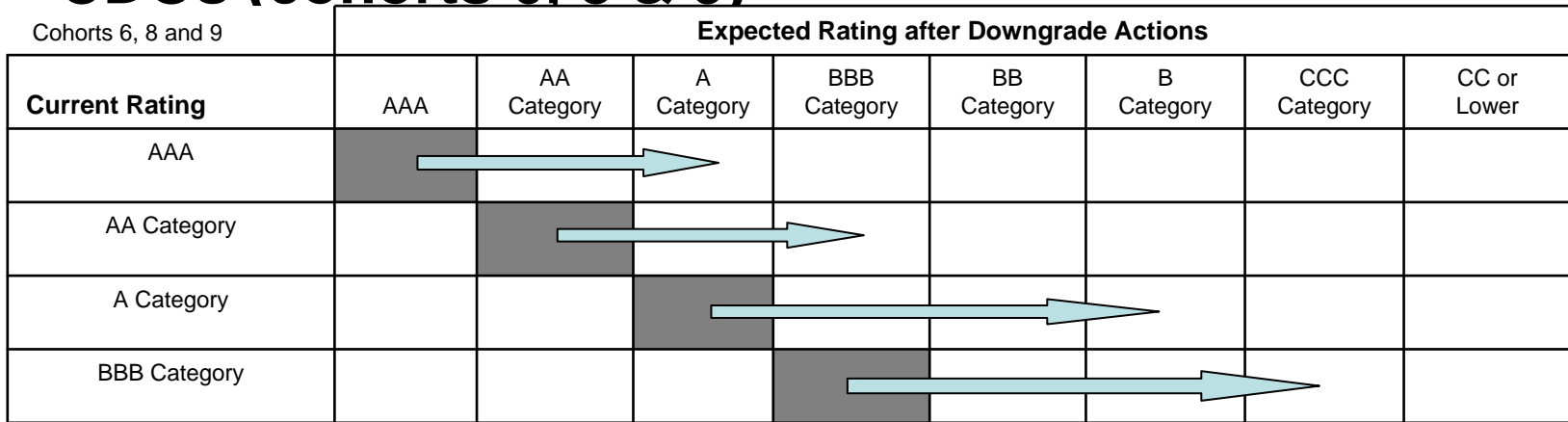
> High Grade SF CDOs:

- Average 43% total subprime allocation and 11% 2006/7 vintage exposure
- Average 14% SF CDO allocation
- 3% of 'AAA' securities on RWN

Prime/Alt-A SF CDOs, Europe & US Synthetic SF CDOs (cohorts 6, 8 & 9)

Cohorts 6, 8 and 9

Current Rating	Expected Rating after Downgrade Actions							
	AAA	AA Category	A Category	BBB Category	BB Category	B Category	CCC Category	CC or Lower
AAA								
AA Category								
A Category								
BBB Category								



- > Average subprime allocation is 15, 26 & 60%, respectively
- > Average 2006 -2007 vintage exposure is 13, 26, & 2%, respectively
- > Average SF CDO allocation is 3, 11 & 6%, respectively
- > Prime/Alt-A SF CDOs largely insulated from expected 'AAA' downgrade
- > Europe Synthetic SF CDOs 'AAA' risk limited by higher credit quality of assets
- > US Synthetic SF CDOs: 43% of 'AAA' securities on RWN but little recent vintage subprime and CDO allocations expected to limit severity

SF CDO Review

Summary and Timeline for RWN Resolution

SF CDO Review – Summary and Conclusions

- > SF CDOs are clearly underperforming, with the poorest performance highly concentrated in the most recent vintage mezzanine SF CDOs and CDO²
- > Other SF CDO performance is also expected to be poor though performance will vary more significantly based on numerous factors, including:
 - Vintage of CDO issuance
 - Sub-sector, vintage and credit quality of assets
 - Geographic region of CDO origination
 - Cash/Hybrid or Synthetic CDO execution
 - CDO structural features
- > Fitch is working hard to differentiate among SF CDOs through a prospective credit view in a rapidly evolving credit environment

SF CDO Review – Timeline

- > Week of 5 November:
 - Publication of full detailed review methodology
 - Rating action resolving RWN for all global synthetic SF CDOs
 - Rating action resolving RWN for cash/hybrid SF CDOs issued in 2007 and second half of 2006

- > Week of 12 November:
 - Rating action resolving RWN for cash/hybrid SF CDOs issued in 2005 and first half of 2006

- > Week of 19 November:
 - Rating action resolving RWN for cash/hybrid SF CDOs issued prior to 2005

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