Merrill: Synthetic SF CDO volume to skyrocket in second half Asset Securitization Report July 18, 2005

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Asset Securitization Report

July 18, 2005

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HEADLINE: Merrill: Synthetic SF CDO volume to skyrocket in second half

BYLINE: Allison Pyburn

BODY:

Synthetic structured finance CDO volume could reach $38 billion in total issuance in the second half of this year - a 483% increase over the $7 billion of issuance seen in this year's first half, according to Merrill Lynch. The investment bank is anticipating synthetic SF CDO issuance could outpace cash SF CDO issuance in the second half of the year - with a forecast of 32 cash deals in the 5Q05 and 4Q05, versus 38 synthetic.

"We expect the $11 billion of synthetic SF CBO issuance-to-date to be merely a rounding error for what is to come," Merrill analysts wrote in research released last week.

The appetite for the synthetic structures is two-pronged. First, the relatively unrestricted ability for managers to choose from a wide menu of assets, and second, a higher yield pick-up and much faster ramp-up time. And as demand fuels increased uniformity and transparency in the sector, issuance is only expected to increase, according to Merrill. However, unlike synthetic CDOs referencing corporate entities, the complexity of the new ABS counterparts is expected to bring mostly managed deals.

To date, some $11 billion notional of both funded and unfunded synthetic structured-finance CDO notes have been issued in the U.S. market, Merrill analysts wrote. The 17 deals occurred over the last year, and consisted of 11 mezzanine, three senior, and three hybrid mezzanine/senior deals. Only one of those deals was independently managed, the rest being dealer-arranged bespoke transactions, Merrill found.

The ability to reference synthetic ABS is exciting for CDO managers because of the wide range of options available to them. For example, a manager seeking triple-B rated home equity ABS could simply reference an older vintage that is free of IO and ARM loans instead of being limited to ABS available for sale, Merrill analysts wrote.

Since synthetic ABS CDO tranches are more liquid than cash deals, and because of the complexity involved in the structures, the yield pickup is higher, according to Merrill. For example, the $100 million triple-A rated A1 tranche of the recently priced synthetic mezzanine Abacus 2005-3 deal underwritten by Goldman Sachs, referencing home-equity ABS, CMBS and CDOs, priced at 55 basis points over one-month Libor. Synthetics are so far relatively cheap to fund.

For example, while the cost of cash funding on a super senior runs about 27 basis points, reinsurers and monolines charge about 12 basis points, Merrill points out, resulting in a 10 basis point spread pick-up for synthetic mezzanine deals and 13 basis points in senior deals.

But investors are being paid for taking on the complexity and risk of uncertainty with the transaction. While the ISDA's June 6 release of pay-as-you-go documentation template is expected to go a long way to provide uniformity in the sector, more innovation is expected - and needed - market participants have said. Tradable indexes for ABS and CMBS are expected by the end of this quarter, according to Merrill and other market participants.

Fitch Ratings last month identified three primary areas of concern for synthetic CDO investors - if losses on the reference portfolio exceed the tranche attachment point or credit enhancement levels built into the deal; when credit losses on the security are funded with issue proceeds; and for losses that happen when the credit default swap counterparty defaults.

For the most part, defining a credit event - a situation that would trigger a change in the payment structure of the synthetic CDO, has proved difficult when ABS is the reference obligation. The ISDA template was designed primarily for use when RMBS and CMBS securities are the reference obligation for synthetics. Merrill is anticipating the form will grow to encompass more securities than mortgage ABS, resulting in more liquidity and less complexity in the sector. For example, super-senior swap investors, so-called reinsurers, are working on a version of the template for use in full capital structure deals, added Merrill analysts. Mezzanine deals are poised to benefit most from the new documentation standards because of their increased likelihood of default.

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Fitch Rates ABACUS 2005-7, Ltd. 'AAA' Business Wire November 22, 2005 Tuesday 8:14 PM GMT

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November 22, 2005 Tuesday 8:14 PM GMT

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LENGTH: 646 words

HEADLINE: Fitch Rates ABACUS 2005-7, Ltd. 'AAA'

DATELINE: NEW YORK Nov. 22, 2005

BODY:

Fitch Ratings assigns the following rating to ABACUS 2005-7, Ltd.

-- $100,000,000 variable-leverage super senior notes, due 2046 'AAA'.

This is a leveraged super senior transaction that will issue $100 million in credit-linked notes. The note proceeds will collateralize a credit default swap with Goldman Sachs Capital Markets, L.P. (GSCM), the protection buyer, that references a static portfolio of 30 equally sized 'AAA' rated CMBS (commercial mortgage-backed securities) assets. The obligations of GSCM under the credit default swap are guaranteed by Goldman Sachs Group, Inc. (GS Group). The credit default swap synthetically transfers the credit risk on the 10%-100% portion of the reference portfolio from GSCM to the issuer with respect to credit events.

GSCM will make monthly premium payments to the issuer and in return, the issuer will cover realized losses on the reference portfolio in excess of the first loss amount of 10%. If the losses are reimbursed on a reference obligation, GSCM will pay write-down reimbursement amounts to the issuer.

The proceeds of the issuance of the notes will be invested in a pool of U.S.-dollar-denominated collateral securities, consisting of high-quality senior-most classes of obligations, maturing no later than on the stated maturity of the notes. The issuer has entered into a basis swap with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP), the basis swap counterparty. GSMMDP is jointly guaranteed by Mitsui Sumitomo Insurance Co. Ltd. and GS Group. Pursuant to the basis swap agreement, GSMMDP will pay the LIBOR portion of interest on the notes.

Additionally, the issuer has entered into a collateral put agreement with Goldman Sachs International (GSI). The obligations of GSI under the put agreement are guaranteed by GS Group. Under the collateral put agreement, GSI agrees to purchase the collateral securities at 100% of their principal amount under certain circumstances, thereby protecting the noteholders from declines in the market value of the collateral in those circumstances. The counterparty risk is mitigated through structural features that require counterparties to post collateral, obtain guarantees, or replace themselves when such counterparties no longer satisfy the criteria.

The transaction can be terminated whenever the expected losses, as defined in the documents, exceed the appropriate trigger level unless a noteholder decides to de-lever the transaction by posting additional funding. If a noteholder does not increase the funded amount of its notes or elects to exercise a noteholder optional redemption, such noteholder will be exposed to the mark-to-market risk relating to the value of the collateral and the mark-to-market termination value of the applicable portion of the credit default swap.

The rating is based upon the credit quality of the reference portfolio, the legal structure of the transaction, the financial strength of the counterparties and their guarantors, as well as on the credit quality of the trust assets. The rating assigned to the notes addresses the timely payment of interest and the ultimate payment of principal of the notes at maturity.

Fitch will monitor the performance of this transaction. Deal information and historical data on ABACUS 2005-7, Ltd. is available on the Fitch Ratings web site at www.fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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URL: http://www.businesswire.com

LOAD-DATE: November 23, 2005

Fitch Rates ABACUS 2005-CB1, Ltd. Business Wire December 8, 2005 Thursday 10:57 PM GMT

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December 8, 2005 Thursday 10:57 PM GMT

DISTRIBUTION: Business Editors

LENGTH: 857 words

HEADLINE: Fitch Rates ABACUS 2005-CB1, Ltd.

DATELINE: NEW YORK Dec. 8, 2005

BODY:

Fitch Ratings assigns the following ratings to ABACUS 2005-CB1, Ltd.

-- $132,187,500 class A-1 floating-rate notes due 2045 'AAA';

-- $22,500,000 class A-2 floating-rate notes due 2045 'AAA';

-- $22,500,000 class B floating-rate notes due 2045 'AA';

-- $23,437,500 class C floating-rate notes due 2045 'A';

-- $6,562,500 class D floating-rate notes due 2045 'A';

-- $15,000,000 class E-1 floating-rate notes due 2045 'BBB+';

-- $6,562,500 class E-2 floating-rate notes due 2045 'BBB';

-- $9,375,000 class F floating-rate notes due 2041 'BBB'.

The issuer is incorporated as a collateralized debt obligation (CDO) to issue $238.1 million of mezzanine securities in the form of funded notes. The portfolio adviser will assume exposure to the credit tranches related to the class G notes and the class H notes through an unfunded synthetic transaction. At closing, the issuer will enter into a CDS with GSCM. Through the CDS, investors in the securities will be providing the protection buyer loss protection with respect to credit events and the removal of credit risk reference obligations from the reference portfolio by the portfolio adviser. The credit default swap is guaranteed by Goldman Sachs Group, Inc. (GS Group). The scheduled termination date of the CDS is in 2045.

The issuer will receive the swap premium in return for the reimbursement of losses in the reference portfolio in excess of the class G and class H amounts. Structural protection for the securities is derived primarily from the subordination of lower rated classes to higher rated ones and the related prioritization of the cash flows. Following a credit event on a reference obligation in the portfolio or upon a removal of a credit risk reference obligation from the portfolio, a credit loss amount is determined. When the cumulative credit loss amount exceeds the class H amount, the class G

securities will be written down. If the cumulative loss amount then exceeds the class G amount, classes F, E-2, E-1, D, C, B, A-2, and A-1 will be written down, sequentially, by the loss amount up to the respective class amount.

The $750 million reference portfolio, with a weighted average rating of 'BBB/BBB-', is composed of nearly 79% RMBS, 16% CMBS, and 5% consumer ABS. The portfolio contains 82 securities, of which 94% are investment grade and 6% are rated 'BB+' or 'BB' by Fitch. During the first six months of the transaction, replacement of reference obligations from a predetermined 8% bucket of the reference portfolio could be made at the full discretion of the third-party portfolio adviser, C-BASS Investment Management LLC (C-BASS), subject to replacement criteria. Following this period, the reference portfolio will become static, subject to removals of credit risk reference obligations considered credit impaired, which can be traded at the discretion of the portfolio adviser, subject to restrictions.

The proceeds of the issuance of the notes will be invested in a pool of U.S. dollar-denominated collateral securities, consisting of high quality senior-most obligations, maturing no later than on the stated maturity of the notes. The issuer has entered into a basis swap with Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP), the basis swap counterparty. The basis swap is jointly guaranteed by Mitsui Sumitomo Insurance Co. Ltd. and GS Group. Pursuant to the basis swap agreement, GSMMDP will pay the LIBOR portion of interest on the notes. Additionally, the issuer has entered into a collateral put agreement with Goldman Sachs International (GSI), which is guaranteed by GS Group. Under the collateral put agreement, GSI agrees to purchase the collateral securities at 100% of their principal amount under certain circumstances, thereby protecting the value of the principal of the notes. The counterparty risk is mitigated through structural features that require counterparties to post collateral, obtain guarantees, or replace themselves when such counterparties no longer satisfy the criteria.

The rating is based upon the credit quality of the reference portfolio, the legal structure of the transaction, the financial strength of the counterparties and their guarantors, and the investment capabilities of the portfolio advisor, as well as on the credit quality of the trust assets. The rating assigned to the notes addresses the timely payment of interest and the ultimate payment of principal of the notes at maturity.

Fitch will monitor the performance of this transaction. Deal information and historical data on ABACUS 2005-CB1, Ltd. is available on the Fitch Ratings web site at www.fitchratings.com.

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Fitch Affirms Eight Classes of Abacus 2005-CB1 Business Wire November 17, 2006 Friday 10:25 PM GMT

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LENGTH: 412 words

HEADLINE: Fitch Affirms Eight Classes of Abacus 2005-CB1

DATELINE: CHICAGO

BODY:

Fitch affirms eight classes of notes issued by Abacus 2005-CB1, Ltd. (Abacus 2005-CB1). The following rating actions are effective immediately:

-- $132,187,500 class A-1 notes at 'AAA';

-- $22,500,000 class A-2 notes at 'AAA';

-- $22,500,000 class B notes at 'AA';

-- $23,437,500 class C notes at 'A';

-- $6,562,500 class D notes at 'A';

-- $15,000,000 class E-1 notes at 'BBB+';

-- $6,562,500 class E-2 notes at 'BBB';

-- $9,375,000 class F notes at 'BBB'.

Abacus 2005-CB1 is a synthetic collateralized debt obligation (CDO) created to enter into credit default swaps with Goldman Sachs Capital Markets synthetically referencing portfolio comprised of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and asset-backed securities (ABS).

These affirmations are a result of stable reference portfolio performance and the financial strength of the counterparties and their guarantors. Since the deal closed in December 2005 there have been no credit events in the reference portfolio. Further, Fitch's Weighted Average Rating Factor (WARF) remains stable at 'BBB'/'BBB-'.

The ratings of all classes of notes address the likelihood that investors will receive full and timely payments of interest, as per the governing documents, as well as the stated balance of principal by the legal final maturity date.

Fitch will continue to monitor and review this transaction for future rating

adjustments. Additional deal information and historical data are available on the Fitch's web site at www.derivativefitch.com. For more information on the Fitch Default VECTOR Model, see 'Global Rating Criteria for Collateralised Debt Obligations,' dated Oct. 4, 2006, also available on Fitch's web site.

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December 21, 2006 Thursday 6:31 PM GMT

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HEADLINE: Fitch Assigns Final Ratings to ABACUS 2006-17

DATELINE: NEW YORK

BODY:

Fitch rates the ABACUS 2006-17, Ltd. floating-rate notes as follows:

--$66,000,000 class A-1 due 2041 'AAA'

--$72,000,000 class A-2 due 2047 'AAA'

--$24,000,000 class B due 2045 'AA+'

--$16,500,000 class C due 2047 'AA'

--$10,020,000 class D due 2047 'AA-'

--$13,500,000 class E due 2047 'A+'

--$4,200,000 class F due 2047 'A'

--$7,260,000 class G due 2047 'A-'

--$12,780,000 class H due 2047 'BBB+'

--$8,760,000 class J due 2047 'BBB'

--$9,480,000 class K due 2047 'BBB-'

--$6,000,000 class L due 2047 'BB+'

--$4,500,000 class M due 2047 'BB'

--$3,000,000 class N due 2047 'BB-'

--$1,500,000 class O due 2047 'B+'

--$750,000 class P due 2047 'B'

--$750,000 class Q due 2047 'B-'

ABACUS 2006-17, Ltd. is a static synthetic collateralized debt obligation (CDO) transaction that references a USD600 million portfolio of commercial mortgage-backed securities (CMBS) and commercial real estate (CRE) CDO securities.

The ratings are based upon the credit quality of the reference portfolio, the legal structure of the transaction, the financial strength of the counterparties and their guarantors, as well as the credit quality of the collateral assets. The rating assigned to the notes addresses the timely payment of interest and the ultimate payment of principal of the notes at maturity.

Fitch will monitor the performance of this transaction. Deal information and historical data on ABACUS 2006-17, Ltd. is available on the Derivative Fitch web site at www.derivativefitch.com.

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December 29, 2006 Friday 7:30 PM GMT

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HEADLINE: Fitch Affirms ABACUS 2005-7

DATELINE: NEW YORK

BODY:

Fitch affirms two classes of notes issued by ABACUS 2005-7. These affirmations are the result of Fitch's review process and are effective immediately:

--$100,000,000 variable leverage super senior notes at 'AAA';

--$30,000,000 variable leverage super senior notes series 2 at 'AAA'.

ABACUS 2005-7 is a leveraged super senior transaction that has issued $130 million in credit linked notes. The note proceeds collateralize a credit default swap with Goldman Sachs Capital Markets, L.P. (GSCM), the protection buyer, that references a $6 billion static portfolio of 30 'AAA' rated commercial mortgage-backed security (CMBS) assets. The obligations of GSCM under the credit default swap are guaranteed by Goldman Sachs Group, Inc. (GS Group). The credit default swap synthetically transfers credit risk on the portion of the $6 billion reference portfolio from GSCM to the issuer with respect to credit events.

The ratings are based upon the credit quality of the reference portfolio, the legal structure of the transaction, the financial strength of the counterparties and their guarantors, as well as the credit quality of the trust assets. There have been no credit events since the deal's inception. In addition, ratings have remained stable while spreads have tightened. The ratings assigned to the notes address the timely payment of interest and the ultimate payment of principal of the notes at maturity.

Fitch will continue to monitor and review this transaction for future rating adjustments. Additional deal information and historical data are available on the Derivative Fitch web site at www.derivativefitch.com. For more information on the Fitch VECTOR Model, see 'Global Rating Criteria for Collateralised Debt Obligations,' dated Oct. 4, 2006 and also available at www.derivativefitch.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.derivativefitch.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site. Fitch means Fitch, Inc., Fitch Ratings, Ltd. and their subsidiaries including Derivative Fitch, Inc. and Derivative Fitch Ltd. and any successor or successors

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Synthetic CDOs in Europe and Downgrades Injure ABS CDOs Asset Securitization Report October 22, 2007

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Asset Securitization Report

October 22, 2007

LENGTH: 1106 words

HEADLINE: Synthetic CDOs in Europe and Downgrades Injure ABS CDOs

BYLINE: Gabrielle Stein

BODY:

New issuance in the U.S. CDO market remains dormant amid continued ratings instability. But the center of gravity seems to be moving east for CDOs as an increasing number of transactions are popping up overseas, particularly synthetic structures.

Across the pond, Calyon is arranging a 100 million ($142 million) synthetic CDO to be fully managed by M&G Investment Management under the name Ocelot III. The Bank of New York in London will be the trustee on the deal. The transaction will reference corporations, including long positions on 135 unequally weighted names with a 10% bucket to buy short protection on corporate names, according to a presale report from Moody's Investors Service. The highest concentration of names in the portfolio is expected to be in banking, followed by insurance, oil and gas, telecommunications, chemicals, plastics and rubber, and utilities. The majority of these names will come from the U.S. and Western Europe, Standard & Poor's said in a presale report. The notes will pay a quarterly coupon of three-month Euribor plus a margin, S&P said. The transaction is set to close this month.

Another synthetic CDO deal launching overseas comes from London-based New Bond Street Asset Management, according to a market source. The deal is the latest in the firm's Piccadilly series and will reference 120 companies. Italian investment bank UniCredit is arranging the transaction, which is expected to exceed 150 million and close in November, a source said. Calls to New Bond Street and UniCredit were not returned by press time.

Quiet On the Western Front

Meanwhile, the already stagnant U.S. ABS CDO market has been blanketed by yet another round of downgrades, confirming expectations of additional collateral losses in the sector. One market participant even questioned whether this was the end of the ABS CDO market altogether.

On the heels of Moody's recent downgrade of $33.4 billion of securities issued in 2006 that are backed by first-lien subprime mortgages, Standard & Poor's last week lowered the ratings on 402 first-lien U.S. subprime RMBS classes, totaling $4.6 billion, from the first quarter through the third quarter of 2005.

Last week, S&P also downgraded 1713 classes of U.S. RMBS backed by first-lien subprime mortgage loans, first-lien Alt-A loans, and closed-end second liens that were issued between Jan. 1, 2007 and June 30, 2007. The downgrades amounted to $23.35 billion. Thirty-nine AAA' rated securities were slashed, though no rating waslowered below A'.

In addition, S&P placed on CreditWatch negative the ratings on 646 other classes of U.S. RMBS backed by first-lien subprime loans and first-lien Alt-A loans issued during the same period, representing $3.3 billion.

Some segments of the CDO market, however, continue to see interest. "As long as people have money to invest, there will be structures to invest in," said Mark Ellenberg, partner in the financial restructuring group at Cadwalader, Wickersham and Taft.

Deals currently hanging on include emerging market CDOs, CRE CDOs and straightforward managed cash-flow CLOs, according to a CDO market participant, who felt that the simpler structures were beneficial to the shaky market. "Vanilla is a good flavor," another market participant added, in reference to the potential for more transparent vehicles in the future.

Indeed, with lack of trust in the rating agencies, investors appear to want more straightforward, "analyzable" structures that they can decode themselves, instead of relying on the rating agencies for due diligence. "When times were good, you took comfort in the triple-A' rating, even if the transactions were a bit more complex. Now a triple-A' rating is getting more scrutiny," said Richard Schetman, partner in the capital markets group at Cadwalader.

For now, deals that have been shelved include ABS CDOs and high-grade structured finance CDOs with 1% equity, according to market sources, who had little to no expectations of a comeback anytime soon, especially in light of the continued RMBS downgrades.

High-grade structured finance CDOs hit by previous downgrades were made up almost entirely of SIV-lite or market-value transactions, such as Solent Capital Partner's Mainsail transaction, a SIV-lite structure that was forced to unwind last month, and TCW Asset Management's Westways deal, a market-value CDO that also liquidated last month, JPMorgan noted in a recent report. The bank noted that high-grade structured finance market-value CDOs have been downgraded 12 notches on average.

And analysts expected more bad news to come. "We reiterate that CDO downgrades have just begun, in number and severity," the JPMorgan report said, addressing the possibility that the market could see AAAs' and AAs' fall to the BBB' and BB' area, and single-As' through BBs' fall to the single-B' to CCC' area. Indeed, if the housing downturn exceeds the 10.4% peak-to-trough HPA assumed by Moody's, ratings would have to be re-evaluated, the JPMorgan analysts said, which they thought likely.

Others agreed. How can anyone expect "there is a low probability that cumulative house price declines will not exceed 10.4% from peak-to-trough, [when they have] already declined by 3.9% through July, and 10.4% is set to be in striking distance by the end of the year," Christian Stracke, analyst at independent credit research firm CreditSights, said in a report. Even if Moody's revised assumption about the decline in house prices from peak-to-trough proves correct, he would still expect the market to continue to "put

little faith in the Aaa' and Aa' ratings that depend so much on such a tenuous forecast."

Among the transactions hit hardest by agency downgrades thus far was Abacus 2007, arranged by ACA Management, which had 84% of its total RMBS collateral downgraded. Around the time of the downgrades, Laura Schwartz, who was senior managing director of ACA Capital and chief operating officer of ACA Management and was responsible for the company's CDO asset management platform, left the firm, according to market sources (see Whispers pg. 5).

Adams Square Funding I and II, arranged by Credit Suisse Alternative Capital, had 79% and 64% of its total RMBS collateral downgraded. Octonion CDO, arranged by Harding Advisory, had 80% of its RMBS collateral downgraded, and TABS 2006-5 and TABS 2006-6, arranged by Tricadia CDO Management, had 72% and 76% downgraded, respectively. All of the transactions were issued in the second half of 2006 or the first half of 2007.

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Fitch Downgrades $238MM from Abacus 2005-CB1, Ltd. Business Wire July 17, 2008 Thursday 9:52 PM GMT

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HEADLINE: Fitch Downgrades $238MM from Abacus 2005-CB1, Ltd.

DATELINE: NEW YORK

BODY:

Fitch has downgraded and removed from Rating Watch Negative eight classes of notes issued by Abacus 2005-CB1, Ltd (Abacus 2005-CB1). The following rating actions are effective immediately:

--$132,187,500 Class A-1 to 'CCC' from 'A-';

--$22,500,000 Class A-2 to 'CCC' from 'BBB+';

--$22,500,000 Class B to 'CC' from 'BBB';

--$23,437,500 Class C to 'CC' from 'BBB-';

--$6,562,500 Class D to 'CC' from 'BBB-';

--$15,000,000 Class E-1 to 'CC' from 'BB+';

--$6,562,500 Class E-2 to 'CC' from 'BB';

--$9,375,000 Class F to 'CC' from 'BB-'.

Abacus 2005-CB1 is a synthetic collateralized debt obligation (CDO) that closed on Dec. 7, 2005 created to enter into credit default swaps with Goldman Sachs Capital Markets. Abacus 2005-CB1's synthetically referenced portfolio is comprised primarily of subprime RMBS bonds (72.7%), CMBS (20.5%) and other structured finance assets. Subprime RMBS bonds of the 2005 vintage account for approximately 48.7% of the portfolio.

Fitch's rating actions reflect the significant collateral deterioration within the portfolio, specifically subprime RMBS. Since the last rating action in November 2007, approximately 52.8% of the portfolio has been downgraded, with 6.3% of the portfolio currently on Rating Watch Negative. This credit deterioration exceeded Fitch's assumed credit migration from the November 2007 review whereby 48.0% of the assets in the portfolio now carry a rating below the rating Fitch assumed in November 2007. Consistent with the current ratings, Fitch expects the A-1 and A-2 notes to experience a higher recovery than that of the other rated notes.

All classes of notes are removed from Rating Watch as Fitch believes further negative migration in the portfolio will have a lesser impact on the notes. Additionally, Fitch is reviewing its SF CDO approach and will comment separately on any changes and potential rating impact at a later date.

The ratings of all classes of notes address the likelihood that investors will receive full and timely payments of interest, as per the transaction's governing documents, as well as the stated balance of principal by the legal final maturity date.

Fitch will continue to monitor and review this transaction for future rating adjustments. Additional transaction information and historical data are available on the Fitch Ratings web site atwww.fitchratings.com.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site,www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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AIG faces $10 billion in losses on bad bets The Associated Press December 10, 2008 Wednesday

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HEADLINE: AIG faces $10 billion in losses on bad bets

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BODY:

American International Group Inc. owes Wall Street's biggest firms about $10 billion for speculative trades that have soured, according to people familiar with the matter, underscoring the challenges the insurer faces as it seeks to recover under a U.S. government rescue plan.

The details of the trades go beyond what AIG has explained to investors about the nature of its risk-taking operations, which led to the firm's near-collapse in September. In the past, AIG has said that its trades involved helping financial institutions and counterparties insure their securities holdings. The speculative trades, engineered by the insurer's financial-products unit, represent the first sign that AIG may have been gambling with its own capital.

The soured trades and the amount lost on them haven't been explicitly detailed before. In a recent quarterly filing, AIG does note exposure to speculative bets without going into detail. An AIG spokesman characterizes the trades not as speculative bets but as "credit protection instruments." He said that exposure has been fully disclosed and amounts to less than $10 billion of AIG's $71.6 billion exposure to derivative contracts on debt pools known as collateralized debt obligations as of Sept. 30.

AIG's financial-products unit, operating more like a Wall Street trading firm than a conservative insurer selling protection against defaults on seemingly low-risk securities, put billions of dollars of the company's money at risk through speculative bets on the direction of pools of mortgage assets and corporate debt. AIG now finds itself in a position of having to raise funds to pay off its partners.

The fresh $10 billion bill is particularly challenging because the terms of the current $150 billion rescue package for AIG don't cover those debts. The structure of the soured deals raises questions about how the insurer will raise the funds to pay the debts. The Federal Reserve, which lent AIG billions of dollars to stay afloat, has no immediate plans to help AIG pay off the speculative trades.

The outstanding $10 billion bill is in addition to the tens of billions of

taxpayer money that AIG has paid out over the past 16 months in collateral to Goldman Sachs Group Inc. and other trading partners on trades called credit-default swaps. These instruments required AIG to insure trading partners, known on Wall Street as counterparties, against any losses in their holdings of securities backed by pools of mortgages and other assets. With the value of those mortgage holdings plunging in the past year and increasing the risk of default, AIG has been required to put up additional collateral often cash payments.

AIG's problem: The rescue plan calls for a company funded largely by the Federal Reserve to buy about $65 billion in troubled CDO securities underlying the credit-default swaps that AIG had written, so as to free AIG from its obligations under those contracts. But there are no actual securities backing the speculative positions that the insurer is losing money on. Instead, these bets were made on the performance of pools of mortgage assets and corporate debt, and AIG now finds itself in a position of having to raise funds to pay off its partners because those assets have fallen significantly in value.

The Fed first stepped in to rescue AIG in mid-September with an $85 billion loan when the collateral demands from banks and losses from other investments threatened to send the firm into bankruptcy court. A bankruptcy filing would have created losses and problems for financial institutions and policyholders all over the world that were relying AIG to insure them against the unexpected.

By November, AIG had used up a large chunk of the government money it had borrowed to meet counterparties' collateral calls and began to look like it would have difficulty repaying the loan. On Nov. 10 the government stepped in again with a revised bailout package. This time, the Treasury said it would pump $40 billion of capital into AIG in exchange for interest payments and proceeds of any asset sales, while the Fed agreed to lend as much as $30 billion to finance the purchases of AIG-insured CDOs at market prices.

The $10 billion in other IOUs stems from market wagers that weren't contracts to protect securities held by banks or other investors against default. Rather, they are from AIG's exposures to speculative investments, which were essentially bets on the performance of bundles of derivatives linked to subprime mortgages, commercial real-estate bonds and corporate bonds.

These bets aren't covered by the pool to buy troubled securities, and many of these bets have lost value during the past few weeks, triggering more collateral calls from its counterparties. Some of AIG's speculative bets were tied to a group of collateralized debt obligations named "Abacus," created by Goldman Sachs.

The Abacus deals were investment portfolios designed to track the values of derivatives linked to billions of dollars in residential mortgage debt. In what amounted to a side bet on the value of these holdings, AIG agreed to pay Goldman if the mortgage debt declined in value and would receive money if it rose.

As part of the revamped bailout package, the Fed and AIG formed a new company, Maiden Lane III, to purchase CDOs with a principal value of $65 billion on which AIG had written credit-default-swap protection. These CDOs currently are worth less than half their original values and had been responsible for the bulk of AIG's troubles and collateral payments through

early November.

Fed officials believed that purchasing the underlying securities from AIG's counterparties would relieve the insurer of the financial stress if it had to continue making collateral payments. The plan has resulted in banks in North America and Europe emerging as winners: They have kept the collateral they previously received from AIG and received the rest of the securities' value in the form of cash from Maiden Lane III.

The government's rescue of AIG helped prevent many of its policyholders and counterparties from incurring immediate losses on those traditional insurance contracts. It also has been a double boon to banks and financial institutions that specifically bought protection on now shaky mortgage securities and are effectively being made whole on those positions by AIG and the Federal Reserve.

Some $19 billion of those payouts were made to two dozen counterparties just between the time AIG first received federal government assistance in mid-September and early November when the government had to step in again, according to a confidential document and people familiar with the matter. Nearly three-quarters of that went to French bank Societe Generale SA, Goldman, Deutsche Bank AG, Credit Agricole SA's Calyon investment-banking unit, and Merrill Lynch & Co. Societe Generale, Calyon and Merrill declined to comment. A Goldman spokesman says the firm's exposure to AIG is "immaterial" and its positions are supported by collateral.

As of Nov. 25, Maiden Lane III had acquired CDOs with an original value of $46.1 billion from AIG's counterparties and had entered into agreements to purchase $7.4 billion more. It is still in talks over $11.2 billion.

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CDO forced liquidation has begun

The media is not giving this issue the very critical attention that it deserves.

Excerpt from Wall Street Journal article as of today:

Adams Square Funding I, a mortgage-related investment vehicle battered by rising defaults among subprime borrowers, is being FORCED INTO LIQUIDATION.

online.wsj.com/page/2_0133.html

The CDO forced liquidation is triggered by rating downgrades on the underlying MBS collateral. Watch out for these MBS downgrades.

2nd excerpt:

On the heels of Moody's recent downgrade of $33.4 billion of securities issued in 2006 that are backed by first-lien subprime mortgages, Standard & Poor's last week lowered the ratings on 402 first-lien U.S. subprime RMBS classes, totaling $4.6 billion, from the first quarter through the third quarter of 2005.

Last week, S&P also downgraded 1713 classes of U.S. RMBS backed by first-lien subprime mortgage loans, first-lien Alt-A loans, and closed-end second liens that were issued between Jan. 1, 2007 and June 30, 2007. The downgrades amounted to $23.35 billion. Thirty-nine AAA' rated securities were slashed, though no rating waslowered below A'.

Among the transactions hit hardest by agency downgrades thus far was Abacus 2007, arranged by ACA Management, which had 84% of its total RMBS collateral downgraded.

ADAMS SQUARE FUNDING I AND II, arranged by Credit Suisse Alternative Capital, HAD 79% AND 64% OF ITS TOTAL RMBS COLLATERAL DOWNGRADED.

Octonion CDO, arranged by Harding Advisory, had 80% of its RMBS collateral downgraded, and TABS 2006-5 and TABS 2006-6, arranged by Tricadia CDO Management, had 72% and 76% downgraded, respectively.

http://forum.globalhousepricecrash.com/index.php?s=cc27f66d4138c7b3c2681d3b1d872a72&showtopic=23785