From: Ghetti, Belinda
Sent: Saturday, December 16, 2006 9:33 AM
To: Billick, Nicole; Meyer, Chris
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

Yes, drill down approach seems to be reasonable, the more I think about it. I guess we can run some numbers and see if it makes sense. Left a message for Lapo see what he says.

Chris: for your BoA deal, they seem to be passing pik stresses but only with fix cap. Variable cap fails everything up to the A-2. They may think about putting a pct limitation for pikable CDO. In any case, I think I can offer them the fix cap solution. I will then send them the language of the implied write down January.

Both of you, have a good weekend.

-----Original Message-----
From: Billick, Nicole
Sent: Saturday, December 16, 2006 01:01 AM Eastern Standard Time
To: Meyer, Chris; Ghetti, Belinda
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

glad my cdo^2 problems are amusing mr. meyers :)

I'm back to the mindset now that we should be able to drill down & pop in the ~100 abacus portfolio assets into the overall portfolio papa portfolio of ~99 names. I think drill down should work as long as you mark each abacus asset as 'cdo1' and put in the BBB attachment & detachment point. running abacus originally w/AAA vs BBB recoveries was to determine that magic attachment point, so now that that is done, I think it is ok if each of the baby abacus assets receive the liability/tiered recovery rate wrt the respective liability of the new overall CDO at hand bc at the end of the day that is what we are looking at....(did that make sense?) so I agree w/Chris that the backed out/implied recovery of the BBB baby abacus tranche would probably be zero here in the AAA liability scenario of this new portfolio/deal I'm rating....which also means in the B environment the sucker should look a bit better....

this also makes me think that the baby abacus assets should be run w/the same Pd tables as the new overlying CDO, i.e., so if abacus was run w/stressed/harsher Pds but my overall new CDO is run at normal

3.2, I think the baby abacus assets should also be run at the normal 3.2 level (same rationale as above).

I almost hate to ask bc i've been ignoring the this whole coming of the new year....but are we seriously doing away w/2.4.3 even for CMBS portfolios? (even if CMBS group still uses it???)

to Chris's point - if the baby abacus assets are composed of synthetic CDOs - then is a bigger nightmare that i do not want to think about right now....but technically you could keep going & going. This all makes me wonder if this is truly worth it - my portfolio also references Cobalt III (almost pure synthetic, but cash modeled - hybrid) as well - to me this BBB asset is sooo lucky to get a 30% recovery in a AAA scenario!!! do not see why it deserves a higher recovery over abacus....

ok, i'm going to sleep now (I know, finally), but the above just hit me - we'll see what I think after some solid shut eye.

-----Original Message-----
From: Meyer, Chris
Sent: Friday, December 15, 2006 8:31 PM
To: Ghetti, Belinda; Billick, Nicole
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

So, in thinking about Nicole's CDO of CDO problem (hee, hee), it seems reasonable (to me anyways) to tier recoveries on single tranche CLNs (or single tranche swaps). Doesn't it make sense that a BBB synthetic would likely have a zero recovery in a AAA scenario - depending on tranche thickness?

When the required subordination for the BBB tranche was determined, we modeled the recoveries of the assets given a BBB scenario (indicating the severity of loss in a BBB economic environment given the position of the asset in the capital structure). If we run the recovery model with the AAA recoveries, it stands to reason that the tranche would fail...since there would be lower recoveries and presumably a higher degree of defaults. Essentially, I'm wondering whether my initial feeling that a drill down approach on synthetics would not work is false. BUT are there any knock-on effects if the synthetic itself had synthetics in its portfolio? Rating agencies continue to create and even bigger monster -- the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters. :o)

-----Original Message-----
From: Ghetti, Belinda
Sent: Friday, December 15, 2006 07:08 PM Eastern Standard Time
To: Meyer, Chris; Billick, Nicole
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

When you have time, can you send over the disclosure language for variable notes.

-----Original Message-----
From: Meyer, Chris
Sent: Friday, December 15, 2006 6:33 PM
To: Billick, Nicole; Ghetti, Belinda
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

Ghetti...can you send her the link and instructions. Otherwise, I'll send when I log on from DC later tonight.

-----Original Message-----
From: Billick, Nicole
Sent: Friday, December 15, 2006 06:08 PM Eastern Standard Time

To: Meyer, Chris; Ghetti, Belinda
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

Thanks Chris.

One Q: to use the recovery calc (I've never done before...& need to run Farooq's abacus pool now...) - where do you get the beta version of Evaluator from? thx! Nicole

Nicole J. Billick
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-----Original Message-----
From: Meyer, Chris
Sent: Friday, December 15, 2006 5:27 PM
To: Ghetti, Belinda; Billick, Nicole
Subject: Synthetic CDO^2 of ABS (both Cash and Synthetic)

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