

From: Chang, Yu-Tsung
Sent: Tuesday, May 25, 2004 12:08 PM
To: Rose, Joanne; Jordan, Pat
Subject: Competition with Moody's

Joanne/Pat,
I was hoping I can get your thoughts on this.

We just lost a huge Mizuho RMBS deal to Moody's due to a huge difference in the required credit support level. It's a deal that six analysts worked through Golden Week so it especially hurts. What we found from the arranger was that our support level was at least 10% higher than Moody's. The arranger told us the breakdown of the support levels and we found that Moody's analysis of commingling risk and interest rate risk (30 year floaters but a significant majority of the mortgages could convert into fixed rate causing serious negative carry risk) were that those two risks did not require any credit support. Based on arranger's feedback, we suspect that because Mizuho is a mega bank, they ignored commingling risk and for interest rate risk, they took a stance that if interest rate rises, they'll just downgrade the deal.

Losing one or even several deals due to criteria issues, but this is so significant that it could have an impact in the future deals. There's no way we can get back on this one but we need to address this now in preparation for the future deals.

I had a discussion with the team leaders here and we think that the only way to

complete is to have a paradigm shift in thinking, especially with the interest rate risk. Perhaps sizing for interest rate risk for the next 3-5 years only but take a stance that we need to downgrade if interest rate rises beyond what is reasonable for the next 3-5 years.

In any case, I'm interested in your thoughts as to how to address this problem, and whether it is something I should work with Tommy on the criteria issues.