United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Homeland Security and Governmental Affairs

Carl Levin, Chairman
Tom Coburn, Ranking Minority Member

E X H I B I T S

Hearing On

WALL STREET AND THE FINANCIAL CRISIS: THE ROLE OF CREDIT RATING AGENCIES

April 23, 2010

199 Russell Senate Office Building, Washington, D.C. 20510

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1. a. Memorandum from Permanent Subcommittee on Investigations Chairman Carl Levin and Ranking Minority Member Tom Coburn to the Members of the Subcommittee.
   b. *Excerpts from Documents Related to Credit Rating Agencies: Competitive Pressures Affecting Ratings*, chart prepared by the Permanent Subcommittee on Investigations.
   c. *Excerpts from Documents Related to Credit Rating Agencies: Ratings Methodology*, chart prepared by the Permanent Subcommittee on Investigations.
   d. *Excerpts from Documents Related to Credit Rating Agencies: Deteriorating Subprime Mortgages*, chart prepared by the Permanent Subcommittee on Investigations.
   e. *Excerpts from Documents Related to Credit Rating Agencies: Grandfathering*, chart prepared by the Permanent Subcommittee on Investigations.
   f. *Excerpts from Documents Related to Credit Rating Agencies: Chronic Resource Shortages*, chart prepared by the Permanent Subcommittee on Investigations.
   g. *Revenue of the Three Credit Rating Agencies: 2002-2007.* Source: this matter.com/money.
   h. *2006 Originations and RMBS Issuance.* Source: Standard & Poor's Rating Services, US. Residential Mortgage Subprime Market, March 29, 2007.
   i. *Percent of the Original AAA Universe Currently Rated Below Investment Grade.* Source: Blackrock Solutions as of February 8, 2010. Prepared by the Permanent Subcommittee on Investigations.
   j. *Estimation of Housing Bubble: Comparison of Recent Appreciation vs. Historical Trends*, chart prepared by Paulson & Co, Inc.
   k. *Biggest Clients of the Credit Rating Agencies.* Source: Anna Katherine Barnett-Hart, "The Story of the CDO market Meltdown," March 2009.
   l. *Cash Flow & Hybrid Mezzanine SF CDOs of ABS: Exposure to Subprime RMBS Collateral by Cohort.* Source: Standard & Poor's, "Overview and Impact of the Residential Subprime Market," March 2007.
   m. *Typical Structure of a Residential Mortgage Back Security*. Source: Standard & Poor's data. Prepared by the Permanent Subcommittee on Investigations.

<u>Documents Related to Competitive Pressures Affecting Ratings</u>:

Standard & Poor's Documents:

2. Standard & Poor's internal email, dated May 2004, re: *Competition with Moody's (We just lost a huge Mizuho RMBS deal to Moody's .... * * * 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.).*

3. Standard & Poor's internal email, dated August 2004, re: *SF CIA: CDO methodology invokes reaction (We are meeting with your group this week to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals. *** Lose the CDO and lose the base business - a self reinforcing loop.).*

4. Standard & Poor's internal email, dated November 2004, re: *APB Meeting - Nov 4 (I think the criteria process must include appropriate testing and feedback from the marketplace.).*

5. Standard & Poor's internal email, dated March 2005, re: *LEVELS 5.6(c) (Version 6.0 could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share. *** We have known for some time (based upon pool level data and LEVELS 6.0 testing that - Subprime: B and BB levels need to be raised; ALT A: B, BB and BBB levels need to be raised (we have had a disproportionate number of downgrades.).*

6. Standard & Poor's internal email, dated June 2005, re: *Privileged Criteria Deliberations: CWHEQ 2005-C (Why these questions come up every month is obvious – issuers don't like the outcome. However, the right thing to do is to educate all the issuers and bankers and make it clear that these are the criteria and that they are not-negotiable. If this is clearly communicated to all then there should be no monthly questions. *** Screwing with criteria to "get the deal" is putting the entire S&P franchise at risk – it's a bad idea.).*

7. Standard & Poor's internal email, dated February 2006, re: *EMC Compares (I don't think this is enough to satisfy them. What's the next step?).*

8. Standard & Poor's internal email, dated February 2006, re: *comstock (If our current structure, which we have been marketing to investors and the mgr, (and which we have been doing prior to the release of the beta cash flow assumptions) doesn't work under the new assumptions, this will not be good. Happy to comply, if we pass, but will ask for an exception if we fail...).*

9. Standard & Poor's internal email, dated May 2006, re: ****Privileged & Confidential Committee Deliberations **** - Madaket Funding (I submit for your consideration the banker's argument to waive the one failing run.).*

10. a. Standard & Poor's internal email, dated May 2006, re: *Broadwick Funding (It was a known flaw not only in that particular ABACUS trade, but in pretty much all ABACUS trades ....).*
    b. Standard & Poor's internal email, dated April 2006, re: *ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity (don't even get me started on the language he cites...which is one of the reasons I said the counterparty criteria is totally messed up.).*
    c. Standard & Poor's internal email, dated May 2005, re: *Adirondack CDO (...this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients.).*

11. Standard & Poor's internal email, dated May 2006, re: *Confidential - Criteria Changes in LEVELS 5.7 (We certainly did intend to do anything to bump us off a significant amount of deals. *** [H]eard your ratings could be 5 notches bank of moddys* [sic] *equivalent.* [G]*onna kill your resi biz.).*

12. Standard & Poor's internal email, June 2006, re: *question on impacts to CDOs (We assume this scenario to be negative for the corporate business because Moody's will be giving out higher ratings on secured loans so issuers will be less likely to ask for an S&P rating on the issue.).*

13. Standard & Poor's internal email, dated August 2006, re: *Can you call me? Have left you numerous messages (How many millions does Morgan Stanley pay us in the greater scheme of things? How many times have I accommodated you on tight deals?).*

14. Standard & Poor's internal email, dated August 2006, re: *Loss severity vs gross/net proceeds (They've become so beholden to their top issuers for revenue they have all developed a kind of Stockholm syndrome which they mistakenly tag as Customer Value creation ....).*

Moody's Documents:

15. Moody's internal email, dated December 2003, re: Noel Kirnon *(The Derivatives teams has achieved a year to date 96% market share compared to a target share of 95%.).*

16. Moody's internal email, dated January 2006, re: *BES and PEs (Top Achievements in '05: 1. Protected our market share in the CDO corporate cash-flow sector ....).*

17. Moody's internal email, dated April 2006, re: *Jay Siegel Exit Interview (He described RMBS as the worst team to work on at Moody's. It is difficult to maintain market share in a market that has become commoditized and where Moody's expected loss analysis means higher costfor issuers.).*

18. Moody's internal email, dated April 2006, re: ***MGIC Home Re 2006-1 Committee#3** (At this point, I would feel comfortable keeping the previously committeed levels since such a large adjustment would be hard to explain to Bear ....).*

19. Moody's internal email, dated May 2006, re: *Magnolia 2006-5 Class Ds (I am worried that we are not able to given these complicated deals the attention they really deserve and that they (CS) are taking advantage of the "light" review and the growing sense of "precedent.").*

20. Moody's internal email, dated October 2006, re: *managing expectations: 2 different stories (I mention this to reinforce the expectation that concessions we make in the interest of getting the deal(s) rated will be used against us.).*

21. Moody's internal email, dated December 2006, re: *legal points outstanding (Have been speaking to Plamen and my feeling is that the only way we'll maybe get Taberna to agree to the covenants is if you rate down to Aa2 on the B Notes at the same levels as the other agencies.).*

22. Moody's internal email, dated March 2007, re: *DQ Hit for Jake's ACE Deal (I just spoke with Sue Valenti at Deutsche regarding this deal and she is resisting the changes to the LC levels. She is pushing back dearly saying that the deal has been marketed already and that we came back "too late" ....).*

23. Moody's internal email, dated June 2007, re: *Rating application for Belden Point CDO (We are okay with the revised fee schedule for this transaction . We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try to get to some middle ground with respect to the ratings.).*

24. a. Moody's internal email, dated October 2007, re: *3Q Market Coverage-CDO (Market share by deal count dropped to 94%, though by volume it's 97%. It's lower than the 98+% in prior quarters. Any reason for concern, are issuers being more selective to control costs (is Fitch cheaper?) or is it an aberration.).*
    b. Moody's 's internal email, dated October 2007, attached copy of Moody's internal memorandum, *Credit Policy issues at Mood's suggested by the subprime/liquidity crisis,* prepared by the Moody's Chief Risk Officer.

Documents Related to Ratings Methodology:

Standard & Poor's Documents:

25. Standard & Poor's internal email, dated March 2005, re: *Wachovia Report Cites Questions Of S&P Integrity (I would like to discuss how we plan on ultimately "spinning" our revised correlation assumptions ....).*

26. Standard & Poor's internal email, dated May 2006, re: *an error in the new correlation assumptions? (I have already brought this issue up and it was decided that it would be changed in the future.).*

27. Standard & Poor's internal email, dated December 2006, re: *Synthetic CDO^2 of ABS (both Cash and Synthetic) (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).*

28. Standard & Poor's internal email, dated January 2007, re: *Summary of Conference Call (Can anyone give me a crash course not he "hidden risks in CDO's of RMBS"?).*

29. Standard & Poor's internal email, dated March 2007, re: *Proposed plan for review of criteria (This is because our published criteria as it currently stands is a bit too unwieldy and all over the map in terms of being current or comprehensive. ...our SF rating approach is inherently flexible and subjective, while much of our written criteria is detailed and prescriptive.).*

30. a. Standard & Poor's instant message, dated April 2007, re: *Imlogic IMManager conversation export (we rate every deal ... it could be structured by cows and we would rate it).*
    b. Standard & Poor's instant message, dated May 2007, re: *Imlogic IMManager conversation export (no body gives a straight answer about anything around here anyway *** how about we come out with new criteria or a new stress and actually have clear cut parameters on what the hell we are supposed to do).*

31. Standard & Poor's internal email, dated May 2007, re: *Modelling of some spread compression on Static CDOs (...the cash-flow criteria from 2004 ... actually states that...in the usual vague S&P's way .... Still, consistency is key for me and if we decide we do not need that, fine but I would recommend we do something. Unless we have too many deals in US where this could hurt.).*

32. Standard & Poor's internal email, dated July 2007, re: *Weekly RMBS/CDO Surveillance performance update (It remains to been seen if S&P is really prepared to witness drastic rating actions, just to avoid the slower "notching" process and public criticism.).*

33. Standard & Poor's internal email, dated September 2007, re: *SIFMA Rating Agency Panel October 4 (I have tried to stay away from underlying rating performance and place the issue more on the newness of the underwriting standards that defied all common sense.).*

34. Standard & Poor's internal email, dated November 2007, re: *Resi Mortgage Operations - Conduit & Originator Reviews (We believe our analytical process and rating opinions will be enhanced by an increased focus on the role third parties can play in influencing loan default and loss performance. ... Should have been doing this all along.).*

Moody's Documents:

35. Moody's internal email, dated January 2006, re: *2006 Priorities for M3 team (Not recalibrating the Prime model and not fixing the simulation will create a growing number of inconsistencies (problems) in the existing models as was the case through most of 2004.).*

36. Moody's internal email, dated April 2006, re: *Goldman CES Deal: Building OC with Cap (I am getting serious pushback from Goldman on a deal that they want to go to market with today. *** Goldman needs more of an explanation (I do not know how to get around this without telling them we were wrong in the past).).*

37. Moody's internal email, dated October 2006, re: *Pro-rata modeling criteria (Our problem here is that nobody has told us about the changes that we were later expected to adhere to. Since there is no published criteria outlining the change in methodology how are we supposed to find out about it.?).*

38. Moody's internal email, dated April 2007, (*If in our opinion 15% of the ratings are inflated, the impact to the cdo note ratings would be significant.*).

39. Moody's internal email, dated June 2007, re: *Please READ M-1 sign off (Over time, different chairs have been giving different guidelines at different point of time on how much over-enhancement we need for a bond to be notched up to Aaa ....).*

40. Moody's internal email, dated August 2007, re: *Seasoning benefit in Alt-A model is fully functional now (...maybe this is more like rearranging the deck chairs on the Titanic ....).*

41. Moody's internal email, dated August 2007, re: *UBS CDO Research (This is depressing. "In our skewed sample of 111 mezzanine ABS CDOs, collateral losses extend into senior AAA tranches. We predict that 10% of senior AAA tranches we examined will default. Overall, the expected loss of senior AAA tranches is 1%. For BBB tranches, 55% will default and expected losses are 65%. This is horrible from a ratings and risk management point of view; perhaps the biggest credit risk management failure ever.")*

42. Moody's internal email, dated August 2007, re: *Deal Management (...each of our current deals is in crisis mode. This is compounded by the fact that we have introduced new criteria for ABS CDOs. Our changes are a response to the fact that we are already putting deals closed in the spring on watch for downgrade. This is unacceptable and we cannot rate the new deals in the same away* [sic] *we have done before. *** ...bankers are under enormous pressure to turn their warehouses into CDO notes.).*

43. Moody's internal email, dated November 2007, re: *Fitting a default model on 2006 Alt-A data (My staff is sensitive to both priorities and the risks associates with demands to do something "quick and dirty" that then becomes part of a rating process. The reason Ahish pushed back was that the proposed use of the data would quite likely lead to false conclusions that might be used for rating decisions.).*

44. Moody's internal email, dated November 2007, re: *Moody's Follow Up (It seems, though, that the more of the ad hoc rules we add, the further away from the data and models we move and the closer we move to building models that ape analysts expectations, no?).*

<u>Documents Related to Deteriorating Subprime Mortgages</u>:

Standard & Poor's Documents:

45. Standard & Poor's internal email, dated July 2005, re: *Washington Mutual (I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk.).*

46. a. Standard & Poor's internal email, dated September 2006, re: *Nightmare Mortgages (This is frightening. It wreaks of greed, unregulated brokers, and "not so prudent" lenders.).*
    b. Standard & Poor's internal email, dated September 2006, re: *Nightmare Mortgages (...this is like another banking crisis potentially looming!!).*

47. Standard & Poor's internal email, dated October 2006, forwarding a October 19, 2006 *Wall Street Journal* article, *More Home Loans Go Sour,* and remarking about article, *Pretty grim news as we suspected - note also the "mailing in the keys and walking away" epidemic has begun - I think things are going to get mighty ugly next year!*

48. Standard & Poor's internal email, dated October 2006, forwarding a October 26, 2006 *Wall Street Journal* article, *Home Prices Keep Sliding; Buyers Sit Tight,* and remarking about article, *...just curious...are there ever any positive repots on the housing market?*

49. Standard & Poor's internal email, dated February 2007, re: *Data sharing between surveillance and servicer evaluations (Also remember, our data is the aggregrate* [sic] *and most of the deals alledgely* [sic] *have better (cough, cough) subprime loans.).*

50. Standard & Poor's internal email, dated March 2007, re: *Subprime Vintage Comparison (After 12 months of seasoning, the 2006 vintage had approximately 13% in total delinquencies ....).*

51. Standard & Poor's internal email, dated March 2007, forwarding a March 2, 2007 *BusinessWeek Online* article, *The Mortgage Mess Spreads,* and remarking about article, *This is like watching a hurricane from FL moving up the coast slowly towards us.*

52. a. Standard & Poor/American Legal & Financial Network (AFN) email, dated March 2007, re: *member firms reaction to troubled servicers (To give you a confidential tidbit among friends the subprime brou haha is reach serious levels ....).*
    b. *Standard & Poor's, Structured Finance Ratings - Overview and Impact of the Residential Subprime Market, Monthly Review Meeting, March 19, 2007.*
    c. Standard & Poor's internal email, dated March 2007, re: *Pre-empting bad press on the subprime situation (In a meeting with Kathleen Corbet today, she requested that we put together a marketing campaign around the events in the subprime market, the sooner the better.).*

53. Standard & Poor's internal email, dated April 2007, re: *PWR 16 (...unbelievable..the bankers make shi**y loans with such skinny margins tha* [sic] *they can't make any money and expect us to eat it. ...the opportunity cost of doing the deal at that ridiculously low fee and risking eroding our pricing structure going forward was deemed too high ....).*

54. a. Standard & Poor's internal email, dated July 2007, re: *Tomorrow's FT Column - Saskia Sholtes (We did sound like the Nixon White House. Instead of dismissing people like him or assuming some dark motive on their part, we should ask ourselves how we could have so mishandled the answer to such an obvious question. *** I have thought for awhile now that if this company suffers from an Arthur Andersen event, we will not be brought down by a lack of ethics as I have never seen an organisation* [sic] *more ethical, nor will it be by greed as this plays so little role in our motivations; it will be arrogance.).*

b. Standard & Poor's internal email, dated July 2007, re: *November 21, 2006 Q&A after Conference Call - How Bad is 2006 Subprime Collateral? (Although the Rating Agencies have "increased" their Loss Coverage%, David Liu thinks it will not compensate "enough" for the poor performance of year 2006 Subprime collateral. According to David, "the Rating Agencies were caught off guard, too!").*

55. Standard & Poor's internal email, dated November 2007, re: *November presentation (Macroeconomic factors as well as the combination of these higher risk characteristics coupled with fraud seem to be the most likely reasons for the anomalous behavior.).*

56. Excerpt from *The McGraw-Hill Companies, Inc. Minutes, Regular Meeting of Board of Directors, December 5, 2007, (Mr. Terry McGraw noted the 2005-06 vintage loans appear to be the key problem areas in the recent subprime situation.).*

Moody's Documents:

57. Moody's internal email, dated April 2007, re: near future downgrades *(Here is what I suggest. I will create a folder on the p-drive ... which stores info on subprime RMBS which were identified as potential "near future downgrades.").*

58. Moody's internal email, dated November 2007, re: *Overnightor NY - November 26th (Your's right about CDOs as WMD – but it's only CDOs backed by subprime that are WMD.).*

<u>Documents Related to Grandfathering</u>:

Standard & Poor's Documents:

59. Standard & Poor's internal email, dated June 2004, re: *LEVELS (What happens when we migrate to 6.0? Will they want three versions in play, to facilitate pools structured across different time frames?).*

60. Standard & Poor's internal email, dated June 2005, re: *new CDO criteria (The overarching issue at this point is what to do with currently rated transactions if we do release a new version of Evaluator.).*

61. Standard & Poor's internal email, dated July 2005, re: Evaluator 3 *(This has become such an intractable mess!!).*

62. Standard & Poor's internal email, dated October 2005, re: *Tomorrow's AM Agenda (How do we handle existing deals especially if there are material changes that can cause existing ratings to change?).*

63. Standard & Poor's internal email, dated October 2005, re: *CDO model (It raises several franchise level issues which could be viewed as precedent setting from a policy perspective.).*

64. Standard & Poor's internal email, dated November 2005, re: *Disclaimers - Help (Lord help our f**king scam ....).*

65. Standard & Poor's internal email, dated November 2005, re: *E3 FAQ (We will also run all deals through both E3/Low and E3/High to determine if the result on E2.4.3 is within the tolerance levels.).*

66. Standard & Poor's internal email, dated December 2005, re: *Transition and ongoing surveillance process for E2.4.2 versus E3 (My view is that arrangers will be quite happy to hear that their deal falls within our acceptable tolerance levels and just get on with their trade.).*

67. Standard & Poor's internal email, dated December 2005, re: *Call from Abby Moses, Derivatives Week re: status of CDO Evaluator 3 (...it would be helpful to have a policy framework communicated to the market on when S&P will apply new criteria in model derived ratings to outstanding transactions and when it won't. ...we are not being as transparent as we need to be.).*

68. Standard & Poor's internal email, dated December 2005, re: *E3 docs (The important thing is to begin to "craft" the "politically correct" external tolerance band message.).*

69. Standard & Poor's internal email, dated December 2005, re: LNR *("Rabo Tango are withdrawing any interest from LNR because they had a call with S&P who confirmed that this was being rated off the old methodology.").*

70. Standard & Poor's internal email, dated February 2006, re: *Fixed Income Activity Report (Though the tolerance bands have provided some "cushion" as it pertains to mitigating a rating action based solely on a model based change....they have also created confusion given their lack of transparency.).*

71. Standard & Poor's internal email, dated March 2006, re: *Moody's (The official Moody's line is that there is no "grandfathering" and that old transactions are reviewed using the new criteria. However "the truth is that we do not have the resources to review thousands of transactions, so we focus on those that we feel are more at risk.").*

72. Standard & Poor's internal email, dated June 2006, re: *RMBS LEVELS 5.7 and its Impact on Outstanding Deals (different from cdo ...although the RMBS Group does not "grandfather" existing deals, there is not an absolute and direct link between changes to our new ratings models and subsequent rating actions taken by the RMBS Surveillance Group.).*

73. Standard & Poor's internal email, dated November 2006, re: *Hot Topics Polling Questions (Should S&P consider "grandfathering" existing ratings when implementing criteria changes?).*

74. Standard & Poor's internal email, dated July 2007, re: *Special APB meeting (How do we handle the grandfathering issue in the context of consistent application of criteria.).*

75. Standard & Poor's internal email, dated October 2007, re: *Here are thoughts around RMBS (Ratings no longer grandfather - need batch processing for all deals rated within 12 months of criteria or model changes).*

Moody's Documents:

76. Moody's internal email, dated May 2007, re: *Upcoming CLOs/grandfathering list (We appreciate your willingness to grandfather these transactions w/r/t Moody's old methodology.).*

77. Moody's internal email, dated May 2007, re: *Stratford CLO (...they thought it would make sense to use the old methodology ....).*

78. Moody's internal email, dated June 2007, re: *PDR/LGD methodology (It might be useful to know what our official position is on this issue in case it arises again.).*

79. Moody's internal email, dated July 2007, re: *Notching Status (Shall we provide rating for those bond we did not rate then using the old methodology and the old loss coverage number?).*

80. *Moody's Structured Finance Credit Committee, March 31, 2008, Meeting Notes (Rating changes when methodologies change .... This decision to selectively review certain ratings is made due to resource constraints.).*

Documents Related to Chronic Resource Shortages:

Standard & Poor's Documents:

81. *Standard & Poor's, Framework For Analytics Policy Board Review of Rating Surveillance Standards, January 27, 2007, (A few areas (Asian Corporates, U.S. public power, student loans and less active RMBS issuers in the U.S.) are substantially below par.).* (excerpt)

83. Standard & Poor's internal email, dated April 2006, re: *Discussion with Lal (Each time I consider what my group is faced with, I become more and more anxious.).*

83. Standard & Poor's internal email, dated June 2006, re: *Temp (In addition to the project above that involved some 863 deals, I have a back log of deals that are out of date with regard to ratings.).*

84. Standard & Poor's internal email, dated December 2006, re: *Please continue temps (Currently, there are nearly 1,000 deals with data loads aged beyond one month.).*

85. Standard & Poor's internal email, dated January 2007, re: *Data COE Resources Available for US ABS (...I want to take a moment to reiterate my concerns regarding the significant deficit in terms of the # of analysts currently assigned to work on US ABS and RMBS data needs.).*

86. Standard & Poor's internal email, dated February 2007, re: *Headcount for RMBS Surveillance? (I talked to Tommy yesterday and he thinks that the ratings are not going to hold through 2007. ... We do not have the resources to support what we are doing now.).*

87. Standard & Poor's internal email, dated February 2007, re: *What's the problem now??? (We really need help. Sub prime is going down hill. The 20% not covered in our system is also of great concern.).*

88. Standard & Poor's internal email, dated April 2007, re: *Staffing for RMBS Surveillance (This model shows that the R-Surv staff is short by 7 FTE-about 3 Directors, 2 AD's, and 2 associates.).*

89. Standard & Poor's internal email, dated October 2007, re: *Alt. A Aged List (...we will take the appropriate rating action on any of the deals that we reviewed that are on the aged list.).*

Moody's Documents:

90. Moody's internal email, dated January 2006, re: *2006 Priorities for M3 team (As a new product, good idea – but I think we need full functionality w/M3 first, esp. if we're to remain short-staffed for yet another year.).*

91. Moody's internal email, dated May 2007, re: *Paper on inter-CDO correlations - update from ABS Steering Committee (Unfortunately, our analysts are owerwhelmed* [sic] *....).*

92. a. *Moody's SFG 2002 Associate Survey, Highlights of Focus Groups and Interviews, May 2, 2002.*
    b. *Moody's Investor Service, BES-2005, Presentation to Derivatives Team, April 7, 2006.*

<u>Documents Related to Failed Deals</u>:

93. a. Moody's internal email, dated December 2006, re: *Subprime performance (Holy cow – is this data correct? I just graphed it and Freemont is such an outlier!!).*
    b. Standard & Poor's internal email, dated January 2007, re: *Quick question - Fremont (No, we don't treat their collateral any differently.).*
    c. Standard & Poor's internal email, dated January 2007, re: *Quick question: Fremont (Since Fremont collateral has been performing not so good, it there anything special I should be aware of?).*
    d. Standard & Poor's internal email, dated February 2007, forwarding a January 29, 2007 Reuters article, *Defaults cause Fremont to end ties to 8,000 brokers.*

e. Moody's downgrade of GSAMP Trust - 2007 - FM1 and FM2 containing Fremont mortgages.
f. Standard & Poor's downgrade of GSAMP Trust 2007 - FM2 containing Fremont mortgages.

94. a. Standard & Poor's instant message, dated April 2007, re: *IMlogic IMManger conversation export (I heard some fury ... james yao at ubs).*
b. Standard & Poor's internal email, dated April 2007, re: *Vertical 2007-1/UBS/James Yao (Don't see why we have to tolerate lack of cooperation. Deals likely not to perform.).*
c. Standard & Poor's internal email, dated April 2007, re: *VERTICAL ABS CDO 2007-1, LTD-closing next tues. update (Sarah and I have been working with James Yao from UBS but we have not been getting cooperation from him.).*
d. Moody's *Pre-Closing Committee Memorandum, Closing: April 10, 2007, Deal: Vertical ABS CDO 2007-1, Ltd (Vertical ABS CDO 2007-1, Ltd is a mezzanine Hybrid ABS transaction that is expected to be 95% synthetic (CDS) assets) at closing.).*
e. List of assets included in Vertical ABS CDO 2007-1, prepared by Moody's.
f. Moody's internal email, dated October 2007, re: *Updated: Rating Review Committee - Vertical ABS CDO 2007-1- EOD (Eric and I spoke to UBS. They said that they still have not decided whether to liquidate or keep the deal as is ....).*
g. Fitch internal email, dated October 2007, re: *Vertical Capital (...Vertical has over a dozen CDOs outstanding. Most of the 2007 deals we are reviewing are rapidly encountering serious difficulties.).*
h. Standard & Poor's internal email, dated October 2007, re: *(BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further (Oh, well. The cat is out of the bag.).*
i. Moody's internal email, dated October 2007, re: *Debtwire: (DW) ABS CDOs begin to liqudate; rating agencies downgrades 'detonating' market, source says (...the picture is not pretty.).*
j. Standard & Poor's internal email, dated October 2007, re: *Vertical CDO 2007-1 (...this is fairly urgent .... We want to review this transaction and see the results under the worst possible outcome.).*
k. Moody's downgrade of Vertical ABS CDO 2007-1.
l. Excerpts from Connecticut Superior Court *Memorandum Of Decision on Plantiffs' Application For A Prejudgment Remedy (#124)*, Pursuit Partners, LLC et al v. UBS AG et al, September 8, 2009.
m. UBS internal email, dated August 2007, re: *Mezz CDO Offerings (Here is some new stuff we would offer the vertical ....).*
n. UBS internal email, dated August 2007, *(sold some more crap to pursuit.).*
o. UBS internal email, dated July 2007, re: *ABS Subprime & Moody's downgrades (It sounds like Moodys is trying to figure out when to start downgrading, and how much damage they're going to cause – they're meeting with various investment banks.).*

95. a. Moody's internal email, dated July 2007, re: *Analyst for Brighton (The reason is that Delphinus was a mezz deal with a lot of cushion, we did not really care that much.).*
    b. Standard & Poor's internal email, dated August 2007, re: *Delphinus closing date vs effective date (Yes, the concern is that the deal would've never passed (and actually would've been worse) if they included the assets that they claimed they are dummies.).*
    c. Excerpt from Moody's Rating Change Report for Delphinus CDO 2007-1, Ltd.
    d. Moody's downgrade of Delphinus CDO 2007-1, Ltd.
    e. Standard & Poor's downgrade of Delphinus CDO 2007-1 Ltd.

96. a. Standard & Poor's internal email, dated August 2007, re: *S&P CDO Monitor Kodiak CDO I: Urgent (Next thing I know, I'm told that because it had gone effective already, it was surveillance's responsibility, and I never heard about it again.).*
    b. Moody's downgrade of Kodiak CDO I Ltd.
    c. Standard & Poor's downgrade of Kodiak CDO I, Ltd.

97. a. Moody's letters assigning rating to Long Beach RMBS, January - December, 2006.
    b. *Washington Mutual, 2006 Transaction Statistics*, re: Long Beach RMBS transactions.
    c. Status of selected Long Beach RMBS transactions, as of April 19, 2010.

Other Documents:

98. *Moody's Investors Service: Managing Director's Town Hall Meeting, September 10, 2007, (What happened in '04 and '05 with respect to subordinated traunches is that our competition, Fitch and S&P, went nuts. Everything was investment grade. It really didn't matter.).*

99. Excerpts from Standard & Poor's and Moody's Downgrades, July 10-12, 2007 and January 30, 2008.

100. *Fitch Ratings, Structured Finance, The Impact of Poor Underwriting Practices and Fraud in Subprime RMBS Performance*, November 28, 2007.

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MEMORANDUM

To: Members of the Permanent Subcommittee on Investigations

From: Senator Carl Levin, Subcommittee Chairman
Senator Tom Coburn, Ranking Member

Date: April 23, 2010

Re: **Wall Street and the Financial Crisis: The Role of the Credit Rating Agencies**

On Friday, April 23, 2010, beginning at 9:30 a.m., the Permanent Subcommittee on Investigations will hold the third in a series of hearings examining some of the causes and consequences of the recent financial crisis. This hearing will focus on the role played by credit rating agencies (CRAs), using as case histories Moody's and Standard & Poor's, the two largest U.S. credit rating agencies which, together, from 2004 to 2008, rated tens of thousands of residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs) referencing high risk home loans.

Subcommittee Investigation. The Permanent Subcommittee on Investigations initiated its investigation. In November 2008. Since then, the Subcommittee has engaged in a wide-ranging inquiry, conducting over 100 interviews and depositions, collecting and reviewing millions of pages of documents, and consulting with dozens of government, academic, and private sector experts on banking, securities, financial, and legal issues.

To provide the public with the results of its investigation, the Subcommittee is holding a series of hearings addressing the role of high risk lending, bank regulators, credit rating agencies, investment banks, and others in the financial crisis. After the hearings, a report on the investigation will be prepared.

Credit Ratings Generally. Credit ratings, which first gained prominence in the late 1800s, provide assessments of the creditworthiness of particular financial instruments, such as a corporate bond, mortgage backed security, or CDO. Essentially, credit ratings predict the likelihood that a debt will be repaid.[1]

Credit ratings use a scale of letter grades, from AAA to C, with AAA ratings designating the safest investments and the other grades designating investments at greater risk of default. Investments with AAA ratings have historically had an expected loss rate of less than .05 percent. The expected loss rate for BBB investments was about 1 percent. Financial instruments bearing AAA through BBB- ratings are generally called "investment grade," while those with ratings below BBB- (or Baa3) are referred to as "below investment grade" or sometimes as "junk" investments. Financial instruments that default receive a D rating from Standard & Poor's, but no rating at all by Moody's.

[1] Congressional Research Service, Credit Rating Agencies and Their Regulation, September 3, 2009.

Permanent Subcommittee on Investigations
EXHIBIT #1a

Investors often rely on credit ratings to gauge the safety of a particular investment. Some institutional investors design an investment strategy that calls for acquiring assets with specified credit ratings. Some state and federal laws restrict the amount of below investment grade bonds that certain investors can hold, such as pension funds and insurance companies. Banks are also limited by law in the amount of non-investment grade bonds they can hold, and are typically required to post additional capital against higher risk investments. Because so many federal and state statutes and regulations reference ratings, issuers of securities and other financial instruments work hard to obtain favorable credit ratings to ensure more investors can buy their product.

The Securities and Exchange Commission (SEC) regulates credit rating agencies. In September 2006, Congress enacted the Credit Rating Agency Reform Act, P.L. 109-291, to strengthen SEC oversight of the credit rating industry. The law took effect in June 2007, which is also when the SEC issued implementing regulations. Among other provisions, the law charges the SEC with designating Nationally Recognized Statistical Rating Organizations (NRSROs) and defines that term for the first time. At the same time, the law prohibits the SEC from regulating the substance, criteria, or methodologies used in credit rating models.

The United States has three major credit rating agencies: Moody's, Standard & Poor's (S&P), and Fitch. By some accounts, these three firms issue about 98% of total credit ratings and collect 90% of total credit rating revenue.[2]

Structured Finance. Over the last ten years, Wall Street firms have devised ever more complex financial instruments for sale to investors. These instruments are often referred to as structured finance. Because these products are so complicated and opaque, investors often place particular reliance on credit ratings to determine whether they can or should buy them.

Residential mortgage backed securities (RMBS) are one of the oldest types of structured finance. To create these securities, issuers bundle up large numbers of home loans into a loan pool, calculate the revenue stream coming into the loan pool from the individual mortgages, and then design a "waterfall" that assigns the pooled revenues to specific "tranches" set up in a specified order. The first tranche is at the top of the waterfall and is the first recipient of revenues received from the mortgage pool. Since that tranche is guaranteed to be paid first, it is the safest investment in the pool. The issuer creates a security, often called a bond, linked to that first tranche. That security is rated AAA since its revenue stream is the most secure. The next tranche in the waterfall is the second to receive revenues from the mortgage pool, and is linked to a security that might receive a AAA or lower rating.

The next tranche is used to create a security that might have an A or BBB rating, and so on until the waterfall reaches the equity tranche at the bottom. The equity tranche typically receives no rating, since it must cover the pool's initial losses, and virtually

[2] Id.

every mortgage pool has at least some mortgages that default. Due to the risks associated with it, the equity tranche is often promised a high rate of return on investment and can be profitable. One mortgage pool might produce a dozen or more tranches, each of which is used to create a residential mortgage backed security that is rated and then sold to investors.

CDOs are even more complex. CDOs typically include RMBS securities from multiple mortgage pools. For example, a CDO might contain BBB rated securities from 100 different residential mortgage pools. CDOs often also contain other types of assets, such as commercial mortgage backed securities, corporate bonds, or credit default swaps. These CDOs are often called "cash CDOs," because they receive revenues from the underlying RMBS bonds and other assets. Issuers can also create "synthetic CDOs" which do not contain actual assets, but simply reference them. The investors in that type of CDO receive revenues from one or more counterparties who pay premiums in exchange for obtaining "insurance" that pays off in the event of a default or other credit event involving the referenced assets. Like RMBS mortgage pools, both cash CDOs and synthetic CDOs are sliced into tranches, the tranches are used to create securities, and the securities receive credit ratings. CDO securities are typically sold in private placements, usually to institutional investors. Issuers can also create financial instruments called CDO squared or cubed, which contain or reference tranches from other CDOs. The more resecuritizations, the more opaque and complex the instruments become, and the more reliant they are on high credit ratings to be marketable.

For a fee, Wall Street firms helped design RMBS and CDOs, worked with the credit rating agencies to obtain ratings, and sold the securities to investors like pension funds, insurance companies, university endowments, municipalities, and hedge funds. Without investment grade ratings, Wall Street firms would have had a more difficult time selling structured finance products to investors, because each investor would have had to perform its own due diligence review of the product. Credit ratings simplified the review and enhanced the sales. Here's how one federal bank handbook put it:

> "The rating agencies perform a critical role in structured finance — evaluating the credit quality of the transactions. Such agencies are considered credible because they possess the expertise to evaluate various underlying asset types, and because they do not have a financial interest in a security's cost or yield. Ratings are important because investors generally accept ratings by the major public rating agencies in lieu of conducting a due diligence investigation of the underlying assets and the servicer."[3]

In addition to making structured finance products easier to sell to investors, Wall Street firms used financial engineering to combine AAA ratings – normally reserved for ultra-safe investments with low rates of return – with high risk assets, such as the AAA tranche from a subprime RMBS paying a relatively high rate of return. Higher rates of

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[3] Comptroller of the Currency Administrator of National Banks, Comptroller's Handbook, *Asset Securitization*, November 1997.

return, combined with AAA ratings, made subprime RMBS and related CDOs especially attractive investments.

The Rating Process. The rating process for RMBS and CDOs works generally as follows. An issuer, often called the arranger, begins the rating process by sending to the credit rating agency (CRA) information about a prospective RMBS or CDO, with data about the mortgage loans and other assets included or referenced in the pool. Sometimes the data identifies the characteristics of each loan in the pool; other times it provides statistical information about the pool as a whole. CDOs that are still assembling assets sometimes provide data about the assets they intend to acquire, and supply data about the actual assets a day or two before the CDO closing.

A CRA analyst is assigned to examine the proposed financial instrument. CRA analysts typically rely on their company's credit rating models to evaluate risk, and do very little additional credit risk analysis; instead they focus on reviewing the legal structure of the financial instrument to understand how it works. The RMBS credit rating model at Moody's is called M3; the S&P model is called LEVELS. Both models use actual data gathered from large numbers of actual mortgages to predict loan performance.

To obtain ratings for individual tranches in an RMBS or CDO, the analyst typically feeds the "loan tape" provided by the issuer into the credit rating model. The model then selects certain data points from the loan tape, such as borrower credit scores or loan-to-value ratios, and compares that information to past mortgage data using various assumptions, to determine the likely "frequency of foreclosure" for the particular mortgages under consideration. The model then produces an overall "expected loss" for the pool, and projects the cushion – or "credit enhancement" – needed to protect investment grade tranches from loss. The larger the cushion, the more loss protection is afforded to investment grade tranches. The model suggests how big the equity tranche should be to provide the needed cushion and may also specify lower payments to investors compared to the total mortgage payments coming into the pool to "overcollateralize" it against loss.

It is common for the ratings analyst to speak with the issuer to gather additional information and understand how the financial instrument works. Among other tasks, the analyst works with the issuer to evaluate the cash flows, the number and size of the tranches, and the rating each tranche will receive. The documents show that issuers and analysts often negotiate over how specific deal attributes will affect the credit ratings.

After completing the analysis, the analyst develops a rating recommendation and presents it to a rating committee composed of other analysts and managers within the CRA. The rating committee votes on the analyst's recommendation. If approved, the ratings for the tranches are provided to the issuer, and the CRA makes the ratings available publicly. The entire rating process typically takes two to six weeks.

After a product is rated, both Moody's and S&P conduct ongoing surveillance to evaluate the rating and determine whether it should be upgraded or downgraded over the life of the security.

Record Revenues. From 2004 to 2007, Moody's and S&P produced a record number of ratings and a record amount of revenues, primarily because of RMBS and CDO ratings. From 2004 to 2007, for example, S&P issued ratings for more than 5700 RMBS transactions and 835 CDO transactions, each of which had multiple securities.[4] It also increased the ratings it issued each year, going from ratings for about 700 RMBS and 80 CDO transactions in 2002, to more than 1,600 RMBS and 340 CDO transactions in 2006. Over the same time period, Moody's issued ratings for nearly 4,000 RMBS transactions and 870 CDO transactions, each of which, again, had multiple securities.[5] Moody's also increased its annual ratings, going from over 500 RMBS and 45 CDO transactions in 2002, to more than 1200 RMBS and 360 CDO transactions in 2006. The numbers are even more dramatic when considering ratings issued for individual securities. From 2006 to 2007, for example, Moody's and S&P each issued ratings for over 10,000 RMBS securities.[6]

The CRAs charged substantial fees to rate a product. To obtain an RMBS or CDO rating during the height of the market, for example, CRAs charged issuers from $50,000 to more than $1 million. Surveillance fees, which may be imposed at the initial rating or annually, ranged from $35,000 to $50,000 per RMBS or CDO.

Revenues increased dramatically over time as well. Moody's gross revenues from RMBS and CDOs increased from just over $61 million in 2002 to over $208 million in 2006.[7] S&P's net annual revenues from ratings nearly doubled from $517 million in 2002, to $1.16 billion in 2007.[8] During that same period, the structured finance group's revenues tripled from $184 million in 2002, to $561 million in 2007.[9] In 2002, structured finance contributed 36 percent to S&P's bottom line; in 2007, it contributed 48 percent – nearly half of all S&P revenues.[10] In addition, from 2000 to 2007, operating margins at the CRAs averaged 53 percent, far outpacing companies like Exxon and Microsoft, which had margins of 17 and 36 percent respectively in 2007.[11]

Top CRA executives were also compensated handsomely. Moody's chief executive, Raymond McDaniel, earned $8.8 million in 2007, and received a stock option award worth more than $2.3 million.[12] Brian Clarkson, the head of Moody's structured finance group received $3.2 million in total compensation in 2007.[13] In addition, upper and middle managers did well, with Moody's managing directors making approximately

[4] Compliance letter from S&P to SEC, Mar. 14, 2008.
[5] Compliance letter from Moody's to SEC, Mar. 11, 2008.
[6] SEC database of credit ratings assigned to RMBS securities issued in 2006 and 2007.
[7] Id.
[8] Compliance letter from S&P to SEC, Mar. 14, 2008.
[9] Id.
[10] Id.
[11] "Debt Watchdogs: Tamed or Caught Napping?" NewYork Times, Dec. 7, 2008.
[12] Moody's 2008 Proxy Statement.
[13] Id.

$400,000 to $500,000 with stock options on top of that. S & P managers received similar compensation.

The fact that CRAs receive revenues from the issuers who pay them for rating the products they sell creates an inherent conflict of interest. Not only are CRA personnel encouraged by clients to provide them with favorable ratings, but the situation encourages ratings shopping, in which an issuer can choose the CRA offering the highest rating. Ratings shopping can weaken standards as each CRA seeks to provide the most favorable rating to win business. Moody's Chief Credit Officer told the Subcommittee staff that ratings shopping was commonplace. In September 2007, Moody's CEO described the problem this way: "What happened in '04 and '05 with respect to subordinated traunches is that our competition, Fitch and S&P, went nuts. Everything was investment grade."[14] In 2003, the SEC reported that "the potential conflicts of interest faced by credit rating agencies have increased in recent years, particularly given the expansion of large credit rating agencies into ancillary advisory and other businesses, and the continued rise in importance of rating agencies in the U.S. securities markets."[15]

Downgrades. Investors who relied on the credit agencies' ratings of mortgage based securities suffered heavy losses when many RMBS securities and CDO securities that were initially rated investment grade were sharply downgraded. Moody's and S&P began downgrading RMBS and CDO products in 2006, when delinquency rates and losses increased. In July 2007, both S&P and Moody's initiated the first of several mass downgrades that shocked the financial markets. Within days of one another, S& P downgraded 612 subprime RMBS with an original value of $7.3 billion, and Moody's downgraded 399 subprime RMBS with an original value of $5.2 billion. After these rating downgrades, the subprime secondary market collapsed, and financial firms around the world were left holding suddenly unmarketable subprime RMBS securities.

In October 2007, Moody's began downgrading CDOs on a daily basis, downgrading more than 270 CDO securities with an original value of $10 billion. In December 2007, Moody's downgraded another $14 billion in CDOs, and placed another $105 billion on credit review. Moody's calculated that, overall in 2007, "8725 ratings from 2116 deals were downgraded and 1954 ratings from 732 deals were upgraded."[16]. On January 30, 2008, S&P downgraded over 6,300 subprime RMBS securities and over 1,900 CDO securities, an unprecedented mass downgrade. These downgrades created significant turmoil in the securitization markets, as investors like pension funds and insurance companies were required to sell off assets that had lost their investment grade status, holdings at financial firms plummeted in value, and new securitizations were unable to find investors. The financial crisis had begun.

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[14] Raymond McDaniel at Moody's MD Town Hall Meeting, 09/10/07, Moody's-COGR-0052143.

[15] SEC, Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets, January 2003, As Required by Section 702(b) of the Sarbanes-Oxley Act of 2002. The report continued: "[C]oncerns had been expressed that a rating agency might be tempted to give a more favorable rating to a large issue because of the large fee, and to encourage the issuer to submit future large issues to the rating agency."

[16] Moody's Credit Policy Special Comment, *Structured Finance Ratings Transitions*, 1983-2007, Feb. 2008.

Ratings Problems. The Subcommittee's investigation uncovered a host of problems with the credit ratings assigned to RMBS and CDO products.

> **--Inaccurate Models.** The models used by Moody's and S&P provided thousands of ratings that turned out to be inaccurate. They did so, in part, because the models did not contain adequate performance data for subprime, interest-only, option ARM, and other high risk mortgages that had come to dominate the housing market, and did not contain adequate data for higher risk borrowers. According to the Congressional Research Service, the models failed to understand the likelihood of falling house prices, attached the wrong weights to the effect of falling house prices on loan default rates; and miscalculated the interdependence among loan defaults.[17] In 2007, S&P testified that: "[W]e are fully aware that, for all our reliance on our analysis of historically rooted data that sometimes went as far back as the Great Depression, some of that data has proved no longer to be as useful or reliable as it has historically been."[18] The former head of the RMBS group at S&P told the Subcommittee that he believed their model needed updating, but that the company chose not to commit the resources in order to do so.
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> Other emails indicated that ratings personnel acted at times with limited guidance, unclear criteria, or limited understanding of complex deals. For example, one S&P employee wrote: "[N]o body gives a straight answer about anything around here … how about we come out with new [criteria] or a new stress and ac[tu]ally have clear cut parameters on what the hell we are supposed to do."[19] Another S&P employee wrote in May 2006, about deals that "between the three of us were all rated by the same person … who neglected to catch other important criteria issues … or ignored them after being told to correct them by Team Leaders."[20] An analyst complaining about a rating decision in May 2005, wrote: "Chui told me that while the three of us voted "no", in writing, that there were 4 other 'yes' votes. … [T]his is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no 'logic trail' to refer to is another. ... Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients."[21]
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> **--Improper Influence.** Former Moody's and S&P employees told the Subcommittee that the culture at the ratings firms also changed over time, and that gaining market share and revenues and pleasing investment bankers bringing business to the firm, impacted the quality of ratings. In a 2007 email to Moody's

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[17] Congressional Research Service, Credit Rating Agencies and Their Regulation, September 3, 2009.
[18] Testimony of Vicki Tillman, S&P Executive Vice President, before U.S. House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, 9/27/07, at 1-2, S&P SEN PSI 001946.
[19] Instant Message from S & P employee, 5/8/07, PSI-SP-000016.
[20] Email from S&P employee, 5/2/06, PSI-SP-000339.
[21] Email from S&P employee, 5/12/05, PSI-SP-000005.

CEO Ray McDaniel, for example, Moody's Chief Credit Officer wrote that the company's analysts and managing directors were continually "pitched by bankers, issuers, investors -- all with reasonable arguments -- whose views can color our credit judgment, sometimes improving it, other times degrading it (we 'drink the kool-aid'). Coupled with strong internal emphasis on market share & margin focus, this does constitute a 'risk' to ratings quality."[22]

One concrete example of how revenues could affect ratings is suggested in an email exchange in June 2007. A Moody's analyst told a Merrill Lynch investment banker that she could not finalize a CDO rating until the "fee issue" was resolved. The investment banker responded: "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try to get to some middle ground with respect to the ratings."

Another example involves a CDO known as Vertical ABS CDO 2007-1, in which S&P analysts complained about lack of cooperation from the issuer, UBS, and the deal's credit risk. In an April 2007 email, one S&P analyst wrote:

> Vertical is politically closely tied to B of A – and is mostly a marketing shop – helping to take risk off books of B o[f] A. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform."[23]

Despite the analyst's judgment that the CDO was unlikely to perform, S&P rated it. So did Moody's. Four months later, the CDO was put on credit watch. Two months later, it defaulted. One of the purchasers, a hedge fund called Pursuit Partners, sued both UBS and the CRAs over the quick default. The CRAs were dropped from the lawsuit, but the court ordered UBS to set aside $35 million for a possible award to the investor. The investor had found internal UBS emails calling the investment-grade Vertical securities "crap."

--Failure to Retest After Model Changes. The surveillance of existing rated products was also inadequate. First, the surveillance groups lacked the resources to properly monitor the thousands of rated products, with backlogs of RMBS products requiring analysis. Secondly, the RMBS surveillance groups failed to retest existing products after ratings model changes, despite the fact that many of them contained the same assets and risks that the model was revised to evaluate. Testing the existing deals would have resulted in a significant number of downgrades that might have upset investment banks and investors. For example, in July 2006, the S&P RMBS group updated its model with improved data and determined that, to avoid an increasing risk of default, subprime RMBS securities required a credit enhancement with 40 percent larger loss protection in the equity tranches. Even though S&P had determined that credit risk had increased and altered its model accordingly, it decided not to retest existing rated subprime RMBS securities as

[22] Moody's-COGR-0038027.
[23] PSI-SP-000404.

part of its surveillance effort. Moody's also did not retest existing RMBS securities. Its policy stated: "Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating." [24] Had the CRAs retested existing securities and issued appropriate downgrades in 2006, it would have sent an early signal to the market that there were problems in the subprime market and perhaps dampened the high risk lending.

Gamesmanship also took place with issuers seeking ratings for new securities to use the old model that produced higher ratings than the new model. For example, in 2007, Morgan Stanley sent an email to a Moody's analyst saying: "Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions [under] Moody's old methodology."[25]

--Mortgage Fraud. Still another problem was that, although the CRAs were aware of increased levels of mortgage fraud and lax underwriting, they did not factor that credit risk into their models. As early as 2004, the Federal Bureau of Investigations (FBI) issued a report announcing increased mortgage fraud: "[L]oan frauds are expanding to multitransactional frauds involving groups of people from top management to industry professionals who assist in the loan application process."[26] In 2006, the FBI reported that the number of Suspicious Activity Reports on mortgage fraud had increased sixfold, from about 5,600 in 2002, to about 35,000 in 2006, while mortgage fraud convictions had increased 131%.[27] The Mortgage Asset Research Institute (MARI) also reported increasing mortgage fraud over several years, including a 30% increase in 2006 alone.[28]

Internal emails demonstrate that CRA personnel were aware of the problem. In August 2006, for example, an S&P employee wrote: "I'm not surprised, there has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine."[29] In September 2006, another S&P employee wrote: "I think it's telling us that underwriting fraud; appraisal fraud and the general appetite for new product among originators is resulting in loans being made that shouldn't be made." A colleague responded that the head of the S&P Surveillance Group "told me that broken down to loan level what she is seeing in losses is as bad as high 40's – low 50% I'd love to be able to

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[24] MIS-OCIE-RMBS-0037203
[25] Email from Morgan Stanley to Moody's, 5/2/2007, SEC_MOODYS00000345.
[26] FBI, Financial Institution Fraud and Failure Report, 2004, http://www.fbi.gov/publications/financial/2004fif/fif04.pdf
[27] "Financial Crimes Report to the Public Fiscal Year 2006, October 1, 2005 – September 30, 2006," Federal Bureau of Investigation
[28] Ninth Periodic Mortgage Fraud Case Report to Mortgage Bankers Association, April 2007, Mortgage Asset Research Institute, LLC.
[29] Email from S&P employee, 8/8/06, S&P SEC-E 31894.htm.

publish a commentary with this data but maybe too much of a powder keg."[30] In October 2006, still another S&P employee wrote: "Pretty grim news as we suspected – note also the 'mailing in the keys and walking away' epidemic has begun – I think things are going to get mighty ugly next year!" Articles about the deterioration of the subprime and housing market were circulated within the credit rating agencies throughout 2006 and 2007, yet no model adjustments to the models were made to account for fraud.

In January 2007, when S&P was asked to rate a CDO with subprime loans issued by Fremont Investment and Loan, a subprime lender known for poor quality loans, an S&P ratings analyst sent an email to his supervisors: "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?" One supervisor told him: "No, we don't treat their collateral any differently." The other wrote that, as long as he had current FICO scores for the borrowers, the analyst was "good to go." In the meantime, an article was circulated stating that Fremont had stopped using 8,000 brokers due to loans with some of the highest delinquency rates in the industry. Despite Fremont's higher credit risk, both S&P and Moody's rated the CDO in March 2007. By the end of the year, both began downgrading the CDO. Currently, two of the five AAA tranches have been downgraded 17 notches to junk status.

In September 2007, looking back, one Moody's managing director wrote: "[W]hy didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both."[31]

SEC Report. In 2007, after the mass downgrades began, the SEC initiated an examination of the credit rating agencies. In 2008, the SEC issued a report which found that despite the large increase in volume of CDO/RMBS products, the credit rating agencies did not increase their staff to rate or monitor these securities; the credit rating agencies appeared to be rating complex deals with little understanding of them; CRAs were not conducting ongoing surveillance of their rated products; and Wall Street firms were part of the CRA rating process and influenced the outcome.

Subcommittee Findings. Based upon the Subcommittee's ongoing investigation, we make the following findings of fact regarding the role of the credit rating agencies in the 2008 financial crisis.

1) **Inaccurate Rating Models.** From 2004 to 2007, Moody's and Standard & Poor's used credit rating models with data that was inadequate to predict how high risk residential mortgages, such as subprime, interest only, and option adjustable rate mortgages, would perform.

[30] Email from S&P employee, 9/29/06, S&P-SEC-E 333308.
[31] Moody's Managing Director, Moody's Town Hall Feedback, Sept. 2007, Moody's 0052080 at 79.

2) **Competitive Pressures.** Competitive pressures, including the drive for market share and need to accommodate investment bankers bringing in business, affected the credit ratings issued by Moody's and Standard & Poor's.

3) **Failure to Re-evaluate.** By 2006, Moody's and Standard & Poor's knew their ratings of residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs) were inaccurate, revised their rating models to produce more accurate ratings, but then failed to use the revised model to re-evaluate existing RMBS and CDO securities, delaying thousands of rating downgrades and allowing those securities to carry inflated ratings that could mislead investors.

4) **Failure to Factor In Fraud, Laxity, or Housing Bubble.** From 2004 to 2007, Moody's and Standard & Poor's knew of increased credit risks due to mortgage fraud, lax underwriting standards, and unsustainable housing price appreciation, but failed adequately to incorporate those factors into their credit rating models.

5) **Inadequate Resources.** Despite record profits from 2004 to 2007, Moody's and Standard & Poor's failed to assign sufficient resources to adequately rate new products and test the accuracy of existing ratings.

6) **Mass Downgrades Shocked Market.** Mass downgrades by Moody's and Standard & Poor's, including downgrades of hundreds of subprime RMBS over a few days in July 2007, downgrades by Moody's of CDOs in October 2007, and downgrades by Standard & Poor's of over 6,300 RMBS and 1,900 CDOs on one day in January 2008, shocked the financial markets, helped cause the collapse of the subprime secondary market, triggered sales of assets that had lost investment grade status, and damaged holdings of financial firms worldwide, contributing to the financial crisis.

7) **Failed Ratings.** Moody's and Standard & Poor's each rated more than 10,000 RMBS securities from 2006 to 2007, downgraded a substantial number within a year, and, by 2010, had downgraded many AAA ratings to junk status.

8) **Statutory Bar.** The U.S. Securities and Exchange Commission is barred by statute from conducting needed oversight into the substance, procedures, and methodologies of the credit rating models.

9) **Legal Pressure for AAA Ratings.** Legal requirements that some regulated entities, such as banks, broker-dealers, insurance companies, pension funds, and others, hold assets with AAA or investment grade credit ratings, created pressure on credit rating agencies to issue inflated ratings making assets eligible for purchase by those entities.

Excerpts from Documents Related to Credit Rating Agencies

Competitive Pressures Affecting Ratings

"Analysts and [Managing Directors] are continually 'pitched' by bankers, issuers, investors --all with reasonable arguments -- whose views can color credit judgment, sometimes improving it, other times degrading it (we 'drink the kool-aid'). Coupled with strong internal emphasis on market share & margin focus, this does constitute a 'risk' to ratings quality."

--Email from Moody's Chief Risk Officer to CEO Raymond McDaniel, 10/21/2007, MOODY'S-COGR-0038026, Ex. 24b.

"We are meeting with your group this week to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals. ... Lose the CDO and lose the base business - a self reinforcing loop."

--Email from S&P employee, 8/17/2004, Subject: "RE: SF CIA: CDO methodology invokes reactions," S&P-SEC-E 008141, Ex. 3.

"We just lost a huge Mizuho RMBS deal to Moody's due to a huge difference in the required credit support level .... 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."

--Email from S&P employee, 5/25/2004, Subject: "Competition with Moody's," S&P-SEC-E 005917, Ex. 2.

"Version 6.0 [a new version of the S&P ratings model] could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share. ...We have known for some time (based upon pool level data and LEVELS 6.0 testing that - Subprime: B and BB levels need to be raised; ALT A: B, BB and BBB levels need to be raised (we have had a disproportionate number of downgrades.)"

--Internal S&P emails, 3/23/2005, Subject: "RE: LEVELS 5.6(c)," S&P-SEC-E 677571, Ex. 5.

"Screwing with [the model's] criteria to 'get the deal' is putting the entire S&P franchise at risk -- it's a bad idea."

--Email from S&P employee, 6/14/2005, Subject: "RE: Privileged Criteria Deliberations: CWHEQ 2005-C," S&P-SEC-E 1291974, Ex. 6.

"I am VERY concerned about this E3 [S&P's new CDO model]. If our current structure, which we have been marketing to investors and the mgr ... doesn't work under the new assumptions, this will not be good. Happy to comply [with S&P's model], if we pass, but will ask for an exception [from S&P] if we fail...."

--Email from Citigroup banker to S&P, 2/06/2006, Subject: "Re: Comstock," S&P-SEC-E 170916, Ex. 8.

"He described RMBS as the worst team to work on at Moody's. It is difficult to maintain market share in a market that has become commoditized and where Moody's expected loss analysis means higher cost for issuers."

--Email from Moody's employee, 4/7/2006, Subject: "Jay Siegel Exit Interview," SEC_MOODYS00001660, Ex. 17.

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EXHIBIT #1b

"I am worried that we are not able to give these complicated deals the attention they really deserve and that they (CS) are taking advantage of the "light" review and the growing sense of 'precedent.'"

--Email from Moody's employee, 5/1/06, Subject: "Re: Magnolia 2006-5 Class Ds," PSI-Moodys-000086, Ex. 19.

"Heard you guys are revising your residential mbs rating methodology – getting very punitive on silent seconds. heard your ratings could be 5 notches back of mo[o]dys equivalent. gonna kill your resi biz. may force us to do moodyfitch only cdos!" "[A]ny truth to this?" "We put out some criteria a couple of weeks ago that we will begin to use for deals closing in July. ... We certainly did [not] intend to do anything to bump us off a significant amount of deals."

--Email exchange involving UBS banker and S&P employees, 5/2006, PSI-SP-000355, Ex.11.

"We assume this scenario to be negative for the corporate business because Moody's will be giving out higher ratings on secured loans so issuers will be less likely to ask for an S&P rating on the issue."

--Email from S&P employee, 6/15/06, Subject: "question on impact to CDOs," PSI-SP-000385, Ex. 12.

"Your beloved customer Davenport just trolled the street and did a bunch of synthetics with different attachment points .... She is clearly arb-ing us for lack of a precise methodology ... You want this to be a commodity relationship and this is EXACTLY what you get ... How many millions does Morgan Stanley pay us in the greater scheme of things? How many times have I accommodated you on tight deals? Neer, Hill, Yoo, Garzia , Nager, May, Miteva, Benson, Erdman all think I am helpful, no?"

--Email from S&P employee to Morgan Stanley banker, 8/01/2006, Subject: "RE: can you call me? Have left you numerous messages," S&P-SEC-E 173322, Ex. 13.

"They've [S&P's RMBS group] become so beholden to their top issuers [investment banks] for revenue they have all developed a kind of Stockholm syndrome which they mistakenly tag as Customer Value creation."

--Email from S&P employee, 8/08/2006, Subject: "Re: Loss severity vs gross/net proceeds," S&P-SEC-E 318394, Ex. 14.

"I spoke to Osmin earlier and confirmed that Jason is looking into some adjustments to his methodology that should be a benefit to you folks [Chase]."

--Email from Moody's employee to Chase banker, 2/20/2007, Subject: "Re: Thanks for your help," SEC_MOODYS00001637.

"[T]he newest sickening trend. Issuers trying to pass their loss of profitability resulting from the latest blow out in spreads by demanding severe rating fee pricing reductions .... we lost the pwr deal because we refused to reduce our fee from 1.4 million to 1.1 million for a 4 billion dollar pool .... unbelievable ... the bankers make sh**ty loans with such skinny margins tha[t] they can't make any money and expect us to eat it. Given our current staffing (i.e. Not enough analysts to rate the current pipeline of deals), the opportunity cost of doing the deal at that ridiculously low fee and risking eroding our pricing structure going forward was deemed too high ... lets just hope the deal prices like crap without us."

--Email from S&P employee, 4/26/2007, Subject: "FW: PWR 16," S&P-SEC-E 1177499, Ex. 53.

"We have spent significant amount of resource on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue." "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try to get to some middle ground with respect to the ratings."

--Email exchange between Moody's and Merrill Lynch, 6/12/07, Subject, "Re: Rating application for Belden Point CDO," PSI-Moodys-000097, Ex. 23.

"And so what happened was, it was a slippery slope. As you see markets that are robust, an example would be what happened recently in commercial mortgages, or more importantly what happened with subordinated tranches in residential mortgages in '04 and '05 with respect to subordinated tranches is that our competition, Fitch and S&P went nuts. Everything was investment grade. It didn't really matter."

--Moody's CEO Raymond McDaniel at Moody's Town Hall Meeting, September 10, 2007, Ex. 98.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

Excerpts from Documents Related to Credit Rating Agencies

Ratings Methodology

"[N]o body gives a straight answer about anything around here … how about we come out with new [criteria] or a new stress and ac[tu]ally have clear cut parameters on what the hell we are supposed to do."

--Instant Message from S&P employee, 5/08/2007, Ex. 30b.

"I would like to discuss how we plan on ultimately 'spinning' our revised correlation assumptions [regarding the model]."

--Email from S&P employee, 3/04/2005, Subject: "RE: FW: Wachovia Report Cites Questions of S&P's Integrity," S&P-SEC-E 401265, Ex. 25.

"This deal ended up not weak-linking to [Goldman Sachs]. Chui told me that while the three of us voted 'no', in writing, that there were 4 other 'yes' votes. … [T]his is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no 'logic trail' to refer to is another. ... Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients."

--Email from S&P employee, 5/12/2005, Subject: "FW: Adirondack CDO," S&P-SEC-E 491870, Ex. 10c.

"Don't even get me started on the language he cites … which is one of the reasons I said the counterparty criteria is totally messed up. ... And not only have these trades consumed tons of my time, but they have generated an enormous amount of stress since I'm the one that has to break the news that these trades are wrong … which makes us look like idiots."

--Email from S&P employee, 4/23/2006, Subject: "RE: ABACUS 2006-12 – Writedowns immediately prior to Stated Maturity," S&P-SEC-E 177281, Ex. 10b.

"Since there is no published criteria outlining the change in methodology how are we supposed to find out about it?"

--Email from Morgan Stanley banker to Moody's employee, 8/19/2006, Subject: "RE: Pro-rata modeling criteria," SEC_MOODYS00000025, Ex. 37.

"Hopefully in the near future (next 3 to 6 months) we will have significantly enhanced capabilities to analyze many more scenarios than we currently do and therefore do a better job of differentiating the risk of different step down date."

--Email from Moody's employee, 9/28/2006, Subject: "RE: Bear SACO 2006-8 HELOC – 31 month stepdown," SEC_MOODYS00000925.

"When the required subordination for the BBB tranche was determined, we modeled the recoveries of the assets given a BBB scenario …. If we ran 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

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EXHIBIT #1c

to create an even bigger monster -- the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters."

Email from S&P employee, 12/15/2006, Subject: "RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)," S&P-SEC-E 199613, Ex. 27.

"Can anyone give me a crash course on the 'hidden risks in CDO's of RMBS'?"

--Email from S&P employee, 1/17/2007, Subject: "FW: Summary of Conference Call," S&P-SEC-E 1319429, Ex. 28.

"It sounds like Moody's is trying to figure out when to start downgrading, and how much damage they're going to cause -- they're meeting with various investment banks."

--Internal UBS email, 5/07/2007, Subject: "ABS Subprime and Moody's Downgrades," *Pursuit Partners, LLC v. UBS, AG et al.*, Ex. 94o

"Over time, different chairs have been giving different guidelines at different points of time on how much over-enhancement we need for a bond to be notched up to Aaa, the numbers vary from 10% to 1/3 of bond size. The main reason I sent Tony to you is to get some general guidance on the notching practice, so that people can follow without having to run by you every time the issue comes up."

--Email from Moody's employee, 6/28/2007, Subject: "RE: Please READ M-1 sign off," SEC_MOODYS00002855, Ex. 39.

"Back in May, the deal had 2 assets default, which caused it to fail. We tried some things, and it never passed anything I ran. Next thing I know, I'm told that because it had gone effective already, it was surveillance's responsibility, and I never heard about it again. Anyway, because of that, I never created a new monitor."

--Email from S&P's employee, 8/07/2007, Subject: "RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent," S&P-SEC-E 163941, Ex. 96a.

"We might need to change our model as well for this. For now I am asking analysts to do the seasoning benefit themselves outside the model."

--Email from Moody's employee, 8/09/2007, Subject: "FW: Seasoning benefit in Alt-A model is fully functional now," SEC_MOODYS00001313, Ex. 40.

Excerpts from Documents Related to Credit Rating Agencies

Deteriorating Subprime Mortgages

"The potential impact of mortgage fraud on financial institutions and the stock market is clear. If fraudulent practices become systemic within the mortgage industry and mortgage fraud is allowed to become unrestrained, it will ultimately place financial institutions at risk and have adverse effects on the stock market."

--Statement of Chris Swecker, Assistant Director of the Criminal Investigative Division, Federal Bureau of Investigations, 8/07/2004.

"Rampant fraud in the mortgage industry has increased so sharply that the FBI warned Friday of an 'epidemic' of financial crimes which, if not curtailed, could become 'the next S&L crisis.'"

--"FBI warns of mortgage fraud epidemic," CNN.com, 9/17/2004.

"I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk."

--Email from Resource Realty, 7/22/05, Subject: "Washington Mutual," PSI-SP-000395, Ex. 45.

"'Who Will Be Left Holding The Bag?' It's a question that comes to mind whenever one price increase after another—say, for ridiculously expensive homes—leaves each succeeding buyer out on the end of a longer and longer limb: When the limb finally breaks, who's going to get hurt? In the red-hot U.S. housing market, that's no longer a theoretical riddle. Investors are starting to ask which real estate vehicles carry the most risk—and if mortgage defaults surge, who will end up suffering the most."

--S&P economic research paper, 9/12/2005.

"I'm not surprised; there has been rampant appraisal and underwriting fraud in the [mortgage] industry for quite some time as pressure has mounted to feed the origination machine."

--Email from S&P Managing Director Richard Koch, 8/07/2006, Subject: "Re: Loss severity vs gross/net proceeds," S&P-SEC-E-318394, Ex. 14.

"Interesting Business Week article on Option ARMs, quoting anecdotes involving some of our favorite servicers (It's no wonder Homecomings is under FTC scrutiny; could WAMU be next?)." "This is frightening. It wreaks of greed, unregulated brokers, and 'not so prudent' lenders. ... Hope our friends with large portfolios of these mortgages are preparing for the inevitable."

--Email exchange among S&P employees, including Managing Director Richard Koch, 9/02/2006, Subject: "Re: Nightmare Mortgages," S&P-SEC-E 1027382, Ex. 46a.

"I'm surprised the OCC and FDIC doesn't come downharder on these guys - this is like another banking crisis potentially looming!!"

--Email from S&P Managing Director, 9/05/2006, Subject: "Re: Loss severity vs gross/net proceeds," S&P-SEC-E 318394, Ex. 46b.

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EXHIBIT #1d

"You hit it right on the head – Ernestine [S & P head of surveillance group] told me that broken down to loan level what she is seeing in losses is as bad as high 40s -low 50s %[.] I'd love to be able to publish a commentary with this data but maybe too much of a powder keg"

--Email from S&P Managing Director, Subject: "RE: REO DATA," 9/29/2006, S&P-SEC-E 333308.

"To give you a confidential tidbit among friends the subprime brou haha is reaching serious levels - tomorrow morning key members of the RMBS rating division are scheduled to make a presentation to Terry McGraw CEO of McGraw-Hill Companies and his executive committee on the entire subprime situation and how we rated the deals and are preparing to deal with the fallout (downgrades)."

--Email from S&P Managing Director, 3/18/2007, Subject: "member firms reactions to troubled servicers," S&P-SEC-E 326209, Ex. 52a.

"In a meeting with Kathleen Corbet today, she requested that we put together a marketing campaign around the events in the subprime market, the sooner the better. … [S]he didn't feel that we are being proactive enough in communicating our thinking to the market as well as proactively protecting ourselves against bad press."

--Email from S&P employee, 3/20/2007, Subject: "Pre-empting bad press on the subprime situation," PSI-SP-000407, Ex. 52c.

"[O]ne aspect of our handling of the subprime that really concerns me is what I see as our arrogance in our messaging. … We did sound like the Nixon White House. Instead of dismissing people like him or assuming some dark motive on their part, we should ask ourselves how we could have so mishandled the answer to such an obvious question. I have thought for awhile now that if this company suffers from an Arthur Andersen event, we will not be brought down by a lack of ethics as I have never seen an organization more ethical, nor will it be by greed as this plays so little role in our motivations; it will be arrogance."

--Email from S&P employee discussing S&P conference call answering questions about mass downgrades of subprime mortgage backed securities, 7/13/2007, Subject: "Tomorrow's FT Column," Ex. 54a.

"[W]hy didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both. Moody's franchise value is based on staying AHEAD OF THE PACK on credit analysis and instead we are in the middle of the pack. I would like more candor from senior management about our errors and how we will address them in the future."

--Anonymous Moody's Managing Director after Town Hall Meeting with Moody's CEO Ray McDaniel, September 2007, Ex. 98.

"You're right about CDOs as WMD – but it's only CDOs backed by subprime that are WMD."

Email from Moody's employee, 11/27/2007, Subject: "Overnightor NY," PSI-MOODYS-000064, Ex. 58.

Excerpts from Documents Related to Credit Rating Agencies

Grandfathering

"FYI. Just sat on a panel with Frderic Drevon, my opposite number at Moody's who fielded a question on what happens to old transactions when there is a change to rating methodologie. The official Moody's line is that there is no 'grandfathering' and that old transactions are reviewed using the new criteria. However, 'the truth is that we do not have the resources to review thousands of transactions, so we focus on those that we feel are more at risk.' Interestingly, Olivier Dufour from Fitch said they 'grandfathered' as it would otherwise be 'unfair'."

--Email from S&P employee, 3/21/2006, Subject: "Moodys," S&P-SEC-E 355327, Ex. 71.

"The overarching issue at this point is what to do with currently rated transactions if we do release a new version of Evaluator [S&P ratings model]. Some of [us] believe for both logistical and market reasons that the existing deals should mainly be 'grand fathered'. Others believe that we should run all deals using the new Evaluator. The problem with running all deals using E3 is twofold: we don't have the model or resource capacity to do so, nor do we all believe that even if we did have the capability, it would be the responsible thing to do to the market."

--Email from S&P employee, 6/21/2005, Subject: "RE: new CDO criteria," S&P-SEC-E 403320, Ex. 60.

"[T]he way surveillance is done is different from how a new deal is done. ... In my opinion, this creates a sense of disconnect and analysts (new deal and surveillance) do not feel a need to make sure there is a good process and procedure in place to identify basic global assumption changes. ... The two major reasons why we have taken the approach is (i) lack of sufficient personnel resources and (ii) not having the same models/information available for surveillance to relook at an existing deal with the new assumptions (i.e. no cash flow models for a number of assets). The third reason is concerns of how disruptive wholesale rating changes, based on a criteria change, can be to the market."

--Email from S&P employee to Head of Global Surveillance Ernestine Warner, 10/6/2005, Subject: "RE: Tomorrow's AM Agenda," S&P-SEC-E 1264306, Ex. 62.

"We are in a bit of a pickle here. My legal staff is not letting me send anything out to any investor on anything with an S&P rating right now. We are waiting for you to tell us that you approve the disclaimer or are grandfathering our existing and pipeline deals. My business is on 'pause' right now."

--Email from Morgan Stanley banker to S&P, 11/23/2005, Subject: "Disclaimer – Help," S&P-SEC-E 427311, Ex 64.

"'Rabo Tango are withdrawing any interest from LNR because they had a call with S&P who confirmed that this was being rated off the old methodology. Rabo's conclusion was that they felt this deal was a prime candidate for a downgrade when the new methodology kicked in. I apologize if my voice mail seemed curt but this is a huge issue for us and the investor came to this conclusion immediately after the call with the S&P person."

--Email from Goldman Sachs banker to S&P, 1/31/2006, S&P-SEC-E 1159095, Ex. 69.

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"Simply put - although the RMBS Group does not 'grandfather' existing deals, there is not an absolute and direct link between changes to our new ratings models and subsequent rating actions taken by the RMBS Surveillance Group. As a result, there will not be wholesale rating actions taken in July or shortly thereafter on outstanding RMBS transactions, absent a deterioration in performance and projected credit support on any individual transaction."

--Email from S&P employee, 6/23/2006, Subject: "RMBS LEVELS 5.7 and its Impact on Outstanding Deals," S&P-SEC-E 1255416, Ex. 72.

"Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions [with regards to] Moody's old methodology."

--Email from Morgan Stanley Executive Director to Moody's, 5/2/2007, Subject: "Upcoming CLOs / grandfathering list," SEC_MOODYS00000345, Ex. 76.

"Heads-up/note on further question that the FT [Financial Times] (Paul Davis) are pursuing: Why don't we reassess all outstanding bonds when we announce to change our model assumptions for future transaction? He is focussing on US CMBS's recent changes, but this question applies across the board."

--Email from Moody's Senior Director in Structured Finance, 5/25/2007, Subject: "FW: Financial Times inquiry on transparency of assumptions," MIS-OCIE-RMBS-0364942.

"Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating. Instead, it reviews only those obligations that it considers most prone to multi-notch rating changes, in light of the revised rating approach. This decision to selectively review certain ratings is made due to resource constraints."

--Moody's Structured Finance Credit Committee, 3/31/2008, MIS-OCIE-RMBS_095, Ex. 80.

"[E]ach of our current deals is in crisis mode. This is compounded by the fact that we have introduced new criteria for ABS CDOs. Our changes are a response to the fact that we are already putting deals closed in the spring on watch for downgrade. This is unacceptable and we cannot rate the new deals in the same away [sic] we have done before. ... bankers are under enormous pressure to turn their warehouses into CDO notes."

--Email from Moody's Eric Kolchinsky, 8/22/07, Subject: "Deal Management," PSI-Moody's 000032, Ex. 42.

"[I]t would be helpful to have a policy framework communicated to the market on when S&P will apply new criteria in model derived ratings to outstanding transactions and when it won't. ... [W]e are not being as transparent as we need to be."

--Email from S&P employee, 12/07/05, Subject: "re: Call from Abby Moses, Derivatives Week re: status of CDO Evaluator 3," PSI-SP-000179, Ex. 67.

"How do we handle the grandfathering issue in the context of consistent application of criteria."

--Email from S&P employee, 7/15/07, Subject: "re: Special ABP meeting," PSI-SP-000254, Ex. 74.

Excerpts from Documents Related to Credit Rating Agencies
Chronic Resource Shortages

"Thanks for sharing the draft of the CDO surveillance piece you're planning to publish later this week. … In the section about your CDO surveillance infrastructure, we were struck by the data point about the 26 professionals who are dedicated to monitoring CDO ratings. While this is, no doubt, a strong team, we wanted to at least raise the question about whether the company's critics could twist that number – e.g., by comparing it to the 13,000+ CDOs you're monitoring - and once again question if you have adequate resources to do your job effectively. Given that potential risk, we thought you might consider removing any specific reference to the number of people on the CDO surveillance team."

--Email from Moody's employee, 7/09/2007, Subject: "FW: CDO Surveillance Note 7_071.doc," SEC_MOODYS00000545.

"While I realize that our revenues and client service numbers don't indicate any ill [e]ffects from our severe understaffing situation, I am more concerned than ever that we are on a downward spiral of morale, analytical leadership/ quality and client service."

--Email from S&P employee, 10/31/2006, Subject: "A CDO Director resignation," S&P-SEC-E 354159.

"There is some concern about workload and its impact on operating effectiveness. … Most acknowledge that Moody's intends to run lean, but there is some question of whether effectiveness is compromised by the current deployment of staff."

--Moody's SFG [Structured Finance Group] 2002 Associate Survey, Ex. 92a.

"We are over worked. Too many demands are placed on us for administrative tasks ... and are detracting from primary workflow …. We need better technology to meet the demand of running increasingly sophisticated models."

--Moody's BES Employee Survey 2005, Ex. 92b.

"Lehman is proposing an alternative way of calculating haircuts which I think has some merit …. Independent models are provided by several banks …. I must recognize that we do not have the knowledge nor the time to develop our own models."

--Email from Moody's employee, 12/05/2006, SEC_MOODYS00000052.

"I am trying to put my hat on not only for ABS/RMBS but for the department and be helpful but feel that it is necessary to re-iterate that there is a shortage in resources in RMBS. If I did not convey this to each of you I would be doing a disservice to each of you and the department. As an update, December is going to be our busiest month ever in RMBS. I am also concerned that there is a perception that we have been getting all the work done up until now and therefore can continue to do so. We ran our Staffing model assuming the analysts are working 60 hours a week and we are short resources. … The analysts on average are working longer than this and we are burning them out."

--Email from S&P employee, 12/29/2004, Subject: "RE: Staffing and Allocation," S&P-SEC-E 006032.

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EXHIBIT #1f

"We spend most of our time keeping each other and our staff calm. Tensions are high. Just too much work, not enough people, pressure from company, quite a bit of turnover and no coordination of the non-deal 'stuff' they want us and our staff to do."

--Email from S&P employee, 5/2/2006, Subject: "RE: Change in scheduling/Coaching sessions/Other stuff," S&P-SEC-E 1152365.

"RMBS has an all time high of 5900 transactions. Each time I consider what my group is faced with, I become more and more anxious. The situation with Lal, being off line or out of the group, is having a huge impact."

--Email S&P Head of Global Surveillance Ernestine Warner, 4/28/2006, S&P-SEC-E 1197409, Ex. 83.

"In light of the current state of residential mortgage performance, especially sub-prime, I think it would be very beneficial for the RMBS surveillance team to have the work being done by the temps to continue. It is still very important that performance data is loaded on a timely basis as this has an impact on our exception reports. Currently, there are nearly 1,000 deals with data loads aged beyond one month."

--Email from S&P Head of Global Surveillance Ernestine Warner, 12/20/2006, Subject: "Please continue temps," S&P-SEC-E 1223053, Ex. 84.

"I talked to Tommy yesterday and he thinks that the ratings are not going to hold through 2007. He asked me to begin discussing taking rating actions earlier on the poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now. A new process, without the right support, would be overwhelming. ... I really need to add to staff to keep up with what is going on with sub prime and mortgage performance in general, NOW."

--Email from S&P Head of Global Surveillance Ernestine Warner to Peter D'Erchia, 2/03/2007, Subject: "RE: Headcount for RMBS Surveillance?/," S&P-SEC-E 1201718, Ex. 86.

"We really need help. Sub prime is going down hill. The 20% not covered in our system is also of great concern. I am going ahead with interviewing for the open positions."

--Email from S&P Head of Global Surveillance Ernestine Warner to Peter D'Erchia, 2/13/2007, Subject: "RE: What's the problem now???," S&P-SEC-E 1201177, Ex. 87.

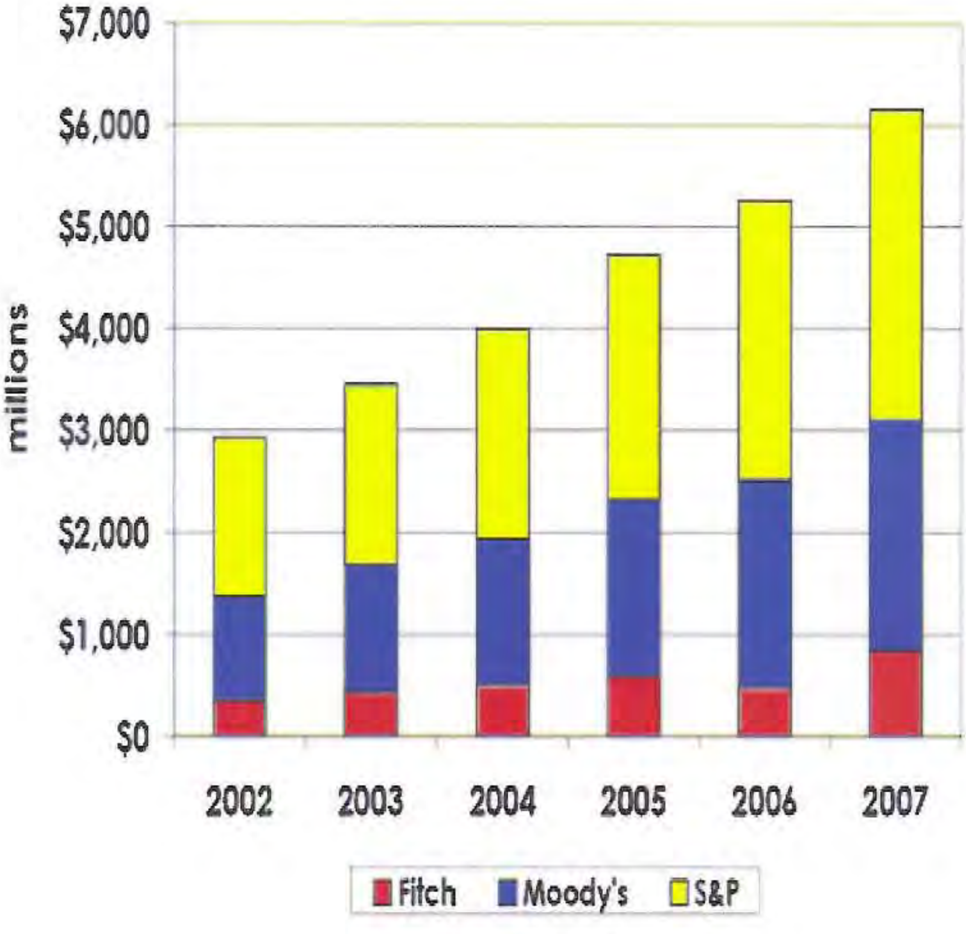
"We have worked together with Ernestine Warner (EW) to produce a staffing model for RMBS Surveillance (R-Surv). It is intended to measure the staffing needed for detailed surveillance of the 2006 vintage and also everything issued prior to that. This model shows that the R-Surv staff is short by 7 FTE- about 3 Directors, 2 AD's, and 2 Associates. The model suggests that the current staff may have been right sized if we excluded coverage of the 2006 vintage, but was under titled lacking sufficient seniority, skill, and experience."

--Email from S&P employee to Susan Barnes, 4/24/2007, Subject: "Staffing for RMBS Surveillance," S&P-SEC-E 899493, Ex. 88.

"Unfortunately, our analysts are o[v]erwhelmed."

--Email from Moody's Eric Kolchinsky, 5/23/07, PSI-Moody's-000052, Ex. 91.

Revenue of the Three Credit Rating Agencies: 2002-2007



Source: thismatter.com/money

Permanent Subcommittee on Investigations
EXHIBIT #1g

2006 Originations and RMBS Issuance

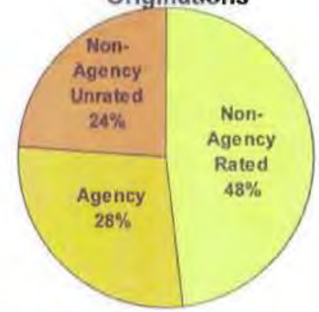
- **Mortgage Originations - $2.5 Trillion**
  - Subprime Originations - $600 Billion
    (70-75% of which is securitized and rated)

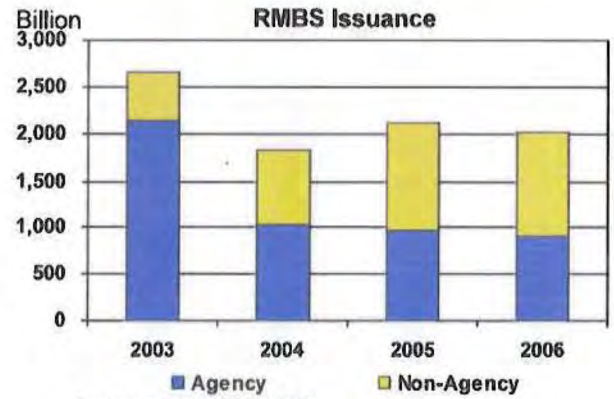
- **RMBS Issuance - $1.9 Trillion**
  - Non-Agency (Rated) Market - $1.2 Trillion
    - Subprime Issuance - $435 Billion or 36%
  - Agency (Freddie, Fannie and GNMA) Market - $0.7 Trillion

- **Other Non-Securitized Outstandings - $0.6 Trillion**
  - Held on balance sheet or in portfolio by financial institutions and privately financed generally through a base of retail deposits

Permanent Subcommittee on Investigations
EXHIBIT #1h

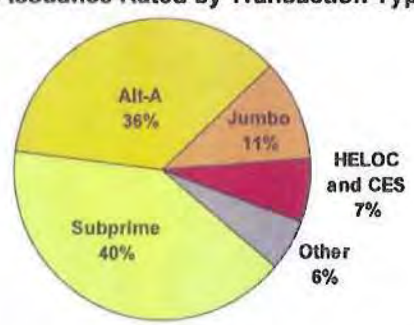
Originations





Source: Inside MBS & ABS

2006 Issuance Rated by Transaction Type *



Source: *Standard & Poor's Rating Services, U.S. Residential Mortgage Subprime Market, March 29, 2007.*

Permanent Subcommittee on Investigations
EXHIBIT #1i

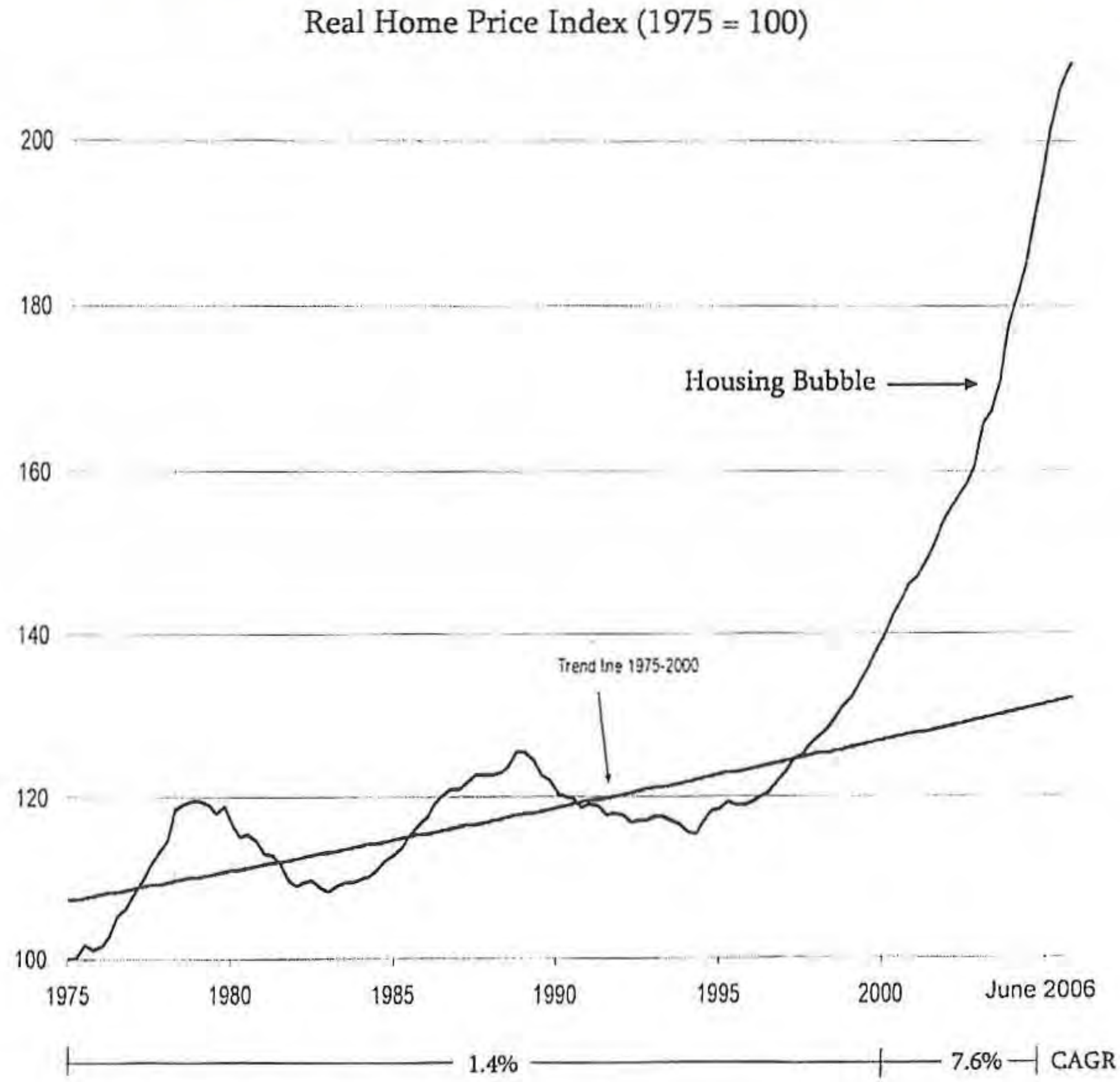
Percent of the Original AAA Universe Currently Rated Below Investment Grade

Vintage	Prime Fixed	Prime ARM	Alt-A Fixed	Alt-A ARM	Option ARM	Subprime
2004	3%	9%	10%	17%	50%	11%
2005	39%	58%	73%	81%	76%	53%
2006	81%	90%	96%	98%	97%	93%
2007	92%	90%	98%	96%	97%	91%

Source: BlackRock Solutions as of February 8, 2010. Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

ESTIMATION OF HOUSING BUBBLE: Comparison of Recent Appreciation vs. Historical Trends

Permanent Subcommittee on Investigations
EXHIBIT #1j



Source: Office of Federal Housing Enterprise Oversight, Bureau of Economic Analysis

PAULSON & CO. INC.

PSI-Paulson&Co-02-00003

Table 3: Biggest Clients of the Credit Rating Agencies

This table shows the amount of business each CDO originator did with the three main CRAs. Ranks are based on the total par amount of CDO tranches rated by the agency: the higher ranks correspond to more business. The total amount rated by the agency is shown in parentheses under the rank. The results are sorted by average ranking.

Originator	Average Rank	Moody's Rank ($mm)	Fitch Rank ($mm)	S&P Rank ($mm)
Merrill Lynch	1	1 ($76,908)	1 ($31,269)	1 ($77,275)
Citigroup	2	2 ($28,497)	6 ($2,972)	2 ($29,106)
UBS	3	6 ($17,124)	2 ($6,962)	4 ($20,396)
Wachovia	4	4 ($20,328)	7 ($2,527)	5 ($20,337)
Calyon	5	7 ($16,877)	3 ($4,656)	7 ($16,848)
Goldman Sachs	6	3 ($22,477)	14 ($0,798)	3 ($22,617)
Deutsche Bank	7	10 ($12,251)	5 ($3,390)	8 ($14,471)
Various Small Banks	8	5 ($18,742)	13 ($0,947)	6 ($18,689)
Credit Suisse	9	8 ($13,330)	8 ($1,893)	9 ($14,088)
RBS	10	12 ($10,686)	9 ($1,673)	12 ($11,704)
Lehman Brothers	11	11 ($11,985)	12 ($1,085)	11 ($12,024)
Bear Stearns	12	9 ($13,252)	16 ($0,296)	10 ($13,530)
Unknown	13	13 ($10,596)	11 ($1,248)	13 ($10,566)
Bank of America	14	14 ($7,994)	10 ($1,259)	14 ($8,412)
WestLB	15	17 ($4,178)	4 ($3,935)	19 ($1,345)
Dresdner Bank	16	15 ($7,732)	none	15 ($7,732)
Morgan Stanley	17	16 ($6,091)	17 ($0,242)	16 ($6,091)
Barclays Capital	18	18 ($3,005)	15 ($0,479)	17 ($3,417)
JP Morgan	19	19 ($1,769)	none	18 ($1,755)

Source: Anna Katherine Barnett-Hart, "The Story of the CDO Market Meltdown," March 2009.

Permanent Subcommittee on Investigations

EXHIBIT #1k

Cash Flow & Hybrid Mezzanine SF CDOs of ABS: Exposure to Subprime RMBS Collateral by Cohort	
CDO Year of Origination	**Subprime RMBS Exposure**
2000 Mezz SF CDOs	**9.9%**
2001 Mezz SF CDOs	**11.3%**
2002 Mezz SF CDOs	**24.4%**
2003 Mezz SF CDOs	**41.2%**
2004 Mezz SF CDOs	**44.5%**
2005 Mezz SF CDOs	**52.4%**
2006 Mezz SF CDOs*	**70.6%**

* Data for 2006 vintage deals includes deals having gone effective and started reporting by the end of February 2007

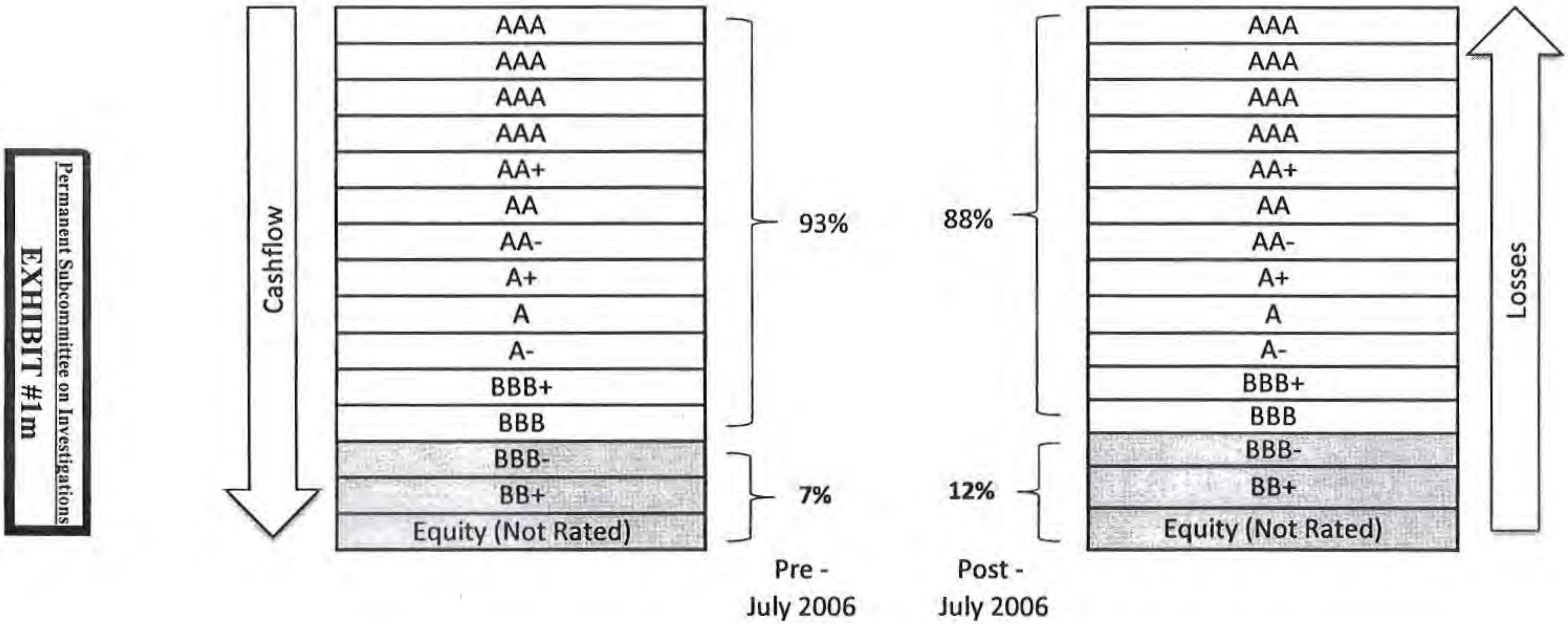
Source: Standard & Poor's, "Overview and Impact of the Residential Subprime Market," March 2007

Permanent Subcommittee on Investigations

EXHIBIT #11

Typical Structure of a Residential Mortgage Backed Security

Reflecting July 2006 Change in Standard and Poor's Credit Rating Model



In July 2006, Standard and Poor's revised rating model increased the required credit enhancement for subprime RMBS from about 7% to 12%.

Source: Standard and Poor's data, S&P SEN-PSI 0001473

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

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 compete 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.

Permanent Subcommittee on Investigations
EXHIBIT #2

From: Raiter, Frank
Sent: Wednesday, August 18, 2004 12:21 PM
To: Gillis, Tom
Subject: FW: SF CIA: CDO methodology invokes reactions

Importance: High

Mickey, we particularly like the bold language from a discovery perspective.

-----Original Message-----
From: Scott, Gale
Sent: Tuesday, August 17, 2004 6:14 PM
To: Gugliada, Richard; Tesher, David; Jordan, Pat; Raiter, Frank; Diamond, Kim
Cc: Gillis, Tom
Subject: RE: SF CIA: CDO methodology invokes reactions
Importance: High

Privileged and Confidential - Kim Diamond added

Rich,

We are meeting with your group this week **to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals.** I am much less concerned about whether it is an actual investor attack or not. Whatever the reason, the fact is, bonds below 'AAA' are pricing wider which impacts the weighted average pricing on the deals. Ultimately issuers will react by taking the path of least resistance and making sure Moody's is on the deals. Thereafter, it's only a matter of time before their rating is also mandated for the primary deals as well.

So yes, Moody's reaction is indeed predictable but if they have the ability to influence the market, what will be the impact on S&P? Are you telling us we should not be concerned because it is limited to CDO-squared investors? They seem to be an increasingly important link in the liquidity chain to me. Whatever the reason, if they can't buy or are forced to require wider pricing, what will be the impact on the overall market? While a predictable response to a competitive threat, let's carry it out to some "predictable" or reasonable results. In your expert opinion, what do you think the results of their responses will be and how are we reacting or do we need to react?

Gale

-----Original Message-----
From: Gugliada, Richard
Sent: Tuesday, August 17, 2004 5:09 PM
To: Scott, Gale; Tesher, David; Jordan, Pat; Raiter, Frank
Cc: Gillis, Tom
Subject: RE: SF CIA: CDO methodology invokes reactions

Privileged and Confidential

We have no plans on changing our methodology. The real differences in "CDO Criteria" come from the ratings on the underlying pools, that's where the biggest

Permanent Subcommittee on Investigations
EXHIBIT #3

PSI-SP-000346

differences occur with similarly rated pools we tend to come out with similar ratings.

In my opinion, our success (and Moody's failure) in RMBS, HEL, and some CMBS has caused Moody's to notch too severely in their CDOs. In other words, they are experiencing now what we went through in 2001 with respect to notching and it's impact on base business ratings. Lose the CDO and lose the base business - a self reinforcing loop. Their reaction seems to be a predictable response to a competitive threat.

Spread widening on the subordinate tranche CDOs who drop Moody's is attributable to the CDO-Squared investors who require Moody's ratings and now can't buy them or must take severe notching penalties in order to include them. I don't believe it to be an investor driven attack on our criteria as being too loose.

Hope this helps.
G

-----Original Message-----
From: Scott, Gale
Sent: Tuesday, August 17, 2004 3:17 PM
To: Gugliada, Richard; Tesher, David
Subject: FW: SF CIA: CDO methodology invokes reactions
Importance: High

What is your reaction to this? David, any more insight or intelligence about this? Can we discuss at some point?

Gale

-----Original Message-----
From: Duarte, Janice
Sent: Friday, August 13, 2004 5:38 PM
To: Albulescu, Henry; Althaus, Torsten; Anderberg, Stephen; Bastianpillai, Anjali; Bentham, Milbert; Bergman, Sten; Bryan, Andrea; Carelus, Jean-Baptiste; Chandler, Cian; Chang, Yu-Tsung; Chen, Weili; Cheng, Kenneth; Cheung, Lily; Chinn, Vanessa; Chiriani, Robert; Chopak, Laurie; Collingridge, Simon; Coyne, Patrick; Cretegny, Jerome; Csejtey, Rita; Cuby, James; Da Silva, Mei Lee; De Baere, Kevin; De Bie, Jacques; De Diego Arozamena, Alfredo; D'Erchia, Peter; Dougherty, Sean; Drexler, Michael; Duarte, Janice; Elengical, Jessica; Esser, Darren; Fazzio, Tullio; Flammier, Herve-Pierre; Fong, Winnie; Galli, Stephen; Gallizzo, Renee; Gaw, Mark; Ghetti, Belinda; Gilkes, Kai; Guadagnuolo, Lapo; Gugliada, Richard; Halprin, James; Harris, Sandra; Hegde, Suresh; Howley, Chris; Hudson, Danyel; Inglis, Perry; Jadotte, Mario; Jordan, Pat; Kambeseles, Peter; Kane, Brian; Khakee, Nik; Kharnak, Lina; Kitto, Thomas; Kobylinski, Jimmy; Kondo, Kenji; Lam, Diane; Lam, Jonathan; Leppert, Glen; Lewison, Martin; Loken, Andrew; Maroney, Robert; Martorell, Juan; Mccarthy, Terrence; McIntyre, Barbara; Michaux, Fabienne; Moriarty, Michael; Muthukrishnan, Ramki; Myneni, Ravi; Neilson, Francesca; Nelson, Soody; Ng, Chui; Ng, Swee-Fong; Nicholson, Mike; Nolan, Katarzyna; O'Brien, John; O'Keefe, Brian; Paciotti, Roberto; Polizu, Cristina; Quiles, Ericka; Quirk, Andrea; Quraishi, Rana; Rabiasz, Maria; Radicopoulos, Billy; Robert, Claire; Rothenberg, Stuart; Saito (S&P), Hiromi; Sampson, Kurt; Sargsyan, Eduard; Saxer, Samantha; Scanlin, Kate; Sera, Keith (S&P CMS Structured Fin); Serrano, Umberto; Sharma, Vandana; Smalls, Janine; Smith, Andrew (S&P); South, Andrew; Stanwix, Paul; Sun, George; Swiderek, Natalie; Tesher, David; Thomas Morgan, Sarah; Tora, Jose; Tsuei, Linda; Van Acoleyen, Katrien; Varma,

Harsha; Vento, Jennifer; Vindigni, Kathy; Warman, Dov; Widernik, Anna; Wong, Calvin; Wong, Elwyn; Yang, Li; Yu, Ling
Cc: Arjoon, Naresh; Audino, Diane; Augustus, Ashok; Barkan, Susanne; Bessenoff, Arlene; Buendia, Rosario; Chu, Nancy; Colbert, Cathy; De Mollein, Juan; Del cioppo, Felicitas; Erturk, Erkan; Feinland Katz, Laura; Fernandez, Cesar; Fitzgerald, Carol; Gamza, Ilana; Gillis, Tom; Gogoll, Ted; Goldstein, David; Goodier, Richard; Hu, Joseph; Ingram, James; Johnson, Ron Louis; Kime, Kevin; Klein, David; Kochubka, Gary; Logan, Jacki; Losice, Abe; Mahoney, Patrick; Mcdonald, Scott; Murray, Tom; Popa, Andreea; Quinn, William; Raiter, Frank; Rojas, Andrea; Rose, Joanne; Scott, Gale; Shaknes, Svetlana; Shaw, Sam; Sheridan, Joseph; StructuredFinance; Tempkin, Adam; Traverso, Lucy; Walsh, Susan; Young, Sue; Zaineldeen, Richard
Subject: SF CIA: CDO methodology invokes reactions

SF Competitive Intelligence Alert

Asset Securitization report
The Premier Guide to Asset and Mortgage-Backed Securitization

CDO methodology invokes reactions

Monday, August 16, 2004

While not carrying the shock value of New Jersey Gov. Jim McGreevey's announcement last week, the fact that some CDOs backed by real estate collateral are pricing sans ratings from Moody's Investors Service has opened up a can of worms about CDO- rating methodologies and how those deals have priced. Now comes talk that Fitch Ratings will announce changes to their ratings metodology next month.

"Since our new criteria was introduced last year, we will be making refinements. We will have modest improvements to our approach, which we expect to bring out in September," said Fitch Managing Director John Schiavetta.

Some focused improvements pertain to CDO squared methodology and the use of Fitch product Vector as a trading tool for synthetically managed CDOs, said Schiavetta. But some of the improvements will affect CDOs backed by real estate collateral, currently a hot topic in the market.

"There's some increased granularity in the treatment of ABS sectors and that would have an impact on CMBS CDOs or any mortgage-related CDOs," Schiavetta explained.

It wasn't clear how deep the changes to Fitch's methodology would go in this area with more details to emerge in September. A spokesman for Standard & Poor's stated the CDO group there had not announced any changes to its methodology pertaining to the CDOs or home-equity ABS.

Pricing wider

Market participants have been buzzing about the lack of a Moody's rating attached to some recently priced CDOs backed by real estate collateral (see ASR 7/19/04). As previously reported, throughout the year, a more conservative ratings methodology on deeply subordinated classes of hyper-tranched transactions rated by Moody's has left the leading rating agency off some recent home-equity ABS. Now home equity-focused CDOs are showing evidence of the same trend.

C-BASS CDO XI, a $500 million CDO backed by RMBS and ABS priced July 29 via joint-lead managers Deutsche Bank Securities and Lehman Brothers, was noticeably absent a Moody's rating, but rather had ratings from both Standard & Poor's and Fitch. The same was true for GMAC Institutional Advisors' a $500 million real estate CDO G-Star 2004-4 and the $300 million Acacia CDO 5 via RBS Greenwich Capital which priced in June.

Reaction from the market, in terms of pricing, has varied. For instance, the triple-A rated senior tranche of Acacia CDO 4, rated by Moody's and S&P but not Fitch, priced at 38 basis points over three-month Libor in April - the same pricing achieved for the triple-A seniors of Acacia 5, pricing in July and which did not contain a Moody's rating.

However, recent research from Lehman Brothers indicates that there has been some reaction to the lack of a Moody's rating in ABS. "The triple-B subordinate sector has tightened by 25 basis points since the beginning of June. However, subordinates not rated by Moody's due to its new and more stressful cashflow analytics criteria have been trading at wider levels. For example, a tripple-B rated (S&P and Fitch) tranche without a Moody's rating generally trades 150 to 200 basis points wider than a Moody's rated 'Baa2' bond," Lehman's said in its July 26 weekly report. - CMO

From: Gillis, Tom
Sent: Tuesday, November 09, 2004 12:11 PM
To: Scott, Gale
Subject: RE: APB Meeting - Nov 4

Gale,
when i get back to office i will resond in full. Thanks tom

-----Original Message-----
From: "Scott, Gale" <gale_scott@standardandpoors.com>
Sent: 11/9/04 9:57:04 AM
To: "Gillis, Tom" <tom_gillis@standardandpoors.com>
Cc: "Buendia, Rosario" <rosario_buendia@standardandpoors.com>, "Rose, Joanne" <joanne_rose@standardandpoors.com>
Subject: FW: APB Meeting - Nov 4

Tom,

I am confused. Why was there any dissention if this is the market reaction? Essentially, Joanne, Rosario and I ended up agreeing with your recommendation but the CDO team didn't agree with you because they believed it would negatively impact the business. It has not and there is no indication that it ever will. So why didn't we know what the "real" market sentiment was before the appeal meeting? We asked the questions and got answers, but I am now not sure if they were sufficient. I think the criteria process must include appropriate testing and feedback from the marketplace

Gale

-----Original Message-----
From: Inglis, Perry
Sent: Tuesday, November 09, 2004 2:59 AM
To: Scott, Gale
Cc: Gillis, Tom
Subject: Re: APB Meeting - Nov 4

Gale
The people we spoke to were indifferent to the two alternatives. There was no suggestion of taking their business elsewhere because of the new proposal (compared to all sorts of threats for the old stated coupon methodology!). My expectation is that it will be well received.

I hope that helps.

Perry

-----Original Message-----
From: Scott, Gale <gale_scott@standardandpoors.com>
To: Inglis, Perry <perry_inglis@standardandpoors.com>
CC: Gillis, Tom <tom_gillis@standardandpoors.com>
Sent: Tue Nov 09 00:09:36 2004
Subject: RE: APB Meeting - Nov 4

Permanent Subcommittee on Investigations
EXHIBIT #4

Perry,

Is it seen as preferable to the solution that you proposed? I am trying to ascertain whether we can determine at this point if we will suffer any loss of business because of our decision and if so, how much? We should have an effective way of measuring the impact of our decision over time.

Gale

-----Original Message-----
From: Inglis, Perry
Sent: Monday, November 08, 2004 1:28 PM
To: Scott, Gale
Cc: Gillis, Tom
Subject: RE: APB Meeting - Nov 4

Hi Gale

Yes we did speak to some clients - ML, Deutsche and UBS on the arranger side, UOB on the wholesale investor side, and Prudential on the investor/manager side. All of the reaction was positive - seen as a sensible outcome and good level of disclosure for the market and from the arranger's perspective preferable to the residual coupon solution.

Perry

-----Original Message-----
From: Gillis, Tom
Sent: 08 November 2004 16:49
To: Inglis, Perry
Subject: FW: APB Meeting - Nov 4
Importance: High

Perry,
Can you follow-up on Gale's question below if you haven't had a chance yet? Thanks Tom

-----Original Message-----
From: Scott, Gale
Sent: Friday, November 05, 2004 9:45 AM
To: Gillis, Tom; Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Carrier, Henry; Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: RE: APB Meeting - Nov 4
Importance: High

Great. Thanks Tom. Have we been able to speak to any clients yet to get their reaction to this? Would it be possible for the PLs &/or criteria leaders to share market reaction with us?

Gale

-----Original Message-----
From: Gillis, Tom
Sent: Friday, November 05, 2004 8:00 AM
To: Scott, Gale; Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Carrier, Henry;

Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: RE: APB Meeting - Nov 4

Gale,

The specific symbology would be 'AAAp' and 'NRi'. We cannot use slash between ratings because that is how we rate bonds with puts. The Muni group graciously agreed to abandon to their use of 'p' for provisional ratings that they have used for decades. We have contacted core to make the requisite changes. We may not be able to get it on RD or many of the feeds that we issue may not be able to accept it (Bloomberg for instance). We should make sure that our own feeds can handle it - Liquid, SADB, and CDO Accelerator? Thanks Tom

-----Original Message-----
From: Scott, Gale
Sent: Thursday, November 04, 2004 4:21 PM
To: Gillis, Tom; Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Carrier, Henry; Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: RE: APB Meeting - Nov 4
Importance: High

Tommy,

What exactly did APB agree to as far as symbology was concerned? AAA/NR or are there also subscripts that would delineate principal vs. interest.

Gale

-----Original Message-----
From: Gillis, Tom
Sent: Thursday, November 04, 2004 3:22 PM
To: Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Scott, Gale; Carrier, Henry; Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: FW: APB Meeting - Nov 4

FYI!

-----Original Message-----
From: Daicoff, Cathy
Sent: Thursday, November 04, 2004 1:31 PM
To: Samson, Sol; Gillis, Tom; Sprinzen, Scott; Chew, Bill; Griep, Cliff; Dawson, Petrina

Subject: RE: APB Meeting - Nov 4

Sol, at this point APB has only approved the use of NR on the interest portion. At this point the structured group is receiving requests to rate the principal separate from interest, but no market need in the interest rating itself. There are a number of analytical issues to consider about potential rating changes that may occur on the interest portion depending on changes in credit quality for the referenced pool. Thus, to facilitate the decision we needed to make today APB approve p and i separation with the need for any analytical group who wants to rate i other than NR to come back to APB for approval and criteria review. We would imagine that we would shortly receive these request once our policy is out.

-----Original Message-----
From: Samson, Sol
Sent: Thursday, November 04, 2004 1:22 PM
To: Daicoff, Cathy; Gillis, Tom; Sprinzen, Scott; Chew, Bill
Subject: RE: APB Meeting - Nov 4

Assigning dual or separate ratings is perfectly fine with me. (All along, I have opposed the silly approach that is in current usage, as I think you know.)

But I'm unclear regarding the criteria for rating each of the components (especially interest)....are we going to rate to payment with NO reduction whatsoever, i.e., no credit event above the threshold?

-----Original Appointment-----
From: Chew, Bill On Behalf Of Daicoff, Cathy
Sent: Thursday, November 04, 2004 10:36 AM
To: Sprinzen, Scott; Samson, Sol
Subject: FW: APB Meeting - Nov 4
When: Thursday, November 04, 2004 9:00 AM-11:00 AM (GMT-05:00) Eastern Time (US & Canada).

Where: Regular Location

Scott, Sol: Attached is proposal for SF to begin assigning separate ratings to principal and interest. Proposal is restricted to structured credit-liked notes where the two sources of

credit can be fully separated. Please review and e-mail or call with any comments or questions. Thanks, Bill 7981.

From: Warrack, Thomas
Sent: Wednesday, March 23, 2005 12:11 PM
To: Parisi, Frank; Osterweil, Terry; Barnes, Susan; Kennedy, Martin; Mason, Scott; Stock, Michael
Cc: Grow , Brian (S&P); Cao, Becky
Subject: Re: LEVELS 5.6(c)

We all agreed that the levels outlined below needed to go up, just no where near as high as 6.0 had them going.

-----Original Message-----
From: Parisi, Frank <francis_parisi@standardandpoors.com>
To: Warrack, Thomas <thomas_warrack@standardandpoors.com>; Osterweil, Terry <terry_osterweil@standardandpoors.com>; Barnes, Susan <susan_barnes@standardandpoors.com>; Kennedy, Martin <martin_kennedy@standardandpoors.com>; Mason, Scott <scott_mason@standardandpoors.com>; Stock, Michael <michael_stock@standardandpoors.com>

CC: Grow , Brian (S&P) <brian_d_grow@standardandpoors.com>; Cao, Becky <Becky_Cao@standardandpoors.com>
Sent: Wed Mar 23 08:42:51 2005
Subject: RE: LEVELS 5.6(c)

While I agree with number 1, I'm puzzled. When we first reviewed 6.0 results **a year ago** we saw the sub-prime and Alt-A numbers going up and that was a major point of contention which led to all the model tweaking we've done since. Version 6.0 could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share.

As for timing, we need to get the AVM updates out ASAP as our analysis is several months old at his point. Also, the HVI shows continued deterioration as more MSAs shift into higher risk.

> -----Original Message-----
> From: Warrack, Thomas
> Sent: Wednesday, March 23, 2005 8:09 AM
> To: Osterweil, Terry; Barnes, Susan; Kennedy, Martin; Mason, Scott; Parisi, Frank; Stock, Michael
> Cc: Grow , Brian (S&P); Cao, Becky
> Subject: RE: LEVELS 5.6(c)
>
> Terry, Unless the HVI is truly insignificant (we'll see in the testing) we may need to give issuers at least some notice.
>
> Other suggestions for 5.7-
>
> 1- We have known for some time (based upon pool level data and LEVELS 6.0 testing) that
>
> Subprime: B and BB levels need to be raised
> ALT A: B, BB and BBB levels need to be raised (we have had a disproportionate number of downgrades)
> (Question: how do we effect ALT A levels without effecting Jumbo to much ??, maybe going back to the hits for limited doc, investor and second home, etc.)
>
> Is there a temporary fix we could put in to move the levels up a bit, while we are waiting for 6.0?
>
> 2- How about smoothing some of the extreme bucketing in the criteria (LTVs over 80, etc.)

3- IO criteria by term, so that the further out is the IO period the lower the hit, and that if the IO period coincides with the ARM period of the Hybrid ARM the hit is worse.

4- Is there a way to automate all the outside of the model breakouts the analysts are required to do?

Can the model automatically produce the reports needed for the LTV > 90% and 2nd lien analysis?

LEVELS (maybe thru an auto download into an Excel report) could do the same calculations we are making on the outside, including a suggested (committee would still need to approve) weighted average number.

Thanks, Tom

-----Original Message-----
From: Osterweil, Terry
Sent: Tuesday, March 22, 2005 9:20 PM
To: Barnes, Susan; Kennedy, Martin; Mason, Scott; Parisi, Frank; Stock, Michael
Cc: Warrack, Thomas; Saftoiu, Elena; Karkhanova, Lyudmila; Momin, Naushad; Grow , Brian (S&P); Cao, Becky; Mahoney, Patrick; Bui, Truc

Subject: FW: LEVELS 5.6(c)

All,

After meeting with the IT team and discussing the changes that we are requesting for this release (new format, new loss coverage report, updated HVI, updated HPI, possibly new neg-am criteria and new SPIRE related fields), the time needed to get this release out is expanding. So, in order to keep our indexes current (we are already 3 quarters behind), we are doing a quick 5.6(c) release. This release will include only an updated HVI and HPI (both 4th quarter '04) and the new AVMs. Since this is relatively complete, we can test quickly and get it out at the beginning of April for May deals (there should be very little change in our levels).

Once this is done, we will then work on version 5.7 (yes, at this point Frank won't care). This version will include all of the above mentioned items, including a revised format with SPIRE related fields. We can have this done in a couple of months.

If any one has any questions on this, let me know.

Terry

-----Original Message-----
From: Saftoiu, Elena
Sent: Monday, March 14, 2005 11:51 AM
To: Osterweil, Terry; Mason, Scott
Cc: Fong, Vivien; Momin, Naushad; Karkhanova, Lyudmila; Mahoney, Patrick; Bui, Truc

Subject: Release 5.6c

We have revised the requirements document for Release 5.6c - please see attached.

Scott,
Please let us know about the Volatility codes.

Terry,
We would like to have the updated 5.6c file format (new AVMs, ...)

We thought to send Release 5.6c like a mini-release i.e.
the users will need to re-run QC and re-analyze the pools (can not run the old reports).

thanks!
Elena

From: Parisi, Frank
Sent: Tuesday, June 14, 2005 11:11 AM
To: Bruzese, Frank; Mason, Scott; Osterweil, Terry; Kennedy, Martin; Stock, Michael
Cc: Kostiw, Karen; Tencer, Steve; Beauchamp, Kyle; Warrack, Thomas; Barnes, Susan
Subject: RE: Privileged Criteria Deliberations: CWHEQ 2005-C

Frank,

As you observed LIBOR is more volatile than PRIME and rates fluctuate over time. That's the simple answer that needs no further discussion, or as you put it "it is what it is" and we need to stand behind it.

Why these questions come up every month is obvious -- issuers don't like the outcome. However, the right thing to do is to educate all the issuers and bankers and make it clear that these are the criteria and that they are not-negotiable. If this is clearly communicated to all then there should be no monthly questions.

OC targets will fluctuate month to month based on changes in rates, but I don't see the problem -- if issuers want to protect against changes they should be hedging their production, we are not the hedge. That's the way the financial markets work. Deals get sized according to the current rates -- if things change that's a risk of doing business. The "long term" solution is to apply the then current vectors consistently across all deals -- no exceptions, no special cases.

Screwing with criteria to "get the deal" is putting the entire S&P franchise at risk -- it's a bad idea.

Frank

-----Original Message-----
From: Bruzese, Frank
Sent: Tuesday, June 14, 2005 10:41 AM
To: Mason, Scott; Osterweil, Terry; Kennedy, Martin; Stock, Michael; Parisi, Frank
Cc: Kostiw, Karen; Tencer, Steve; Beauchamp, Kyle; Warrack, Thomas
Subject: Privileged Criteria Deliberations: CWHEQ 2005-C

To all,

I am currently working on a bond-insured HELOC deal for Countrywide in which FSA has submitted a structure. Charlie Campbell is inquiring as to why the OC requirement on this deal has increased since March (1.25-1.65 target). From what Kyle and I were able to tell, it is purely an interest rate vector move based on the Prime-LIBOR spread. Currently, the Prime-LIBOR relationship is wholly based on the relationship between the two rates the day the vectors are created. LIBOR is more volatile than prime on a day-to-day basis, but the relationship is very consistent over a longer period of time. Please see chart below:

Average Difference Between Prime and 1 Month LIBOR

Deal	12 month	24 month	36 month	48 month	60 month
Current	2.54%	2.49%	2.51%	2.54%	2.55%
March	2.65%	2.61%	2.64%	2.69%	2.70%

Notice that the Prime-LIBOR spread over a five year period never narrows from April first

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payment vectors to July first payment vectors. The question is, are we prepared to consistently reply to inquiries that "it is what it is" from month-to-month, knowing full well that OC targets will fluctuate purely on short-term Prime-LIBOR spread volatility? How do we address this problem now as this structure needs to go out today, and what long term solutions should be in the works? Thanks and regards.

All loss coverage levels provided by Standard and Poor's are contingent upon your representation that all mortgage loans in any loan level file submitted by you to Standard & Poor's for analysis are correctly categorized as "High Cost Loans", "Covered Home Loans", or "Home Loans", as categorized by the current version of Standard & Poor's LEVELS® Glossary Appendix E.

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Structured Finance
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55 Water Street, 40th Floor
New York, NY 10041
Phone: 212.438.1809
Fax: 212.438.2661
frank_bruzese@standardandpoors.com

From: Vonderhorst, Brian
Sent: Wednesday, February 08, 2006 3:09 PM
To: Bruzese, Frank; Warrack, Thomas; Barnes, Susan; Tegen, Daniel; Shaikh, Waqas; Osterweil, Terry
Cc: Arne, Errol
Subject: RE: EMC Compares

I don't think this is enough to satisfy them. What's the next step?

-----Original Message-----
From: Bruzese, Frank
Sent: Wed Feb 08 14:55:37 2006
To: Warrack, Thomas; Barnes, Susan; Tegen, Daniel; Shaikh, Waqas; Osterweil, Terry
Cc: Arne, Errol; Vonderhorst, Brian
Subject: RE: EMC Compares

All,

I changed the first payment date for all loans that were seasoned 5 years or greater back to their original date so they would receive credit in LEVELS (approx 17.4% of total pool balance). The net effect was not as great as expected:

WA AAA loss coverage dropped from 28.75 to 28.00
WA BBB loss coverage dropped from 11.00 to 10.75

The OC requirement dropped from an initial of 7.20% building to 8.05%, to an initial of 7.05% building to 7.85%.

How should I proceed from here?

All loss coverage levels provided by Standard and Poor's are contingent upon your representation that all mortgage loans in any loan level file submitted by you to Standard & Poor's for analysis are correctly categorized as "High Cost Loans", "Covered Home Loans", or "Home Loans", as categorized by the current version of Standard & Poor's LEVELS® Glossary Appendix E.

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services are performed as entirely separate activities in order to preserve the independence and objectivity of each analytic process. Each analytic service, including ratings, may be based on information that is not available to other analytic areas.

-----Original Message-----
From: Bruzese, Frank
Sent: Wednesday, February 08, 2006 11:26 AM
To: Warrack, Thomas; Barnes, Susan; Tegen, Daniel; Shaikh, Waqas; Osterweil, Terry
Cc: Arne, Errol; Vonderhorst, Brian
Subject: EMC Compares

Please see below some of the characteristic differences between 05-B and 06-A:

1) % Reperforming

05-B	06-A
100%	98%

Reperforming loans in 06-A were not given seasoning credit, but loans in 05-B were, thereby giving 05-B better loss coverage with regards t this characteristic.

2) LTV:

05-B

Levels

Orig	Adj
88.90	71.72

06-A

Levels

Orig	Adj	Outside Model Adj
91.37	77.25	Approx 81

Original LTV and adjusted LTV are both higher, before methodology change for 06-A.

3) FICO and RG

05-B
WA 510.51

06-A
WA 522.67

Although the WA FICO is higher for 06-A, the risk grade multiple is worse (2.774 vs 2.542). This is attributed to the higher balance loans having the worse FICOs.

4) Seasoning

05-B

<1 0%
1-3 53.42%
3-5 18.81%
5-10 27.21%
>10 0.56%

06-A

<1 1.51%
1-3 64.14%
3-5 17.03%
5-10 17.04%
>10 0.30%

Seasoning credit is stripped out for 06-A, whereas it was included for 05-B for all reperforming loans. Reperforming loans however, are essentially the entire deal.

5) Doc Types

05-B
V - 28.95%
Z-68.31%

06-A
V-74.15%
Z-22.35%

Call me with any questions.

All loss coverage levels provided by Standard and Poor's are contingent upon your representation that all mortgage loans in any loan level file submitted by you to Standard & Poor's for analysis are correctly categorized as "High Cost Loans", "Covered Home Loans", or "Home Loans", as categorized by the current version of Standard & Poor's LEVELS® Glossary Appendix E.

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From: Kharnak, Lina
Sent: Thursday, February 16, 2006 8:07 PM
To: Ghetti, Belinda
Subject: FW: Re: comstock

B, take a look.....

-----Original Message-----
From: Tang, Edward C [FI] [mailto:edward.c.tang@citigroup.com]
Sent: Thu Feb 16 18:13:16 2006
To: Kharnak, Lina
Subject: Re: comstock

Thanks, lina. I'm out today and tommorow but I am VERY concerned about this E3. If our current strucutre, which we have been marketing to investors and the mgr, (and which we have been doing prior to the release of the beta cash flow assumptions) doesn't work under the new assumptions, this will not be good. Happy to comply, if we pass, but will ask for an exception if we fail...

-----Original Message-----
From: Kharnak, Lina
To: Tang, Edward C [FI]
Sent: Thu Feb 16 09:57:03 2006
Subject: RE: comstock

Hi Ed,

Yes, you will have to apply E3. I will also send you beta cashflow assumptions with revised recovery rates.

If you have a portfolio, shoot it over, we can start testing the impact of E3 internally.

Lina

-----Original Message-----
From: Tang, Edward C [FI] [mailto:edward.c.tang@citigroup.com]
Sent: Wednesday, February 15, 2006 2:24 PM
To: Kharnak, Lina
Subject: RE: comstock

yes, it is silvermine 2.

-----Original Message-----
From: Kharnak, Lina [mailto:lina_kharnak@standardandpoors.com]
Sent: Wednesday, February 15, 2006 2:23 PM
To: Tang, Edward C [FI]

Permanent Subcommittee on Investigations
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Subject: RE: comstock

Is this the next Silvermine transaction? Let me check.

-----Original Message-----
From: Tang, Edward C [FI] [mailto:edward.c.tang@citigroup.com]
Sent: Wed Feb 15 14:19:00 2006
To: Lina Kharnak (E-mail)
Subject: comstock

Lina, we are generally targeting an april close w/ 10% CDO basket on comstock.

Will E3 apply, in your best guess? Will E3 penalize the CDO assets?

From: De Diego Arozamena, Alfredo
Sent: Tuesday, May 02, 2006 9:58 AM
To: Chiriani, Robert; Fong, Winnie; Cho, Jaiho; Carelus, Jean-Baptiste; Zhao, Bruce
Cc: Mooney, Shannon
Subject: RE: ***Privileged & Confidential Committee Deliberations **** - Madaket Funding

After speaking to Shannon to better understand the nature and sensitivity of the failure, I'm OK with the results.

Alfredo

From: Chiriani, Robert
Sent: Tuesday, May 02, 2006 9:45 AM
To: De Diego Arozamena, Alfredo; Fong, Winnie; Cho, Jaiho; Carelus, Jean-Baptiste; Zhao, Bruce
Cc: Mooney, Shannon
Subject: ***Privileged & Confidential Committee Deliberations **** - Madaket Funding
Importance: High

****** PRIVILEGED & CONFIDENTIAL COMMITTEE DELIBERATIONS****

Dear Committee Members,

As you may recall, Madaket Funding is a HG CDO of ABS with Standish-Mellon as the manager and Citi as the banker. We had a number of issues on the modeling side, including an initial request to rate only to principal on the Class D tranche. Since that is not appropriate under our rating methodology, Citi did make adjustments to the capital structure so that the rating would fully address the terms of the note (P&I).

There is one run failing on the class D tranche (BBB-). Shannon has provided details in the e-mail below. I submit for your consideration the banker's argument to waive the one failing run. I am not a proponent of run waivers, but given that it is passing under E3 & beta cash flow assumptions, I would tend to be more forgiving.

Please let me know your thoughts. I would be happy to re-convene the committee if you feel that is warranted.

Bruce, John O'Brien & I are meeting with the manager in Boston on Thursday (let's hope the Yankees can win tonight and even the season series before I have to go to Red Sox Nation!)

Bob

-----Original Message-----

From: Mooney, Shannon

Sent: Wednesday, April 26, 2006 12:30 PM

To: Chiriani, Robert

Subject: Madaket Funding Modeling Issue

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EXHIBIT #9

Hi Bob,

Under Evaluator 2.4.3 cashflow assumptions the Class D (BBB-) tranche is failing in one scenario by 48 basis points. The failing scenario is classified by the following: Fast Prepayment Environment; Libor BBB Down; Sawtooth Mid Default Pattern. This default pattern stresses defaults out to year nine. The collateral has a WAL of 8 years in the base case and a WAL of 7 years in the fast prepayment environment. The cashflows indicate that the deal can withstand this default pattern. In other words, the deal is not running out of collateral; there is some portion of the collateral available to default in year nine. The banker is arguing that it is too punitive to run a default pattern that assumes defaults are occurring beyond the WAL of the collateral. He is requesting that this run be omitted.

It should be noted that Class D is not failing under E3 cashflow assumptions. The E3 results are attached.

Best,

Shannon Mooney

Senior Research Assistant, Global CDO Group

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<< File: QRamp Pricing 4.26.2006.xls >> << File: QRamp E3 Results Pricing 4.26.2006.xls >>

From: O'Brien, John
Sent: Wednesday, May 03, 2006 9:01 AM
To: Rashid, Malik
Subject: RE: Broadwick Funding.
Sure. Call me when you're free.

John

-----Original Message-----
From: Rashid, Malik
Sent: Tuesday, May 02, 2006 9:32 PM
To: O'Brien, John
Subject: RE: Broadwick Funding.

John,

Let's re-group on this tomorrow at a time that suits you; I realize that the closing date is coming soon. I apologize for not being able to partake in the call today; issues cropped up in nearly every transaction I'm currently staffed on.

Malik

-----Original Message-----
From: Meyer, Chris
Sent: Monday, May 01, 2006 9:08 PM
To: O'Brien, John
Cc: Rashid, Malik
Subject: RE: Broadwick Funding.

John,

I'm not sure what they are talking about in terms of the modeling based solution, but I'm not sure how you can model the counterparty risk with respect to Writedown Reimbursement Amounts. In addition, you can tell them that if the are referring to ABACUS 2006-12, which closed lastThursday, that is the last trade that will not be required to post Writedowns (unless they can demonstrate conclusively that our concern is otherwise dealt with in the structure). It was a known flaw not only in that particular ABACUS trade, but in pretty much all ABACUS trades (which between the three of us were all rated by the same person...who neglected to catch other important criteria issues...or ignored them after being told to correct them by Team Leaders and business managers). The ABS desk at Goldman has already been told that the all of the de-linking criteria would need to be addressed in future ABACUS trades, and this includes posting of Writedown Amounts.

In terms of the CSA and opinion language, they do have a point...if we indeed have RAC. Nevertheless, I always copy and past the description of the opinion from the counterparty criteria article and ask why they can't include the language. It's very generic and doesn't ask them to speak to any details.

It looks like swap termination payments to the swap counterparty are netted senior out of the Synthetic Security Counterparty Account. Is this the case?

I'm not sure if this helps. At this point, I'm not thinking all that clearly.

Regards,
Chris

-----Original Message-----
From: O'Brien, John
Sent: Mon 5/1/2006 5:55 PM
To: Meyer, Chris
Cc: Rashid, Malik
Subject: FW: Broadwick Funding.

Chris - Would really appreciate any/all guidance on this you can offer. Trying to wrap this up as soon as possible.

Thanks,
John

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 5:23 PM
To: Rashid, Malik
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Malik thanks for the feedback -

1. GS has not agreed to this hold back provision in any of our previous transactions (including the ABACUS deal that just closed last week) - and we cannot agree to it in this deal. We'd discussed the modeling based solution with respect to this counterparty risk back on April 13th - and it was ultimately communicated to us the following week there would be no changes in this transaction on this point.

2. I agreed with your long term rating comment (BBB+) as well as the 10 day delivery of the opinion. I thought this was reflected in the document - but I assure you it will be so in the next deal.

3. In terms of timeliness - the CDO holds the collateral and as soon as there is a termination and the appropriate termination payments have been made - the lien that the synthetic security counterparty has on the collateral is released to the trustee. this is outlined in section 12.2 of the indenture. Is there specific language you'd like to see here? if so, I'd be happy to review and try and incorporate, where appropriate.

4. Given that the CSA is will be subject to RAC, S&P will have ability to refview the opinion and to the extent it is not satisfactory, act accordingly. We cannot agree to specifically enumerate the carve outs at this time, due to the fact that there may be changes in case law, market practice, etc. that would have an impact on the opinion between now and the time when any opinion would be required.

From: Rashid, Malik [mailto:malik_rashid@standardandpoors.com]
Sent: Monday, May 01, 2006 4:53 PM
To: Bieber, Matthew G.
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt,

I realize that GS abd the CDO group have differences in opinion over certain provisions, but I understand from conversations on Friday and today that the group reiterates their view. Below are our comments from our review of the revised CDS documents circulated on 4/21. This reflects the latest feedback from the CDO group related to the downgrade/posting provisions for this specific transaction, and you'll find that these are repetitive from our last set of comments on the CDS.

Malik

-->

1. To de-link GS's counterparty risk with respect to reimbursements, Writedown amounts need to be posted for one year as long as its rating is below AA- or A-1+. This posting for one year should remain and should not be extinguished if the swap terminates early as a result of GS being the defaulting/affected party. Writedowns can be considered permanent after the expiration of one year.

2. On p.5 of the Schedule:

- the second level rating trigger should be A-2 or BBB+, not BBB-.

- It looks like GS is choosing to remain in the swap by posting when its rating falls below the second level rating trigger. The opinion with respect to the collateral should be delivered within 10 days, not 30.

- Re: my earlier comment on the opinion addressing the timeliness issue - because this is a situation where Party A's credit rating is low, there is greater concern over the CDO's ability to avoid loss arising from exposure to Party A credit risk. While the CSA does speak to Party B's rights as Secured Party, we need more comfort that the CDO terminate the CDS (when the need arises) and liquidate the collateral to make itself whole in a timely manner without undue delay.

- Also on the opinion, we are not certain as to what "customary and usual assumptions, carveouts, and exceptions" mean. Our concern is whether such language limits the opinion's scope. We're trying to de-link GS's credit risk so it can choose to remain in the CDS regardless of what its rating is, so we'd like to make sure that the opinion's description today does not limit its scope.

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 3:14 PM
To: O'Brien, John
Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

ok. the sooner the better. just a reminder - we cannot agree to holding write downs in the deal for a year or any short term rating triggers.

From: O'Brien, John [mailto:john_o'brien@standardandpoors.com]
Sent: Monday, May 01, 2006 2:58 PM
To: Bieber, Matthew G.

Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt - Malik will be sending you comments to the last draft of the swap later today.

Regards,
John O'Brien

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 9:48 AM
To: O'Brien, John; Kim, Jeong-A
Cc: Mangalgiri, Vickram S.; Mishra, Deva R.
Subject: Broadwick Funding.

John and Jeong-A

Hope the weekend and vacation was enjoyable. As discussed last week, I'd like to finalize all outstanding points on Broadwick Funding by the end of the day this Wednesday. To that end, would you please let me know when its most convenient for you to discuss any remaining comments you have to the documents over the next day or so? Additionally, it appears we'll be slightly increasing the size of the S Note in the transaction by approx. $1.5mm. Look forward to hearing from you.

Best Regards,
Matt

From: Guarnuccio, Keith
Sent: Monday, April 24, 2006 6:36 AM
To: Ghetti, Belinda
Subject: FW: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

I thought Chui had a meeting with these guys ect and vetted the issues with them - lets sit down on this today to make sure we are looking at this the correct way. Also - today may be the day to take him out to lunch.

Keith

-----Original Message-----
From: Meyer, Chris
Sent: Sun Apr 23 18:49:51 2006
To: Ghetti, Belinda
Cc: Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Belinda,

Don't even get me started on the language he cites...which is one of the reasons I said the counterparty criteria is totally messed up. Oh...and ABACUS 2006-8 was a Moody's and Fitch only trade that was apparently reviewed and approved by Chui. I can't tell you how upset I have been in reviewing these trades. And not only have these trades consumed tons of my time, but they have generated an enormous amount of stress since I'm the one that has to break the news that these trades are wrong...which makes us look like idiots. They've done something like fifteen of these trades, all without a hitch. You can understand why they'd be upset (pissed even) to have me come along and say they will need to make fundamental adjustments to the program.

Regards,
Chris

-----Original Message-----
From: Ghetti, Belinda
Sent: Sun 4/23/2006 6:25 PM
To: Meyer, Chris
Cc: Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Completely unaware of this language.

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun Apr 23 18:24:02 2006
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

See 10.3(f) of the Indenture of this transaction. This was negotiated with S&P in connection with our last transaction, ABACUS 2006-8.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]

Permanent Subcommittee on Investigations
EXHIBIT #10b

Sent: Sunday, April 23, 2006 6:18 PM
To: Williams, Geoffrey; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Geoff,

I'm unaware of market related information ever being used to determine the amount that should be posted in connection with Writedowns of any kind. Given that Belinda, Keith Guarnuccio and I are highly involved with issues relating to PAYGOs, we'd be most interested in knowing where we've approved this type of language -- since this would be a significant departure from our current criteria. As you point out, it is a conservative position for S&P to take, but it is one we've taken with all Dealers. Since time is of the essence, this may be another issue that we table for 2006-12, but would have to be addressed in future trades.

Regards,
Chris

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun 4/23/2006 3:25 PM
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris -- we're happy to build in the appropriate 1 year / 3 year CDO language that you describe in your first point below. However, we are not going to be able to accommodate your second request. We drafted this language in the spirit of the clause that we recently incorporated (and had approved by both you and Moody's) into our cds confirm which governs the amount that must be posted given an implied writedown of a CDO reference obligation. The premise is that market information is very relevant in determining whether or not a reference obligation that has sustained writedowns is expected to write back up and I do not see why this methodology is relevant only in determining the amount that should be posted under the cds.

I would add that this scenario is very different from an optional redemption as you point out below since the optional redemption is at Goldman's option and a stated maturity is not. We therefore cannot settle for the most conservative alternative as I believe you are suggesting.

David -- can you please point Chris to language he is looking for on his third point?

Let us know if you have any questions. Thanks. Geoff.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]
Sent: Saturday, April 22, 2006 6:03 PM
To: Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin;

Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

David,

I've had an opportunity to review the proposed language this afternoon.

1. Clause (b) -- the one calendar year "cure period" is only applicable to non-CDO Reference Obligations in this case, the RMBS and CMBS Reference Obligations). For CDO Reference Obligations, our criteria is that we'll deem a Reference Obligation, which has experienced a Writedown, to be "defaulted" (a) after one year if the Reference Obligation is undercollateralized by more than 25% and (b) after three years if the Reference Obligation is undercollateralized by 25% or less.

2. Clause (A) -- I'm a little confused. I thought the proposal put forth on Wednesday was that to the extent there was any Writedown which (per our tests) hadn't been deemed permanent, then Goldman would reimburse the full amount of the Writedown. The current formula suggests Goldman may pay an amount less that the full amount of the Writedown. I was expecting to see language similar to the Optional Redemption Reimbursement Amount, which addresses the exact same concern in the context of when Notes are optionally redeemed.

If you can direct me to the specific location in the Schedules of the Basis Swap and Put that contain the identical language to Part 1.3(v) of the CDS Schedule, I would appreciate it.

Chris

-----Original Message-----
From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Fri 4/21/2006 9:30 AM
To: Meyer, Chris
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin
Subject: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris,

Below is our proposed language to determine how much Goldman has to pay the Issuer if a writedown occurred shortly before maturity of the Notes.

On the Stated Maturity for any Series of Notes, if (i) any such Series of Notes maturing on such date has an ICE Currency Adjusted Aggregate Outstanding Amount Differential greater than zero and (ii) an ICE Reference Obligation Notional Amount Differential is greater than zero with respect to one or more Reference Obligations (a) that remain in the Reference Portfolio at such time of determination, (b) with respect to which the ICE Reference Obligation Notional Amount Differential was equal to zero on the day that was one calendar year prior to such Stated Maturity, (c) that, at the time of such Stated Maturity, has an Actual Rating above (1) if rated by Moody's, "Ca" (2) if rated by S&P, "CC" or (3) if rated by Fitch, "CC" and (d) with respect to which no Credit Event (other than a Writedown) has occurred at any time on or prior to such Stated Maturity, Goldman will pay to

Counterparty an amount, if greater than zero, equal to the lesser of (A) the aggregate of the difference, determined for each such Reference Obligation, of (i) the ICE Reference Obligation Notional Amount Differential of such Reference Obligation and (ii) if greater than zero, the ICE Reference Obligation Notional Amount of such Reference Obligation less the related Current Dollar Price and (B) the ICE Currency Adjusted Aggregate Outstanding Amount Differential of each Series of Notes for which the Stated Maturity is such date.

Also, please note that Section 7.10 of the Indenture (issuing ordinary shares) and the Basis Swap and Put Schedules (regarding Bankruptcy) address your concerns as previously drafted. Let me know if you need me to point you to the appropriate provisions.

Thanks,

David

From: Drexler, Michael
Sent: Thursday, May 12, 2005 8:44 AM
To: Wong, Elwyn; Bryan, Andrea; Kambeseles, Peter
Subject: FW: Adirondack CDO

Importance: High

-----Original Message-----
From: Drexler, Michael
Sent: Thursday, May 12, 2005 8:43 AM
To: Guadagnuolo, Lapo; Cheng, Kenneth; Esser, Darren; Ghetti, Belinda; Rothenberg, Stuart; De Diego Arozamena, Alfredo

Subject: FW: Adirondack CDO
Importance: High

Just in case you were wondering ...

This deal ended up not weak-linking to GS. Chui told me that while the three of us voted "no", in writing, that there were 4 other "yes" votes.

Ignoring for a moment my stupid (and arrogant!) irritation that the correct side lost, in my mind this is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no "logic trail" to refer to is another. How can we possibly reconstruct the argument of the winning side for future deals if it does not exist in writing for general reference?

Also, it is not clear that this decision will be universally applied. Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients.

1) Transparent decisions,
2) In writing,
3) Universally disseminated.

-----Original Message-----
From: Cheng, Kenneth
Sent: Friday, May 06, 2005 2:59 AM
To: Drexler, Michael; Ng, Chui; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hey Chui:

I've been out the last few days. It's Golden Week here in Asia. So finally getting these e-mails. There's much already said on this issue so I'll keep my comments short.

I agree with Mike's points in his most recent e-mail. Since we have clear established criteria on the requirements for counterparty ratings, the only supportable rationale for not holding GS to it is if they can show that the deal works without reliance on the premia. This is the same line of reasoning you used to get comfortable with ABACUS.

The lfty tables and 20% rule, while perhaps useful at the time they were established and within the context they were applied, is, in this instance, merely a way around the intent of our counterparty ratings criteria. Using it here creates opens up abuse of our criteria, devoiding it of much meaning. As others have suggested, we should, and will, take steps to remove these inconsistencies without losing their true intents.

Arigato,
Ken

-----Original Message-----
From: Drexler, Michael
Sent: Thursday, May 05, 2005 11:52 PM
To: Ng, Chui; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hey Chui:

I think the issue here is exactly this-if we can not rely on the premia from GS (i.e. the premia do not exist), will the tranches in the deal pass? If the answer is the "yes", then none of the tranches are dependent on GS; if the answer is "no", then the tranches are dependent on GS, and we must deal with GS's c/p risk via either posting/downgrade language or by linking the rating.

So, if we ignore this test, we implicitly are saying that any counterparty risk can be taken by a CDO (as long as the premia paid do not sum to greater than 20% of the liability balances). This is the implication of the issue at hand.

Cheers,

Mike

-----Original Message-----
From: Ng, Chui
Sent: 05 May 2005 15:42
To: Ng, Chui; Drexler, Michael; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

To clarify, while we will check the cashflows with the premium removed, for the purpose of seeing if the "AAA" and "AA" notes passes, the deal will run the cashflow model with the premium included. We will not ask Goldman to remove the premium from the cashflow model.

-----Original Message-----
From: Ng, Chui
Sent: Thursday, May 05, 2005 10:24 AM
To: Drexler, Michael; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart
Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

We will check the cashflow but we are confident it will pass for the "AAA" and "AA" with out the premium. So structurally the A-1 Goldman risk is covered for the "AAA" and "AA" notes.

The only remaining issue was that Goldman did not want to weaklink the "A" (why not, I have no idea). Applying the 20% rule and the downgrade language is simply to allow Goldman not to have to disclose a weaklink of "A" rated notes in the deal. This then becomes consistent with A-1 interest rate swap providers in "AAA" deal and no weaklink is disclosed.

This criteria vote was NOT to eliminate the counterparty posting or the need to address counterparty risk in sCDOs. It was to address the issue of Goldman's weaklink disclosure or not. Sorry if my email was not clear on the issue.

-----Original Message-----
From: Drexler, Michael
Sent: Thursday, May 05, 2005 7:58 AM
To: Guadagnuolo, Lapo; Ng, Chui; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart
Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

I also vote "no". I agree with Lapo that the 20% criteria (as calculated below) effectively eliminates the need for any counterparty posting in any synthetic CDO. Our goal is quite the opposite-to more directly and specifically assess counterparty risk in all CDO transactions.

Also, as Henry points out, I think the basic problem is the 20% "free pass" rule for bivariate risk. Since these risks can be assessed or structurally mitigated, they should be.

-----Original Message-----
From: Guadagnuolo, Lapo
Sent: 05 May 2005 09:09

To: Ng, Chui; Kharnak, Lina; Drexler, Michael; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hi Chui,

I would vote NO on this one. Primarily, if I understand correctly, for the fact that if we apply this 20% criterion here that it could have a big impact to the synthetic CDOs, where in many cases counterparties support for much less than 20% and we always require stringent A-1+ downgrade language.

However, from earlier emails, it seems to me that the cash-flows for AAA and AA are very strong, so we could "convince" GS to do a "quick and dirty" calculation that shows that AAA and AA pass (and we know in our hearts that they will pass!) and accept the donwgrade language they propose for the "A" note, since a A-1 is consistent with "A".

Regards
Lapo

-----Original Message-----
From: Ng, Chui
Sent: 05 May 2005 04:31
To: Kharnak, Lina; Drexler, Michael; Guadagnuolo, Lapo; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

To all:

The resolution to the Goldman conundrum is as follows:

- We are applying a derivation of the 20% A-1 supporting AAA criteria
- The main concern in this deal is really the premium paid by Goldman rated A+/A-1 on roughly 13.3% of the portfolio - and this is only simply the spread above LIBOR not the entire coupon on the 13.3%, so in reality it is a miniscule portion well below the 20% of the portfolio.
- But in order to comply with this Goldman needs to

add in downgrade language, where if they are downgraded to below A-1, they have to replace, find a guarantor (both at their own cost) or post collateral suitable to S&P.

- Failure to do so will result in a termination of the CDS where Goldman is the affected party and it will not be an Issuer EOD so all termination payments to Goldman subordinated until rated notes are retired.

In exchange, we will not require the "A" rated notes to be weak-linked to Goldman, nor will we stress the cashflow modeling by removing the premium.

This will be conveyed to Goldman soon so speak now or I will take your silence as an affirmative vote. Without naming names the current vote stand at 4 non-silent YES votes and 0 NO votes.

Chui

-----Original Message-----
From: Kharnak, Lina
Sent: Tuesday, May 03, 2005 7:23 AM
To: Drexler, Michael; Ng, Chui; Guadagnuolo, Lapo; Khakee, Nik; Cheng,
Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego
Arozamena, Alfredo; Rothenberg, Stuart
Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Mike, Chui and I discussed the modeling approach yesterday. There is some room on the AAA and the AA level, so that it may pass without the premium. Would you then weaklink to GS rating on the single A tranche, since it would not pass? I do not think it would work in this deal.

-----Original Message-----
From: Drexler, Michael
Sent: Tue May 03 02:58:22 2005
To: Ng, Chui; Guadagnuolo, Lapo; Khakee, Nik; Kharnak, Lina; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hey Chui:

I think the solution in ABACUS provides good insight in how to deal with this new proposal. In ABACUS, you basically analyzed the cash-flow mechanics and determined that the GS premia were not needed to pay AAA and AA. Consequently, no posting is necessary since the failure of GS to pay its premium 1) doesn't hurt the rated notes and 2) leaves it as the Affected Party.

It seems to me that the same assessment should be made here: Determine whether GS's payment is necessary to pay higher-rated notes; if it is, it needs to be posted; if not, then it does not. As you point out, the best way to determine this is in a cash-flow model.

As to the Ifty tables, 20% buckets. etc, we need to stop using these as they contradict our published counterparty criteria. We will put a Blast out on this soon.

Cheers,

Mike

-----Original Message-----
From: Ng, Chui
Sent: Tue May 03 00:03:35 2005
To: Guadagnuolo, Lapo; Drexler, Michael; Khakee, Nik; Kharnak, Lina; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: Adirondack CDO

Criteria Members and colleagues:

Goldman Sachs again has presented us with another conundrum due to a last minute addition to a deal. In a static CASHFLOW CDO of a $1.5 billion portfolio of "AAA" and "AA" ABS, they at the last minute proposed to include a $200 MM synthetic bucket of single name CDS referencing "AAA" and "AA" ABS. The counterparty to all these CDS will be Goldman Sachs rated "A+/A-1." The CDO will take the proceeds that would been used to outright purchase the ABS (had they not enter into the CDS) and invested it in eligible investments rated "AAA" and for illustrative purposes, the investments are paying LIBOR flat. The inputs into the Evaluator will be the rating of the referenced "AA" or "AAA" ABS of each CDS. The premium (assume for illustrative purposes to be 50 bps) from Goldman plus the LIBOR yield from the investment will go into the cashflow model and establish the various rating level breakeven numbers.

The issues is that this Synthetic bucket is roughly 13.3% so with Goldman as a single counterparty, it exceeds the "ifty-table" concentration limit to all "A-1" counterparties of 5%. How have we handled the 50 bps premium paid by a counterparty rated "A-1" in a "AAA" deal for concentration amount over 5%? I have asked Goldman to post one period of premium in advance. Goldman declined. I have asked that the cashflow model strip out the 50 bps of $200 MM, but the structure is so tight that this would most likely cause the "A" and lower tranches to fail.

Goldman has pointed to their Synthetic CDO - the ABACUS series (which I rated), where Goldman is the Swap counterparty but does not post one period in advance. Before you all crucify me and say that this all my own doing, let me explain.

In ABACUS, the deal issued three classes "AAA". "AA" and "A." Like all sCDO deals the proceeds went into "AAA" collateral yielding LIBOR + some small spread. This yield plus the premium from Goldman under the CDS was sufficient to cover the coupon on all three classes. Normally in a "AAA" deal, we would required the A-1 counterparty to post one period of premium in advance. This way if the A-1 CP defaults, the deal terminates and with the one period premium in advance; the notes will be made whole for principal and interest up to the termination date.

In ABACUS however, it was not a single tranche deal. It was a fully funded capital structure (with the exception of the first loss and the super senior). It had a waterfall where all Interest collections were used to pay the classes SEQUENTIALLY. Because of the capital structure, if Goldman failed to pay the premium on the CDS, the LIBOR + a small spread on the "AAA" collateral was sufficient to pay the FULL coupon on the "AAA" and "AA" classes (by the waterfall these would be paid first) and any shortfall will be absorbed only by the "A" class. The "A" rated class is taking only commensurate "A" rated risk as it would only take a loss of coupon if "A+/A-1" Goldman defaulted. So structurally, it was approved that Goldman in the ABACUS deal did not have to post until they were below "A/A-2." The deal was also linked to Goldman's rating and disclosed in OM.

For Adirondack, Goldman is asking for the same treatment: no posting on the 13.3% $200MM synthetic bucket - same as ABACUS. I do not think the situations are identical between Adirondack and ABACUS.

In Adirondack, the premium from Goldman is going into a cashflow model to establish a breakeven level. Lost of part this premium in the cashflow model is based on the "AA" or "AAA" referenced ABS of the CDS and the premium of the remaining "non-defaulting" referenced ABS is assumed to be available for the tenor of the deal. Goldman's default, which would cause the deal to lose the ENTIRE premium for the remaining tenor of the deal is not modeled. In ABACUS, there was no cashflow model, the subordination level (used to protect principal of the classes) was simply (1- recovery) *SDR. Loss of premium due to Goldman default had no effect on the subordination levels. In

Adirondack, the premium is used to determine breakeven rates which affects the levels of subordination in the deal.

So to summarize the issues:

1. Do we hold Goldman to the cashflow criteria "Ifty-table" limits?
2. If the answer to 1. above is "no," then how do we handle Goldman paying in the premium?

Here are some recently brainstormed proposed answers to 2:

* Treat it like ABACUS and Goldman post at A-2 (accept Goldman's proposal)
* Take out the premium from the cashflow model
* Treat like ABACUS only if taking out the premium from cashflow shows that the classes rated high than Goldman still passes

* Apply the 20% A/A-1 supporting AAA rule (this means do away with the Ifty-tables)

Any other suggestions, as always, will be welcomed. We need to respond to Goldman by Thursday.

Sorry for the long email. I know this makes for a good insomnia remedy! Thanks for getting this far in my email!

Chui C. Ng
Credit Market Services
Standard & Poor's
55 Water Street 41st Floor
New York, NY 10041-0003
Phone: 212-438-2558 Fax: 212-438-2650

From: Warrack, Thomas
Sent: Friday, May 05, 2006 11:41 AM
To: Kambeseles, Peter
Cc: Albergo, Leslie; Barnes, Susan; Kennedy, Martin; Kostiw, Karen; Mason, Scott; Mcdermott, Gail; Osterweil, Terry; Parker, Samuel; Stock, Michael; Vonderhorst, Brian
Subject: Confidential- Criteria Changes in LEVELS 5.7

Pete, Yes & No- and sorry we did not communicate as we should have.

We put out some criteria changes a couple of weeks ago that we will begin to use for deals closing in July.
Significant changes included an update to our Housing Volatility Index (a home price indicator) which will be increasing our loss severity calculations and a more conservative approach to first liens with piggyback (silent seconds). Together these two changes will be making a moderate change in raising our credit support requirements going forward.

However to say that these changes will leave us 5 notches back of Moody's sounds like a gross over statement, especially since we have been a notch or two more liberal then they have been (causing the split rating issues) for over the last year or two. The simulations that we did on the impact of our changes, more often then not we believe will bring our requirements close to theirs or in certain situations slightly higher.
We certainly did intend to do anything to bump us off a significant amount of deals.

I'd like to respond aggressively to this, I'd be happy to contact Robert Morelli at UBS to discuss further. Is he on the CDO side of the business?

We can run some simulations at his request to try and validate/dispute his belief.

Thanks, Tom

-----Original Message-----
From: Kambeseles, Peter
Sent: Wednesday, May 03, 2006 8:15 PM
To: Warrack, Thomas; Vonderhorst, Brian
Subject: FW:

any truth to this??

-----Original Message-----
From: robert.morelli@ubs.com [mailto:robert.morelli@ubs.com]
Sent: Wednesday, May 03, 2006 12:28 PM
To: Kambeseles, Peter
Subject: RE:

heard you guys are revising your residential mbs rating methodlogy - getting very punitive on silent seconds. heard your ratings could be 5 notches back of moddys equivalent. gonna kill your resi biz. may force us to do moodyfitch only cdos!

was just looking for a little color.

Permanent Subcommittee on Investigations
EXHIBIT #11

PSI-SP-000355

From: Wong, Calvin
Sent: Thursday, June 15, 2006 3:21 PM
To: Moulton, Curt
Cc: Gillis, Tom
Subject: FW: question on impact to CDOs

Curt,

See David Tesher's comments below. Calvin

-----Original Message-----
From: Bryan, Andrea
Sent: Thursday, June 15, 2006 2:24 PM
To: Tesher, David; Wong, Calvin
Cc: Jordan, Pat
Subject: RE: question on impact to CDOs

I agree with David's statements.

-----Original Message-----
From: Tesher, David
Sent: Thursday, June 15, 2006 1:49 PM
To: Wong, Calvin; Bryan, Andrea
Cc: Jordan, Pat
Subject: RE: question on impact to CDOs

Calvin,

First Scenario:

We are being forced to deal with the changes that Moody's has introduced by modifying our CLO methodology (i.e. recovery levels) -- given the spread compression the market believes loans will experience -- Moody's is increasing CLO recovery levels in order to alleviate the spread compression stress that leverage loan market participants believe may occur due to the LGD Moody's initiative ... Moody's goal is to allow CLO's to continue to go to market with the same level of leverage that they have been historically going coming to market with .... Challenge is .... I do not know where Moody's will ultimately come out with their CLO recoveries ... This makes it difficult for us to maneuver given we do not know on the CF front where Moody's will end up with its recovery levels for CLO's... (not to mention that we are also in the middle of changing a couple of things on the CDO front {CDO Evaluator and CF assumptions}).

Second Scenario:

I believe we should first meet with the LSTA and "surface" this concept .... before rolling it out to the leverage loan market ... If we did move to mirror Moody's, we will get pulled into the Moody's negative publicity around this issue ... and from a spread perspective, would anger the leverage loan market participants as our initiative will solidify the spread compression the leverage loan market participants are worried about ...

Hence, a similar move from our corporate colleagues will result in the same "scrambling" effort on our CLO front (i.e. modifying CF assumptions in order to deal with the spread compression at the asset level ... complicated by the proposed Evaluator changes) --

David

-----Original Message-----
From: Wong, Calvin
Sent: Thursday, June 15, 2006 12:54 PM
To: Tesher, David; Bryan, Andrea
Cc: Jordan, Pat
Subject: FW: question on impact to CDOs

Any thoughts on Curt's question from the standpoint of our CDO business?
Calvin

-----Original Message-----
From: Moulton, Curt
Sent: Thursday, June 15, 2006 12:47 PM
To: Gillis, Tom; Wong, Calvin
Subject: question on impact to CDOs

Hi,

Boy is this recovery stuff complicated. I am trying to understand the impact of two scenarios.

First scenario:
Let's assume for a moment that S&P does not change the current approach to ratings in the corporate area and that Moody's implements their proposal. We assume this scenario to be negative for the corporate business because Moody's will be giving out higher ratings on secured loans so issuers will be less likely to ask for an S&P rating on the issue. But what would this mean for the SF business?

Second scenario:
Let's assume S&P follows Moody's and elevates secured loan ratings by, say, 3-4 notches. We assume this would keep us competitive with Moody's on corporate ratings. But what would this mean for the SF business?

Final question: Is there any difference in impact to our SF business from these two scenarios?

Thanks, Curt

From: Wong, Elwyn
Sent: Tuesday, August 01, 2006 11:12 PM
To: Ghetti, Belinda; Stoval, Shawn (FID)
Subject: RE: Can you call me? Have left you numerous messages
Shawn,

People take vacation. You just did. Now's my turn.

Belinda answered #2. So let me address #1 and #3. They are the same thing really. You have two things to blames :
(a) Your beloved customer Davenport just trolled the street and did a bunch of synthetics with different attachment points and detachment points all with fixed recovery, some simple structures like yours and some complicated structures. She is clearly arb-ing us for lack of a precise methodology. So we woke up reacting with a better and fairer solution. It's not us flipflopping on you. She is doing this one time too many.
(b) You want this to be a commodity relationship and this is EXACTLY what you get. Have you thought about how Justin never argued on how much he has to pay and in the end how much he really left on the table? $20k perhaps for the year? How many millions does Morgan Stanley pay us in the greater scheme of things? How many times have I accomodated you on tight deals? Neer, Hill, Yoo, Garzia , Nager, May, Miteva, Benson, Erdman all think I am helpful, no?

So, did you even contemplate sending in the portfolio to Bob_watson@sandp.com to see what your recovery is as I described in a previous e-mail. Unlikely to be 70% but as I said it took your competitors less than 1/2 hour to restructure a little (the change in risk is minimal I assure you) and recovery shoots right back up. I leaned on Belinda once to give you 70% so I will let her decide or at least you try to see you can do something a little different.

Elwyn

-----Original Message-----
From: Ghetti, Belinda
Sent: Tuesday, August 01, 2006 9:59 PM
To: Stoval, Shawn (FID); Wong, Elwyn
Subject: RE: Can you call me? Have left you numerous messages

With respect to the 5pct limitation, I thought we taled about it. If you structure whereby the CLN which is purchased by the CDO is delinked from the counterparty (premium in advance and posting for MTM of the charged assets, if necessary (i.e. Not a GIC) than you may overlook the limitation.

Unfortunately, most indentures may lump all synthetics in the limitations, so you need to see if the trustee of that deal would account it in the bucket or not.

With respect to the recoveries, I have requested our quants to produce a "prototype" evaluator that would produce recoveries for the tranches rated. For the moment we have to do it internally.

Hope this helps ... A bit?

Hope this helps.

-----Original Message-----
From: Stoval, Shawn (FID) [mailto:Shawn.Stoval@morganstanley.com]
Sent: Tue Aug 01 20:31:39 2006
To: elwyn_wong@sandp.com

Permanent Subcommittee on Investigations
EXHIBIT #13

Cc: Ghetti, Belinda
Subject: Can you call me? Have left you numerous messages

Elwyn,

3 things I need to discuss with you, the first two are urgent.

1) Recovery rate on future trades. Elwyn, I priced 2 trades based on your stated methodology. Paramax never would have received the pricing they did on trade #1 if I couldn't use at least a 65% recovery on the second trade. Changing this now costs me a large amount of money.

The position you have put me in is the same as you changing the Accelerator with no notice, no grandfathering, nada. Every day we (and the rest of the Street) show out bids based on our understanding of your methodology. Changes to methodology are a HUGE deal for us. You would never change the Accelerator assumptions on a dime and tell the market to "deal with it", which is basically what you have done to me. Trades will have been "done", hedges made, and capital committed -- all based on a firm understanding of how you rate. I believe it is unfair to change your methodology on a dime, with no prior notice, and when I am on the hook financially. Do you disagree? I would propose a compromise: for the second trade, we can get a fixed recovery like last time, but for trades beyond the next I will work under the new framework. But changing one day to the next just ruins us. And you have precedent for doing such a compromise: When you went from 2.4 to 3.0, there was a period of time where you would rate on either model. I am asking for a similar "dual option" window for a short period. I do not think this is unreasonable.

2) I need to get definitive guidance on an issue with Davenport and the 5% "counterparty" concentration limitation -- can we do another trade with them? Different people at S&P have told us (me vs. the account) different things. The account is frustrated with S&P as a result. I promised I would get to the bottom of it. THIS IS HOLDING UP THE TRADE. I NEED HELP HERE. I NEED SOMEONE AT S&P TO ADDRESS THIS DEFINITIVELY. IS THAT YOU? IF NOT, I NEED TO KNOW WHO CAN SPEAK FOR S&P ON THE MATTER. I have calls into Belinda, you, and Ken Cheng, but no one has called me back. Who do I talk to?

3) Longer term, but for Paramax trades #3 and beyond I will want to know if how use the S&P accelerator to determine the recovery rate. This way I can solve the issue under the new methodology.

Please call me. I have left at least 4 messages for you now.

Thanks Elwyn,
Shawn

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communication is directed in the UK to those persons who are market counterparties or intermediate customers (as defined in the UK Financial Services Authority's rules).

From: Gutierrez, Michael
Sent: Tuesday, August 08, 2006 9:36 AM
To: Koch, Richard
Subject: RE: Loss severity vs gross/net proceeds

They've become so beholden to their top issuers for revenue they have all developed a kind of Stockholm syndrome which they mistakenly tag as Customer Value creation - this Homecomings thing is going to be messy and I need this controversy now like a hole in the head but we have to be evenhanded with all companies- I'll give you a ring today on this

-----Original Message-----
From: Koch, Richard
Sent: Monday, August 07, 2006 9:21 PM
To: Gutierrez, Michael
Subject: RE: Loss severity vs gross/net proceeds

I'm not surprised; there has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine. With respect to your last sentence, our RMBS friends never questioned the news about the Homecomings (RFC) investigations of its lending practices during the call today, it was all uncomfortably cozy for my taste.

Richard W. Koch
Director, Structured Finance Ratings
Standard & Poor's
55 Water Street (42nd Fl)
New York, NY 10041-0003
(212) 438-2513
(212) 438-2662
Richard_Koch@sandp.com

-----Original Message-----
From: Gutierrez, Michael
Sent: Monday, August 07, 2006 4:55 PM
To: Koch, Richard
Subject: Loss severity vs gross/net proceeds

Rich:

I may have mentioned this already but in putting together slides for the AFN conference I noticed a disturbing pattern - for each of three companies with high gross and net proceeds recovery the loss severity was mind-boggling - between 40 and 52 % (even for one with 92% net proceeds recovery) I think this may be a story that needs to be told and it isn't about broken servicing shops. That kind of disparity points to one thing - bloated appraisals at origination (or flat out appraisal fraud) I was shocked - even with regional price depreciation there is no way the gap should be so stark between current value and total recoverability on the outstanding balance.

I'd like to have Gregg run a report comparing loss severity to net and gross proceeds for all our sub prime servicers to see if this is indeed a trend or just an aberration on the peers chosen for a particular slide. If it does turn out to be a pattern we need to be careful how we use this - perhaps comparing the overall portfolio loss severity at the platform level vs. that of S&P rated transactions - there could be a good commentary out of this (or a bad reflection on how the deal side treats valuations on originations)

Michael Gutierrez
Director
Standard & Poor's
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55 Water Street, 41st Floor
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Tel (212) 438-2476
Fax (212) 438-2664

DATE: 12/01/2003
TIME: 18:38:33 GMT
AUTHOR: Kirnon, Noel
RECEIPIENT: Clarkson, Brian
CC:
SUBJECT: RE: Noel Kirnonpe2003.doc

If possible I would like to stop by at 3:30. If not possible I will email comments.

-----Original Message-----
From: Clarkson, Brian
Sent: Monday, December 01, 2003 10:03 AM
To: Kirnon, Noel
Subject: Noel Kirnonpe2003.doc

Curren draft please stop by when you have a moment

Noel Kirnon — Group Managing Director, Real Estate and Derivatives Group

Noel led the Real Estate and Derivatives Group to strong results in 2003. At the beginning of the year, issuance volume for Commercial Real Estate and Derivatives was expected to be flat and down respectively in 2003 with price increases and new products representing the vast bulk of the forecasted 10% increase in year over year revenues. While the Derivatives area did experience a 10% decline in issuance volume and deal count, the continued low interest rate environment led to a year over year deal increase of 21% in CMBS. Noel and his team handled the increase and met or exceeded almost every financial and market share objective and goal for his Group. The only shortfall was in one important area of business development (CDO analyzer) where both a change in fundamental direction as well as missed deadlines resulted in sales delays until 2004. Noel's Group also provided analyst support for the RMBS team through-out the year. Overall, Noel and his team had a very successful 2003.

Through November total revenue for Noel's Group has grown 16% compared with budgeted growth of 10% with CMBS up 19% and Derivatives up 14%. This was achieved by taking advantage of increased CMBS issuance volumes and by meeting or slightly exceeding market share objectives for the Group. The Derivatives team has achieved a year to date 96% market share compared to a target share of 95%. This is down approximately 2% from 2002 primarily due to not rating Insurance TRUP CDO's and rating less subordinated tranches. Noel's team is considering whether we need to refine our approach to these securities. The CMBS team was able to meet their target share of 75%. However this was down from 84% market share in 2002 primarily due to competitor's easing their standards to capture share.

Noel's Group was also successful in new business initiatives although results were not even among products. While the CDO Analyzer product (formally Navigator) was redirected in 2003, it still failed to achieve its revised sales target of $175,000 (Ray: I think this was the last estimate) by year end. This was due in part to the combination with MKMV but also to missed deadlines by the CDO analyzer team. However, we believe that the combination with MKMV will ultimately result

DATE: 01/12/2006
TIME: 04:35:00 GMT
AUTHOR: May, William
RECEIPIENT: Harris, Gus
CC:
SUBJECT: RE: BES and PEs

Top Achievements in '05:

1. Protected our market share in the CDO corporate cash-flow sector (CLOs, CBOs [there was only one but we rated it] and SME CLOs). To my knowledge we missed only one CLO from BofA and that CLO was unratable by us because of it's bizarre structure.

2. Managed the group to minimize turnover. The only senior analysts who left in '05 were Kathy Lu and Phil Mack, both of whom were about to receive very negative PE's. I considered putting this as my #1 accomplishment. In fact, I believe it should quite possibly be the #1 achievement for all four MDs for 2005. It seems to me that one of the greatest challenges for a Derivatives MD at Moody's is simply to create a working atmosphere that will encourage talented people to stay despite the fact that we pay 1/3 to 1/2 market rate. We do this by creating a workplace where (i) the analysts know that they are valued, (ii) they have real input into the work product, (iii) they have the time to function as at least quasi-spouses and quasi-parents, (iv) they receive public and private praise for their accomplishments and (v) backstabbing and incivility are not tolerated. In short, the MDs worked hard to compensate the staff with intangible, non-cash emoluments.

3. Brought a minimum of cohesion to the lawyers in the group (i.e. more or less herded cats). This last year was the first year where we had regular lawyers' lunches. The lawyers actually showed up to the lunches which is something they did not do in previous years (we often included William Ma and Marlow in London, btw). The lawyers thoroughly hashed out difficult legal issues that face the group without ripping one another to shreds--also something not accomplished in prior years. To some this may seem a minor achievement. Believe me, it wasn't.

4. Managed CLO deal flow successfully. I view this as related but different from goal # 1. The number of CLOs that we rated increased by approximately 61% last year. The number of amendments that we had to process and committee increased more than that, though I do not have hard numbers. At the end of the year, when the deal flow was reaching its crescendo, we lost three experienced CLO analysts (Elena, Stephanie, Phil). Despite these formidable challenges, we managed to get all the deals rated with no loss of market share, minimal turnover and almost no complaining from clients.
We also managed to quell a near uprising from the leading bankers in the SME CLO market (Wachovia and Merrill) over the level of our credit estimates for their managers' collateral. We now have, as best I can tell, 100% market share in the SME CLO market and a promise from one of our major clients in that space (Fortress) to do a Moody's-only deal because of their happiness with our overall level of service to them.
We also finished and promulgated a comprehensive CLO Rating Guide and a "beta" version of the CLO Committee Template which we expect to make mandatory by 1/31.

5. Outreach to the market/Internal outreach. I spent a great deal of time making sure that I got to spend some time with the major investment banks in the CLO space. I tried to do this in a relaxed, non-deal pressured environment--lunch, dinner, drinks, chatting people up at conferences, unscheduled phone calls, etc. I also co-chaired the IMN conference in New York last March where I got much more face time than either of the reps from S&P or Fitch and I spoke on two other conference panels.
Internal outreach: You told me last year that you wanted me to identify key people in our group and work with them to protect and grow our business. You also said the BES survey should get positive results.

DATE: 04/11/2006
TIME: 20:32:52 GMT
AUTHOR: Kanef, Michael
RECEIPIENT: Clarkson, Brian
CC:
SUBJECT: RE: Jay Siegel Exit Interview

I will speak to him. MBK.

-----Original Message-----
From: Clarkson, Brian
Sent: Tuesday, April 11, 2006 4:20 PM
To: Kanef, Michael
Subject: FW: Jay Siegel Exit Interview
Sensitivity: Confidential

Could you contact Jay about this? I think we need to chat with him I am fairly sure where he was going with this but we need to be sure.

-----Original Message-----
From: O'Connell, Dan
Sent: Friday, April 07, 2006 3:49 PM
To: Kanef, Michael; Clarkson, Brian
Cc: Elliott, Jennifer
Subject: Jay Siegel Exit Interview
Sensitivity: Confidential

<< File: MoodysNet Exit Interviews.htm >>

Jay joined Moody's in June 1994 after working for a total of 6 years as a lawyer, the first four years with Brown & Wood and the remaining two with Cadwalader, Wickershan & Taft. He explained that he was working long hours, in some cases for two full days without going home, and wanted an improved balance of work and personal life. Moody's offered that to him, even after he became a Managing Director.

Despite this, he decided that he now wants to spend more time with his family. Although he will continue to consult with Moody's, he expects to only spend about 20 hours per month in this role and will spend some time considering setting up a non-profit organization.

During his time at Moody's, Jay worked both in SFG and FIG. He found his rotation in the fundamental area to be very valuable. Relationship management skills are essential in this area of the business, and he was able to develop these skills under Ted Young. He wonders why Moody's does not rotate more people between the ratings areas of the firm.

He described RMBS as the worst team to work on at Moody's. It is difficult to maintain market share in a market that has become commoditized and where Moody's expected loss analysis means higher cost for issuers. In addition, staffing issues have become a great challenge. He explained that if the area requested additional headcount early in the year, management responded that it was too soon to know if we would have a good year. Later in the year, management responded that since the team was able to produce without the additional staff this far into the year, they could finish the year without increased headcount.

This meant long hours for the staff and therefore, employees in other areas had no interest in rotating into RMBS.

On a positive note, salary increases over the past two years have helped the team hire more qualified people. The down side is that these newer hires have greater ambition and higher expectations. It makes it more challenging to keep them at Moody's. Managements approach is to target the best two people and focus our effort on keeping and developing these employees.

Finally, Jay stated that he has a long term interest in the success of Moody's. With this in mind he mentioned that he was worried that if Moody's stock price suffers in the future, more members of the management team may decide to leave.

DATE: 04/27/2006
TIME: 19:59:20 GMT
AUTHOR: Ramallo, Karen
RECEIPIENT: Frankowicz, Wioletta; DiRienz, Mark; Grohotolski, Joseph; Maymi, Carlos A.
CC: Kornfeld, Warren
SUBJECT: RE: **MGIC Home Re 2006-1 Committee#3**

At the end of the day, I guess I was trying to say that I would have been comfortable going with the grid results (with the previously committeed seasoning benefit) and not necessarily notching up so high for the higher ARM concentration relative to previous transactions after thinking through some of the questions below that the committee requested that I consider.

For previous synthetic deals this wasn't as much of an issue since the ARM % wasn't as high, and from reading previous memos, we were not making much of an adjustment for changes in loan type concentrations. At this point, I would feel comfortable keeping the previously committeed levels since such a large adjustment would be hard to explain to Bear, especially since the pool has barely changed. During future committees, these points will likely come again and we can address them in more detail. So unless anybody objects, Joe and I will tell Bear that the levels stand where they were previously.

Thanks,
Karen

-----Original Message-----
From: Frankowicz, Wioletta
Sent: Thursday, April 27, 2006 12:18 PM
To: Ramallo, Karen; DiRienz, Mark; Grohotolski, Joseph; Maymi, Carlos A.
Cc: Kornfeld, Warren
Subject: RE: **MGIC Home Re 2006-1 Committee#3**

Karen,

Are you suggesting we should follow the 'revised' approach on deals going forward? If so, i think it would help to see the 'revised' approach applied to a deal we've previously committeed and discuss the appropriateness and magnitute of the various adjustments vs. the CES grid in a committee setting -- the points you raise below are good and I personally thought that standardizing these adjustments is definitely the way to go to keep the methodology consistent across deals.

Or are you revisiting the levels and asking for votes on your recommendation for the pool from yesterday's committee based on the additional details you provided/calculated below? -- it is not clear to me from below if you are revising your recommendation and if so what it is. If you are asking for votes on loss coverage for the pool from yesterday, I still think quick committee would help keep all on same page through the voting process -- there are just too many open items/adjustments and thus it is easier to vet this out verbally in committee setting.

w

-----Original Message-----
From: Ramallo, Karen
Sent: Wednesday, April 26, 2006 7:16 PM

To: DiRienz, Mark; Grohotolski, Joseph; Frankowicz, Wioletta; Maymi, Carlos A.
Cc: Kornfeld, Warren
Subject: **MGIC Home Re 2006-1 Committee#3**

Thanks for taking the time for this third committee. I appreciate your participation (I know it's been painful along the way!). This email will be painfully long as well. But below are some questions we had about our methodology during this committee and my thoughts. I would appreciate your input.

- Point#1 - Is the CES Grid appropriate given that CES have fixed rates while the majority of the underlying 1st liens in this synthetic deal are ARM loans, or are the suggested levels per the grid not conservative enough?
- Thought - While CES loans may have fixed rates, the grid should be taking into account the propensity to default of the underlying 1st lien borrower (same borrower holds 1st and 2nd, so the probability of default for that borrower would be the same (or maybe even higher for the 2nd lien given the lack of equity). The CES severities will be higher, however. Therefore, I would think it is conservative to use the CES Grid for MI deals since the "exposure" treated as a CES is not a true CES, but we are still faced with probabilities of defaults on largely ARM borrowers (78% of deal). The grid may actually be too conservative if it was created assuming higher frequencies on the 2nd liens given the compromised willingness to pay resulting from little if any equity ownership (not sure if this was the case?).

- Point#2 - Are we double penalizing by adjusting levels upwards from the CES grid to reflect increasing proportions of hybrid ARM collateral in these deals?
- Thought - Since the CES grid was created assuming 80-90% underlying 1st lien hybrid ARM loans (and likely about 30% IO), I would argue that we should not be adjusting the suggested CES grid levels to reflect higher concentrations of ARM collateral in this deal, relative to the last deal, since it is 78% ARM and only 15% IO loans, and in line with (or even better) than the assumed 1st lien parameters. During the committee, however, I recommended a notch and a half higher on the Aaa suggested by grid to at least make a distinction compared to the last deal. The original committee vote made a 3.5 notch adjustment to the grid Aaa levels due to the higher ARM % (which thinking about it after the fact, seems high to me given that the 1st lien population is at least as good as that assumed by the CES grid).

- Point#3 - Should the CES grid apply because we do not have 80% purchase loans (44% in this case)?
- Thought - For the Smart Home 2006-1, Smart Home 2006-2, and the Home Re 2005-1 deals, the % of purchase loans ranged between 43% and 47%, and adjustments were not made to reflect this lower % of purchases. I would argue that the expectation of 80% purchase loans behind the CES grid was due to the fact that these piggyback combinations with a CES are more prominent for purchase transactions as an affordability product. In the synthetic deals, the exposure is not related to an affordability product nor to a borrower that has very little equity stake (and even if the borrower has an underlying 2nd lien, a default would first occur on the 2nd lien, and not the 1st lien which is in the reference portfolio which represents the true credit risk to the deal). In addition, home price appreciation of recent years would have helped create easy equity ownership without amortization of the loan. In addition, the MI Coverage % in this deal is 29%, which is preferable over the 20% assumed by the grid since more losses can be absorbed before exhausting the 29% coverage vs. a 20% LTV CES loan.

- Point#4 - Should levels be higher for 2-4 family and Investor property hits?
- Thought - 2-4 family properties were only 8% of the deal, and investor properties 8% as well. Plugging the appropriate inputs into the CES grid would roughly result in a Aaa hit of 50 bps

assuming the current Aaa of 24. I feel this hit can likely be covered by the 1.5 notch increase that I had recommended above to the 23.50 Aaa level per the CES grid (recommended 25 at Aaa prior to seasoning benefit). At the end of the day, this hit is not significantly large for this deal.

- Point#5 - Is the CES grid appropriate for determining levels on CES pools aged 2 years with a significant proportion of 2 and 3 yr hybrid ARMs that are about to reset?
- Thought - Not sure about this point, but I would think that our methodology should consistently evaluate CES loans regardless of the age and the proximity of the reset dates on the underlying 1st lien loans. When the CES grid was created, I suppose that we assumed higher default frequencies to compensate for the reset/payment shock risk since we assumed 80-90% hybrid ARMs (although this risk is more of an unknown when a pool is newly originated since we don't have a real-life indication of interest rate movements). In this case, like we saw via the interest rate risk analysis, and given current rates/6 month LIBOR levels/housing appreciation, I think I would be more comfortable assigning levels per the CES grid given our likely stressed assumptions. I'm assuming the CES grid was created when our forward LIBOR assumptions hit a higher peak (thereby posing more reset risk; if not at the initial adjustment due to the ICAP, possibly more payment shock risk at subsequent rate adjustments). Since we recently reduced the peak in the assumed forward curve to 3.25% from the earlier level of 4.25%, this might imply that we were stressing payment shock moreso in the past due to a higher expected peak.

Any other questions I may have missed? Any thoughts? If you feel we do not have a case to bring down the levels to my recommendation from today's committee after considering the above factors, I will gladly tell Bear that the previously committeed levels are where we stand. And looking at the recently committeed Home Re 2006-1 deal (Radian), we notched the Aaa suggested by the CES grid by only 1.5 notches to reflect a higher % of ARMs (64%) so that we at least make a distinction from the previous Radian deal that had 48% ARMs. This may prove to be an inconsistent manner of hitting the CES grid for increasing %s of ARM collateral (hit 3.5 notches on this MGIC deal originally).

Thanks.

Karen Ramallo
Structured Finance Group - RMBS
Moody's Investors Service
☎ 212-553-0370
✉ karen.ramallo@moodys.com

DATE: 05/01/2006
TIME: 20:43:50 GMT
AUTHOR: Michalek, Richard
RECEIPIENT: Yoshizawa, Yuri
CC: Xu, Min; Zhu, Qian
SUBJECT: RE: Magnolia 2006-5 Class Ds

I am worried that we are not able to give these complicated deals the attention they really deserve, and that they (CS) are taking advantage of the "light" review and the growing sense of "precedent".

As for the precedential effects, we had indicated that some of the "fixes" we agreed to in Qian's deal were "for this deal only" (e.g., Administrative Expense cap and indemnity payments to Trustee). When I asked Roland if they had given further thought to a more robust approach, he said (unsurprisingly) that they had no success and could we please accept the same [stopgap] measure for this deal.

Not that the chosen stopgap measure was not good enough, just that the weight of "this is what we have done in the past and you had gotten comfortable" is growing with every deal and the incentive to unravel the documents and try to understand just how the complicated pieces fit together is growing ever smaller.

When you add a "reduced fee" to the scale, it definitely tips it over to "light review". As for the light review, the blacklines won't pick up the changes that, upon closer review, we wish we had made in the first transaction. And, as would I should the role be reversed, any attorney stepping in for me on this trade will focus only on the blacklined changes.

Min and I are working through some of the "old" complications (not blacklined) in the new deal's documentation, but we don't want to reinvent a wheel already on a roll, even if, as we discovered when we tried to make sense of the already present definitions of "Expected Interest Amount" and "Delivered Obligation Interest Make-Whole Amount", the roll is not particularly smooth. (When confronted with our questions, CS and counsel said "we'll have to look at this, I think you're right, there seems to be something that doesn't work here".)

We'll do what we can with the time we have, and with the principle of "work/life balance" firmly in our minds. Nevertheless, I think all effort should be made to resist the idea that this is worthy of reduced fees, or "light" reviews. (If headlines are going to be made, this structure may be just the source of error that in hindsight we really will wish we had given more time.)

Rick

-----Original Message-----
From: Yoshizawa, Yuri
Sent: Monday, May 01, 2006 10:41 AM

To: Michalek, Richard; Zhu, Qian
Subject: FW: Magnolia 2006-5 Class Ds

Rick, Qian,

I asked Roland and Fiachra to send over the docs for the new trades blacklined against the one that you closed (not the new ones that Rick is working on with Min). I looked through the blacklines and it looks like the changes are minimal - e.g., names, pricing, dates, etc. - except for the swap which has more changes due to the removal of funding language.

Rick, If you're jammed until the end of the month, I can see if someone else can pick this up. It shouldn't be too difficult given the minimal changes. Regarding any new changes you and Min are asking for, we can ask for the same changes here if you let me or Qian know what those changes are.

Qian, There are a few portfolio changes and I have already told Fiachra that we will be charges each new portfolio as a new deal. He seems to understand that from his email below. The changes to the model shouldn't be difficult to run quickly. We can have Roland send us the portfolios.

-----Original Message-----
From: Jawurek, Roland [mailto:roland.jawurek@credit-suisse.com]
Sent: Friday, April 28, 2006 9:33 AM
To: Yoshizawa, Yuri
Cc: O'Driscoll, Fiachra
Subject: RE: Magnolia 2006-5 Class Ds

Hello Yuri:

Please find attached the following documents:

1) Draft Pricing Supplement for Series D1

2) Draft Pricing Supplement for Series D2

3) Draft CDS Confim for Series D3

4) Blackline PS Series D1 vs Final PS Series A through C (A through C closed on March 31)

5) Blackline PS Series D2 vs Series D1

6) Blackline CDS Confirm Series D3 vs PS Series D2 (confirm section only)

The blacklines attached are "changed pages only". I would like to direct your attention to the blacklines. You will see that the changes are generally limited to required form and data changes.

Many thanks,

Roland

212 [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: O'Driscoll, Fiachra
Sent: Thursday, April 27, 2006 4:55 PM
To: 'Yoshizawa, Yuri'
Cc: Jawurek, Roland
Subject: RE: Magnolia 2006-5 Class Ds

That agrees with my understanding on the fees etc. The unfunded has a portfolio identical to one of the two notes, so I should clarify my original email by saying there are only two "new" portfolios.

The constituting instruments and the swap confirms will be identical to each other and to those for the existing Class A notes except with respect obvious economic points where they must differ (e.g. dates, principal amounts, coupons, attachment points, name schedules etc.) and the unfunded swap confirm will be identical to the note swap confirm except that it's counterparty will be Credit Suisse as opposed to Magnolia.

The trade is a static, nonmanaged transaction as before.

Roland will get you the blacklines first thing in the morning. And thanks for your help! (Any thoughts as to a date we can set for a team dinner, as we discussed?)

-----Original Message-----
From: Yoshizawa, Yuri [mailto:Yuri.Yoshizawa@moodys.com]
Sent: Thursday, April 27, 2006 4:05 PM
To: fiachra.o'driscoll@credit-suisse.com
Subject: Re: Magnolia 2006-5 Class Ds

Fiachra,
I also just realized that there are actually three ratings that are being required for 2 notes and 1 swap. Are the note documents identical to each other? And is the swap confirm identical to the confirms underlying the notes? If everything is identical, I can stick to the pricing below. Please send me the blackline for one of the note documents against the older deal and the other note against the first note.

Thank you.

-----Original Message-----
From: Yoshizawa, Yuri
To: 'fiachra.o'driscoll@credit-suisse.com' <fiachra.o'driscoll@credit-suisse.com>
Sent: Thu Apr 27 15:54:43 2006
Subject: Re: Magnolia 2006-5 Class Ds

Fiachra,

Can you please send over the documents blacklined against the other 2006-5 documents to me? I believe Rick's concern is that despite what you say regarding them coming from the same issuer, the constituting documents may be very different. Please send over the blackline so that I can see them and so that any other analyst that I assign can use them for review. I expect that compared to the documents for the class rated single A, they will be identical except for the attachment points and pricing and schedule of names. If so, I can ask Qian to run the numbers and give the documents to someone else to review.

Also, the terms of my fee arrangement are very clear on the fact that the portfolios must be identical. One of the key reasons why the fees are much lower compared to the full waterfall deals is because they are usually very much similar from deal to deal in terms of structure and documents. Also, the 2nd + tranches are priced lower (~ $40k lower) because we only have to monitor one reference portfolio. This trade, because it has the different CUSIPs would be considered a different deal under my pricing - i.e., $85k for a static deal. Please let me know if this deal is not static. I can't remember from the name alone.

Yuri

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: O'Driscoll, Fiachra <fiachra.o'driscoll@credit-suisse.com>
To: Yoshizawa, Yuri
Sent: Thu Apr 27 13:43:44 2006

Subject: Magnolia 2006-5 Class Ds

Yuri, we have traded the Magnolia 2006-5 Class D securities (that is, the Baa tranches BELOW the Aaa to A classes that traded a few weeks ago). The 3 investors each required a SMALL number of CUSIP changes to the original pool, but there are no new asset classes and the essential character of the trades remains the same. There are also no changes proposed to the ref. obs., the collateral assets or anything else.

Rick has said that he won't be able to focus on it any time soon and that we should expect a closing date in LATE May.

(a) Unless Moody's is unhappy with the documents that we closed the last transaction on, we don't think the documents need any changes.

(b) I'm going to have a major political problem if we can't make this short and sweet because, even though I always explain to investors that closing is subject to Moody's timelines, they often choose not to hear it.

Can you make someone else available to us?

Fiachra O'Driscoll
Credit Suisse
Managing Director
Synthetic CDO Trading
Tel : (212) 538-6680
Fax : (212) 743-1090
Cellphone : (917) [redacted]
Please note my new email address
Email : fiachra.o'driscoll@credit-suisse.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

DATE: 10/24/2006
TIME: 21:25:54 GMT
AUTHOR: Michalek, Richard
RECEIPIENT: Fu, Yvonne; Harrington, William; Remeza, Algis;
CC: Jiang, Ivan
SUBJECT: managing expectations: 2 different stories

Invicta is conceding that this is a "first quarter 2007" transaction. This outcome is, I believe, in part the result of their itemizing and calendaring all of the necessary tasks on their way to issuance. And noticing after two weeks how they were slipping on their deadlines.

Koch, on the other hand, is still moving hard towards the "end of November" deadline. However, they are increasing their pressure on us to ensure that we are "keeping the playing field level" viz. the rated entities and current "market practices".

As to "level playing fields", they specifically charge that Primus is trading on a more flexible ISDA Schedule, they [presumably] have lower capital charges given our insistence on a termination payment "solution" (either modeling or otherwise), and they presumably do not have the same degree of "operational suffering" (their term) from our (now) asking for clarification and quantification that was not asked in connection with Primus. (We reassured them that their deal is being held to standards consistent with the other deals now coming to market, and that existing deals are being asked to update/evolve their methodologies to the extent there are unaddressed material risks. Nevertheless, and no matter how many times we made the assurance, they clearly implied that they would not accept different standards from the outstanding Moody's-rated vehicles.)

I mention this to reinforce the expectation that concessions we make in the interest of getting the deal(s) rated will be used against us.

Rick Michalek
VP/Senior Credit Officer
212.553.4076
212.298.7127 (fax)

DATE: 12/12/2006
TIME: 19:04:00 GMT
AUTHOR: Brennan, James
RECEIPIENT: Emmett, Catherine (London)
CC: Bellis, Andrew (London)
SUBJECT: RE: Re legal points outstanding

We probably could rate down further in the capital structure, but it really depends on what Taberna will covenant to. It may be best to set up a call tomorrow with Taberna so we can all get on the same page.

As for the perpetuals, we agreed that 100% of proceeds that come in from these securities after ten years will be treated as principal proceeds.

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Tuesday, December 12, 2006 10:35 AM
To: Brennan, James
Cc: Bellis, Andrew (London)
Subject: RE: Re legal points outstanding

Jim,
We are pricing on Thursday and want to get this sorted ASAP. Have been speaking to Plamen and my feeling is that the only way we'll maybe get Taberna to agree to the covenants is if you rate down to Aa2 on the B Notes at the same levels as the other agencies.
If you you let me know what covenant levels you would need to get there I'll speak to Taberna.

I thought we had agreed on perps?

Cheers Cath

Merrill Lynch
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London EC1A 1HQ
Tel: +44 20 7995 4776
Please click on <http://www.ml.com/ukregulatorynotices/uk_regulatory.htm> for important disclosures.

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Tuesday, December 12, 2006 2:18 PM
To: Emmett, Catherine (London)
Subject: RE: Re legal points outstanding

If you have a 21 year WAL and the WARF is 1761, the default probability is 31.29%. This extrapolates the default probability from the 21 year life based on the ten year WARF. Your calculation uses the default probability of each asset and then you use a weighted average. Slight difference, but I wanted to point this out to you.

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Tuesday, December 12, 2006 7:51 AM
To: Brennan, James
Subject: RE: Re legal points outstanding

Bit unclear what you mean - is the figure that we have incorrect?

Cheers
Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Tuesday, December 12, 2006 1:06 AM
To: Emmett, Catherine (London)
Subject: RE: Re legal points outstanding

I got your voicemail as well. I can't send my results over, however, I can tell you that with your assumptions, I am getting similar results. Just to let you know, when you calculate the default probability, use the WARF and then extrapolate the default probability using the life of the portfolio. In terms of how the A2 Note will rate out, this will be heavily dependent on the covenants Taberna sets with respect to the WARF and MAC. I think we still have some issues left to resolve especially with respect to the covenants, ramp-up, and how perpetuals are treated.

Thanks

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Monday, December 11, 2006 4:06 PM
To: Brennan, James
Subject: RE: Re legal points outstanding

Jim,
please can you send your results?

Many thanks
Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Friday, December 08, 2006 11:52 PM
To: Emmett, Catherine (London)
Subject: RE: Re legal points outstanding

Just to let you know, I will need to get back with you on Monday with the model results. Sorry for the inconvenience and hope you enjoyed your days off.

Thanks

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Wednesday, December 06, 2006 2:10 PM
To: Brennan, James
Cc: Bellis, Andrew (London); Chagnard, Florent (London)
Subject: RE: Re legal points outstanding

Taberna will not remove the language on the WARF tests etc. They point out that in the US deals you rate down to Aa1 level.
What rating would you have here do you think on the Class B notes?

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Wednesday, December 06, 2006 6:25 PM
To: Emmett, Catherine (London)
Cc: Bellis, Andrew (London); Chagnard, Florent (London)
Subject: RE: Re legal points outstanding

On the perps, that is different from what we discussed. Why not 100%?

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Wednesday, December 06, 2006 11:46 AM
To: Brennan, James
Cc: Bellis, Andrew (London); Chagnard, Florent (London)
Subject: Re legal points outstanding

Jim,
To confirm even if we notch all the unconfirmed ratings you think your results will still be ok and can check and come back by the end of the week. When you run the ratings please can you let me know where the junior Aaa tranche comes out.

For my records, recoveries on CMBS and B Notes come from the CDO ROM model

On the legal points
Perps - we will agree that after yr ten 80% of interest is used as principal.

Deferring grace period - I suppose we can change language to lose the grace period though please note this is deviating from what we have in the Dekania deals in Europe...

Re the Mac etc - I will pass on your thoughts to Plamen but promise nothing!!

If you can drop an email letting me know your results that would be great.

Many thanks
Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776

DATE: 03/08/2007
TIME: 01:56:11 GMT
AUTHOR: Ramallo, Karen
RECEIPIENT: Krayn, Yakov
CC:
SUBJECT: RE: DQ Hit for Jake's ACE Deal

Jake,

I just spoke with Sue Valenti at Deutsche regarding this deal and she is resisting the changes to the LC levels. She is pushing back dearly saying that the deal has been marketed already and that we came back "too late" with this discovery (although we caught this before the FWP printed; did you ever tell Karan that the levels were contingent on the loans being OTS current as of the cut-off date?)

She claims it's hard for them to change the structure at this point. Given the level of pushback, I figure we'll have to discuss this with Warren in the morning. Do you think you can run the optimized model given the new levels and then we can compare that to the initial structure and run by Warren?

-----Original Message-----
From: Kornfeld, Warren
Sent: Tuesday, March 06, 2007 11:21 AM
To: Ramallo, Karen
Cc: Krayn, Yakov (Jacob)
Subject: RE: DQ Hit for Jake's ACE Deal

ok

-----Original Message-----
From: Ramallo, Karen
Sent: Tuesday, March 06, 2007 9:47 AM
To: Kornfeld, Warren
Cc: Krayn, Yakov (Jacob)
Subject: RE: DQ Hit for Jake's ACE Deal

Warren - revising recommendation to below (previously had said 160 bp hit to Aaa, meant to say 120 bp hit to Aaa to use a 3x multiple rather than the typical 4x)

New Recommendation: 40 bp hit to B2, 120 bp hit to Aaa.

-----Original Message-----
From: Ramallo, Karen
Sent: Tuesday, March 06, 2007 9:41 AM
To: Kornfeld, Warren
Cc: Krayn, Yakov (Jacob)
Subject: RE: DQ Hit for Jake's ACE Deal

Warren,

Just stopped by to see if you had any feedback. Jake needs to signoff on the FWP today and I'll need to resolve this issue with Deutsche.

Thanks.
Karen

-----Original Message-----
From: Ramallo, Karen
Sent: Monday, March 05, 2007 1:01 PM
To: Kornfeld, Warren
Cc: Krayn, Yakov (Jacob)
Subject: DQ Hit for Jake's ACE Deal

Warren,

Jake has a Resmae 100% subprime 1st lien deal and he just discovered that approximately 3% of the pool will be 30 days OTS past due as of the cut-off date of Feb. 1.

OTS Delinquency Status as of: Feb. 1st
Delinquencies as of Feb. 1st: 3% 30 days OTS (i.e. missed Dec. 1st payment; there will be no 60 day delinquencies)
Closing Date: March 14th

The adjustment per our framework would be roughly 30 bps to B2 and 90 bps for Aaa (a 3x multiple); this assumes that the 3% that is 30 days OTS as of 2/1 (or 59 days MBA) will become another month past due as of 3/1 (or 59 days MBA past due). As with previous deals we've looked at, we're not yet hitting for the loans that are OTS current as of 2/1 but that could actually be 1 month past due as of the closing date of 3/1). I would also argue for a higher hit given the 6 week lag between delinquency reporting/cut-off and the closing date.

Recommendation: 40 bp hit to B2, 160 bp hit to Aaa.

This adjustment is a bit high but we are not driving the structure anyhow and I do not think this will change the structure significantly (the last column below show how overenhanced we are at the given ratings given the other agency's required bond sizes).

Solve with Fully Funded Initial OC : y SvcFee Adj = n Swap 2
Lossess Incurred Full Mtg Losses Realized Entered Vs Calc Diff (SHOULD BE ZERO)
Tranching 1 CE Level Check FRM CE From Tranching Tool Entered Req CE Size
Sub-ordination % plus Initial OC Size Cumul Advance Rate

Aaa OK 26.10% 26.10% 77.40% 22.60%
77.40% 77.40% 27.75% No -1.65%
Aa1 OK 22.60% 22.60% 3.95% 18.65% 3.95% 81.35%
23.84% No -1.24%
Aa2 OK 19.40% 19.40% 4.30% 14.35% 4.30% 85.65%
19.44% No -0.04%
Aa3 OK 17.45% 17.45% 1.60% 12.75% 1.60% 87.25%
17.79% No -0.34%
A1 OK 15.75% 15.75% 1.80% 10.95% 1.80% 89.05%
15.95% No -0.20%
A2 OK 14.05% 14.05% 1.85% 9.10% 1.85% 90.90%
14.06% No -0.01%
A3 OK 12.55% 12.55% 1.25% 7.85% 1.25% 92.15%
12.83% No -0.28%
Baa1 OK 11.10% 11.10% 1.45% 6.40% 1.45% 93.60%
11.37% No -0.27%
Baa2 OK 9.80% 9.80% 0.85% 5.55% 0.85% 94.45%
10.55% No -0.75%
Baa3 OK 8.80% 8.80% 1.45% 4.10% 1.45% 95.90%
0.00%
0.00%
0.00%

NIM

EL 5.30% 95.90% **Yield**
Tolerance (bps)
O/C 1

Initial 4.10% **Because sizes were entered, Initial OC is ignored**

Target 4.10%

From:	Fu, Yvonne
Sent:	Tuesday, June 12, 2007 7:22 PM (GMT)
To:	'Smith, Zach (GMI - NY SWAPS)' <zach_smith@ml.com>; Mangalgiri, Vickram (GMI) <Vickram_Mangalgiri@ml.com>
Cc:	Kolchinsky, Eric <Eric.Kolchinsky@moodys.com>
Subject:	RE: Rating application for Belden Point CDO

Zach,
Thanks for this feedback. We agree that this will not be a precedent for future deals by default and we will discuss with you on a case by case basis if Complex CDO rating application should be applied to future deals. We will certainly continue working with you on this transaction, but analytical discussions/outcomes should be independent of any fee discussions. Thanks.

-----Original Message-----
From: Smith, Zach (GMI - NY SWAPS) [mailto:zach_smith@ml.com]
Sent: Tuesday, June 12, 2007 11:55 AM
To: Fu, Yvonne; Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric
Subject: RE: Rating application for Belden Point CDO

Yvonne,
We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try and get to some middle ground with respect to the ratings. Thanks, Zach

-----Original Message-----
From: Fu, Yvonne [mailto:Yvonne.Fu@moodys.com]
Sent: Monday, June 11, 2007 6:27 PM
To: Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS)
Subject: Re: Rating application for Belden Point CDO

Vickram, as we mentioned in the various phone calls, we do not view this transaction as a standard CDO transaction and the rating process so far has already shown that the analysis for this deal is far more invloved and will continue to be so. We have spent significant amount of resource on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue. Thanks.

-----Original Message-----
From: Mangalgiri, Vickram (GMI) <Vickram_Mangalgiri@ml.com>
To: Fu, Yvonne
CC: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS) <zach_smith@ml.com>
Sent: Mon Jun 11 13:53:18 2007
Subject: RE: Rating application for Belden Point CDO

I think we were still discussing whether the higher upfront fees should apply. We have not gotten a chance to go through all the other minor fees in detail (which looks like there are a lot). I checked around on the desk and no one here has ever heard or seen this fee structure applied for any deal in the past. Could you point us to a precedent deal where we have approved this? If there is none, can you send us a blackline of this schedule vs the standard schedule that we use for all CDOs?

Thanks

Permanent Subcommittee on Investigations
EXHIBIT #23-Addendum

DATE: 06/12/2007
TIME: 15:55:29 GMT
AUTHOR: Smith, Zach
RECEIPIENT: Fu, Yvonne; Mangalgiri, Vickram
CC: Kolchinsky, Eric
SUBJECT: RE: Rating application for Belden Point CDO

Yvonne,
We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try and get to some middle ground with respect to the ratings. Thanks, Zach

-----Original Message-----
From: Fu, Yvonne [mailto:Yvonne.Fu@moodys.com]
Sent: Monday, June 11, 2007 6:27 PM
To: Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS)
Subject: Re: Rating application for Belden Point CDO

Vickram, as we mentioned in the various phone calls, we do not view this transaction as a standard CDO transaction and the rating process so far has already shown that the analysis for this deal is far more invloved and will continue to be so. We have spent significant amount of resource on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue. Thanks.

-----Original Message-----
From: Mangalgiri, Vickram (GMI) <Vickram_Mangalgiri@ml.com>
To: Fu, Yvonne
CC: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS) <zach_smith@ml.com>
Sent: Mon Jun 11 13:53:18 2007
Subject: RE: Rating application for Belden Point CDO

I think we were still discussing whether the higher upfront fees should apply. We have not gotten a chance to go through all the other minor fees in detail (which looks like there are a lot). I checked around on the desk and no one here has ever heard or seen this fee structure applied for any deal in the past. Could you point us to a precedent deal where we have approved this? If there is none, can you send us a blackline of this schedule vs the standard schedule that we use for all CDOs?

Thanks

Vickram Mangalgiri
Global Structured Credit Products
Merrill Lynch
4 World Financial Ctr, Fl 7
New York, NY 10080
212 449 9206 Direct
212 669 0897 Fax
vickram_mangalgiri@ml.com

-----Original Message-----
From: Fu, Yvonne [<mailto:Yvonne.Fu@moodys.com>]
Sent: Monday, June 11, 2007 1:39 PM
To: Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric
Subject: Rating application for Belden Point CDO

Vickram,
Just to follow up on the fee discussion Eric had with you a while ago, we'd like to see an indication from you that ML is ok with the attached complex CDO fee schedule being applied to Belden Point CDO.
Thanks,
Yvonne

From: Fu, Yvonne
To: Yoshizawa, Yuri; Polansky, Jonathan; Kolchinsky, Eric; May, William
Cc: Lam, Wai Har (Ivy); Surana, Sunil
Subject: RE: 3Q Market Coverage-CDO
Date: Friday, October 05, 2007 12:39:55 PM

---

no story from my side. but I noticed that there are three Fitch only deals with less than $100m notional per deal - they obviously would not contribute much to the $ based market share, but they contributed to about 3% in deal # market share.

From: Yoshizawa, Yuri
Sent: Fri 10/5/2007 12:13 PM
To: Polansky, Jonathan; Kolchinsky, Eric; Fu, Yvonne; May, William
Cc: Lam, Wai Har (Ivy); Surana, Sunil
Subject: Re: 3Q Market Coverage-CDO

Can you please take a look at the deals that we didn't rate from the spreadsheet that Ivy sent out last night to double check the information and to let me know any of the "stories"? Thank you.

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: Surana, Sunil
To: Yoshizawa, Yuri; Polansky, Jonathan; Kolchinsky, Eric; Fu, Yvonne; May, William
CC: Lam, Wai Har (Ivy)
Sent: Fri Oct 05 11:59:21 2007
Subject: RE: 3Q Market Coverage-CDO

Yuri,

Market share by deal count dropped to 94%, though by volume it's 97%. It's lower than the 98+% in prior quarters. Any reason for concern, are issuers being more selective to control costs (is Fitch cheaper?) or is it an aberration.

Sunil

> -----Original Message-----
> From: Lam, Wai Har (Ivy)
> Sent: Thursday, October 04, 2007 6:15 PM
> To: Yoshizawa, Yuri; Polansky, Jonathan; Kolchinsky, Eric; Fu, Yvonne; May, William
> Cc: Surana, Sunil
> Subject: 3Q Market Coverage-CDO
>
> Hello all,
>
> Attached please find 3Q Market Coverage-CDO. Please let me know if you have any questions.
>
> Ivy Lam
> Moody's Investors Service
> 99 Church Street, 8th FL
> New York, NY 10007
> Tel: 212-553-1068 Fax: 212-553-4170

Permanent Subcommittee on Investigations
EXHIBIT #24a

From: McDaniel, Raymond
Sent: Sunday, October 21, 2007 11:08 PM (GMT)
To: McDaniel, Raymond [redacted]
Subject: Credit Policy issues at Moody.doc
Attach: Credit Policy issues at Moody.doc

<<...>>

Credit Policy issues at Moody's suggested by the subprime/liquidity crisis

1 The management group has begun identifying issues and weaknesses that the organization needs to address. These are treated in very preliminary form in the Solutions document that has been included in the Directors Packet.

2 My purpose here is to offer a framework for how we are thinking about these challenges conceptually and note some of the initiatives being taken.

3 We will also need to conduct a careful post mortem of the experience

Conflict of interest

MARKET SHARE

4 In an increasing number of markets, Fitch is an acceptable substitute for either S&P or Moody's. In other markets, any one of the three is enough. With the loosening of the traditional duopoly, how do rating agencies compete?

5 Ideally, competition would be primarily on the basis of ratings quality, with a second component of price and a third component of service. Unfortunately, of the three competitive factors, rating quality is proving the least powerful given the long tail in measuring performance. Were that the extent of the problem --that it is hard to measure quality and hence price and service are disproportionately weighted -- it would pinch profitability, forcing rating agencies to spend more on service and take less in fees. But that is no different than for most other businesses and we can cope. The real problem is not that the market does underweights ratings quality but rather that, in some sectors, it actually penalizes quality by awarding rating mandates based on the lowest credit enhancement needed for the highest rating. Unchecked, competition on this basis can place the entire financial system at risk. It turns out that ratings quality has surprisingly few friends: issuers want high ratings; investors don't want rating downgrades; short-sighted bankers labor short-sightedly to game the rating agencies for a few extra basis points on execution.

6 Moody's for years has struggled with this dilemma. On the one hand, we need to win the business and maintain market share, or we cease to be relevant. On the other hand, our reputation depends on maintaining ratings quality (or at least avoiding big visible mistakes). For the most part, we hand the dilemma off to the team MDs to solve. As head of corporate ratings, I offered my managers precious few suggestions on how to address this very tough problem, just assumed that they would strike an appropriate balance. I set both market share and rating quality objectives for my

MDs, while reminding them to square the circle within the bounds of the code of conduct.

7 Although the business does square the circle in some situations, the market share pressure persists in others. Moody's has erected safeguards to keep teams from too easily solving the market share problem by lowering standards. These protections do help protect credit quality.

(a) Ratings are assigned by committee, not individuals. (However, entire committees, entire departments, are susceptible to market share objectives.)

(b) Methodologies & criteria are published and thus put boundaries on rating committee discretion. (However, there is usually plenty of latitude within those boundaries to register market influence.)

(c) Strong culture of integrity; code of conduct etc.

8 We are adding several more safeguards

(d) No one with market share objectives may chair rating committee

(e) Tighter limits on the link between LOB revenue performance and individual compensation

9 This does NOT solve the problem though. The RMBS and CDO and SIV ratings are simply the latest instance of trying to hit perfect rating pitch in a noisy market place of competing interests.

RATING EROSION BY PERSUASION

10 Analysts and MDs are continually "pitched" by bankers, issuers, investors --all with reasonable arguments -- whose views can color credit judgment, sometimes improving it, other times degrading it (we "drink the kool-aid"). Coupled with strong internal emphasis on market share & margin focus, this does constitute a "risk" to ratings quality. Various protections are being set in place:

(f) A more independent credit policy function

(g) More cross-LOB participation in credit policy committees

(h) More cross-LOB rotation of managers or credit policy people

In addition, bad ratings must be perceived to have (much) worse consequences than market share slippage. Accountability is key. (It is also tricky to implement.)

RATING EROSION FROM SUCCESS

11 The RMBS & derivatives teams are comprised of conscientious bright people working long hours. They are highly desirous of getting the rating right.

12 But a certain complacency about ratings quality is inevitable after a prolonged period of rating success. For years these deals were seemingly overcollateralized (characterized by upgrades consistently and broadly outpacing downgrades), given rising housing prices and low interest rates and a decent economy. There seemed to be ample surplus even for a bad scenario. But, as it turned out, not enough for an extreme scenario.

13 Organizations often interpret past successes as evidencing their competence and the adequacy of their procedures rather than a run of good luck.

14 Failures motivate search for new methods and systems less likely to fail. In contrast, our 24 years of success rating RMBS may have induced managers to merely fine-tune the existing system - to make it more efficient, more profitable, cheaper, more versatile. Fine-tuning rarely raises the probability of success; in fact, it often makes success less certain.

INDEPENDENT REVIEW WITHIN MOODY'S

15 We are instituting periodic, independent review of: ratings, methodologies, models, assumptions, and data used in the rating process, with concerns referred back to the rating group for attention

16 We have been criticized for rating methodologies that are not sufficiently transparent. We publicly post methodologies and, in many cases, our models in an effort at transparency. In addition, we will now: (i) publish & discuss key assumptions, adequacy of supporting data, areas of greatest uncertainty; (ii) describe/dimension scenarios that would trigger loss for a structured tranche.

17 It is crucial that we bring the broadest credit judgment possible to market sectors and asset types. To do that better, we will look for ways to better track market pricing, liquidity, metrics, investor/trader sentiment to infuse our credit thinking with a more timely and dynamic sense of real world conditions.

18 Chris Mahoney has initiated the Global Financial Risks Perspectives series, to identify and discuss financial system risks and is developing a new annual process of identifying and publishing a "central scenario" for expected market and economic conditions, along with several stress scenarios. Each rating sector or region will

further develop or adapt these scenarios for use in industry outlooks, rating committees, and research. This should add coherence and substance to the assumptions that go into our ratings, as well as improving our transparency to the market.

THE NEED FOR INVESTMENT

19 Might under-funding put our ratings accuracy at risk? We should closely and regularly evaluate the adequacy of staffing, data system, models, methodologies, and credit oversight. One way to do that might be an independent rank ordering of rating groups in terms of resource adequacy. Concerns might be reported as part of Chester's quarterly ERM report.

20 To state the obvious, there will always be tension between funding ratings quality and hitting our margins.

21 Moody's Mortgage Model (M3) needs investment

22 Data & data systems in SFG and Banking need investment

23 From a credit policy perspective, we want to be in a position to JUST SAY NO to a market opportunity, when imperative to do so from a quality perspective. We have done that in the past (e.g. net interest margin securitizations; capital notes on SIVs; Canadian CP liquidity arrangements). How to do it more aggressively without simply exiting whole market sectors is an unsolved problem.

Other

24 Our Aaas are intended to be estimations of expected credit loss over the life of a security. In Fundamental this means that once in a very great while a single Aaa might default on an obligation and trigger a loss. But in SFG it means that a larger number of Aaas might realize a loss but at such low levels as a percentage of principle and interest that the loss is consistent with the rating. This can lead to greater volatility in the rating of a structured security. The market may find that volatility inconsistent with their expectations at the Aaa or Aa rating levels. We are looking for ways to respond.

From: Tesher, David
Sent: Friday, March 04, 2005 11:23 AM
To: Inglis, Perry; Bryan, Andrea; Howley, Chris
Cc: Gilkes, Kai; Jordan, Pat
Subject: RE: FW: Wachovia Report Cites Questions Of S&P's Integrity

For next Tuesdays PL meeting .... I would like to discuss how we plan on ultimately "spinning" our revised correlation assumptions (i.e. 3/18) .... combined with the fact that we plan on eliminating our stress factors .... as our current proposal stands ... Besides being "called out" for our current correlation assumptions ... I just want you all to be aware that the article also made it quite clear that a change in correlation assumptions .... without a corresponding change in subordination levels (i.e. "higher") ... would imply we did something to "neutralize" the shift to a more stringent set of correlation assumptions ...

I would like to be proactive .... as opposed to being reactive ....given this statement has been publicly made .... and will definitely be picked-up by market participants relatively quickly .... (See Below Paragraph from the Wachovia Correlation Piece) ....

"Any change to S&P's inter-industry correlation assumption would require greater sub-ordination for new, S&P-rated CDOs, especially highly leveraged ones like synthetic CDO-squared transactions. Older transactions if not actually downgraded, could suffer from implicit downgrades. Ratings-sensitive investors would clearly be adversely affected by any actual downgrades. For example, insurance companies may be assessed higher capital charges, and structured investment vehicles (SIVs) may be downgraded. This, of course, assumes that S&P neither grandfathers the monitoring of existing transactions under the old methodology nor makes other changes to the methodology that would conveniently offset the changes in correlation."

David

-----Original Message-----
From: Inglis, Perry
Sent: Monday, February 28, 2005 10:03 AM
To: Kambeseles, Peter; Gugliada, Richard; Jordan, Pat; Bergman, Sten; Albulescu, Henry; O'Keefe, Brian; Sharma, Vandana; Galli, Stephen; Khakee, Nik; Tesher, David; Bryan, Andrea; Wong, Elwyn; Howley, Chris; Anderberg, Stephen; Pedvis, Andrew; Gaw, Mark
Subject: RE: FW: Wachovia Report Cites Questions Of S&P's Integrity

I think it is a shame that these articles do not discuss the fact that we have never suggested that there are not macroeconomic factors that affect all obligors. That is what our stress factors are there for. This point seems to be better understood by Creditflux (quoting Kai). We should also make sure that we are highlighting the 'problems' with stress factors when considering shorts and that this was a driver behind us looking at our modelling assumptions - NOT Moody's article!

Perry

-----Original Message-----
From: Kambeseles, Peter
Sent: 28 February 2005 14:46
To: Gugliada, Richard; Jordan, Pat; Bergman, Sten; Albulescu, Henry; O'Keefe, Brian; Sharma, Vandana; Galli, Stephen; Khakee, Nik; Tesher, David; Bryan, Andrea; Wong, Elwyn; Howley, Chris; Kambeseles, Peter; Anderberg, Stephen; Pedvis, Andrew; Gaw, Mark; Inglis, Perry
Subject: FW: Wachovia Report Cites Questions Of S&P's Integrity

Attached is the Wachovia report referenced in the Bondweek and ASR articles below.

The sentence in the report that many in the financial press are focusing on is:
It is widely reasoned among market participants that S&P has not made significant modifications to its correlation assumptions because of the competitive advantage they give S&P over its rating agency rivals in the fast-growing synthetic CDO market.... Given S&P's generous inter-industry correlation assumption of 0%, it is not surprising that S&P has the dominant share of publicly rated part of this market.

==

Wachovia Report Cites Questions of S&P's Integrity

Scott Goodwin - Bondweek
Feb. 25, 2005

A new report from Wachovia Securities cites market opinion challenging the integrity of Standard & Poor's. It reports there is widespread belief in the markets that, for business reasons, S&P has not followed the lead of its fellow rating agencies in changing its methodology in rating collateralized debt obligations. "When one looks at their market share, that's a natural question to ask," Natasha Chen, v.p. in the CDO research group at Wachovia in New York, told BW.

Wachovia notes that Moody's Investors Service and Fitch Ratings have made changes to their correlation assumptions, particularly for rating deals referenced to a synthetic pool of assets. These assumptions play a critical role in determining how much credit enhancement is needed to achieve top rating marks. "The topic of correlation and modeling correlation is one of the hottest areas in credit today," Chen said, explaining why Wachovia is addressing the issue now. "It's a difficult problem."

The report says many market participants believe S&P has not made changes to its correlation assumptions because its current criteria help it win business. "Given S&P's generous inter-industry correlation assumption of 0%, it is not surprising that S&P has the dominant share of the publicly rated part of this market," the report says.

Chen stressed the report is not meant as an attack on S&P but to discuss all three rating agencies' assumptions. "We try to point out the weaknesses in the three." She said the report was put out without any input from the group's origination side and declined to predict how it might affect Wachovia's relationship with the rating agencies.

S&P spokesman Adam Tempkin said it is evaluating studies on asset correlation and will update the marketplace on its findings in the near future. "We were the first to highlight the importance of asset correlation in our model and have done extensive research on a variety of assumptions used in our model since that time. This work is ongoing," he said in a statement. Tempkin declined to specifically address the report's claim S&P has not changed its assumption for market share reasons.

Moody's and Fitch officials did not return calls by press time.

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Research offers new option in debate over CDO correlation

ASR, Monday, February 28, 2005

Rating agencies have always had different views of asset correlation assumptions, so when it comes to rating synthetic CDOs, methodologies vary so widely investors have felt less than concrete with the guidance given.

Default correlation, a measure of how credits in a portfolio perform together, appears to be a sticky point. As a result of varying correlation assessments, Fitch Ratings, Moody's Investor's Service and Standard & Poor's all have different attachment points when rating synthetic CDOs. Despite the various opinions, fueled by the tight spread environment, synthetic CDOs are rising in popularity; it seems each quarter, investors face an onslaught of new CDO-of-CDOs, for example.

The CDO research team at Wachovia Securities delved into this issue last week, issuing research titled The Young and the Restless: Correlation Drama at the Big Three Rating Agencies.

"The report is very timely because synthetic CDOs are becoming more and more popular and there is some inconsistency in the way the rating agencies are looking at correlation," said Wachovia Managing Director Arturo Cifuentes. "They have conflicting views."

That said, the agencies are quick to point out they haven't been asleep at the wheel.
"We are currently in the midst of extensive research on a variety of assumptions to our model," reports S&P spokesman Adam Tempkin.

"We have done a great deal of research and we are now comfortable with the correlation assumptions we have and the methodology and analysis we have used to achieve them," added Moody's Managing Director Yuri Yoshizawa.

The current practice is to use equity return correlation as a proxy for industry-level asset correlation. These numbers are plugged into popular Monte Carlo simulations but Wachovia researchers found one exception to the standard view that high correlation is good for junior tranches and bad for senior tranches.

In the report, penned by Analyst Natasha Chen, Wachovia looks at correlation from a loss perspective. But when the synthetic CDO is viewed by a performance measure, such as expected internal rate of return, research shows that the expected IRR of a senior tranche is generally unaffected by high correlation, whereas the expected IRR of a junior tranche is dramatically reduced by high correlation.

"The results for the junior tranche were the most surprising," Chen explained.
Basically, the lower the tranche, the greater the difference in IRR means. Senior investors, CDO researchers found, are barely affected by correlation and junior investors "should actually prefer low correlation," said the report. Wachovia recommends that investors seeking a more complete view of performance should also analyze Monte Carlo-based IRR results. - CMO

<< File: Young_and_the_Restless_022205_r.pdf >>

From: Watson, Bob
Sent: Wednesday, May 17, 2006 5:36 PM
To: Ghetti, Belinda
Subject: RE: an error in the new correlation assumptions?
Hi Belinda,

I have already brought this issue up and it was decided that it would be changed in the future, the next time we update the criteria. In addition to not being intuitive, it increases the likelihood that the correlation matrix is not positive definite. All empirically observed correlation matrices are positive definite, so being not positive definite means that the correlation matrix is inconsistent. It also means that we cannot perform the Cholesky decomposition, which is required to correlate the random number in the Monte Carlo simulation. If this happens, we adjust the individual entries in the correlation matrix just enough to make it positive definite.

If I remember correctly this also causes problems in the model with correlation between EDS and CDS.

This issue should be addressed the next time we change correlation assumptions. Since Kai and Norbert are gone, I am not sure who to bring this up with or who is now responsible for this criteria.

Bob Watson
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Tel: 212-438-2728
e-mail: bob_watson@standardandpoors.com

-----Original Message-----
From: Ghetti, Belinda
Sent: Wednesday, May 17, 2006 1:01 PM
To: Watson, Bob
Subject: FW: an error in the new correlation assumptions?

Bob
This guy says that there is an error in the correlation assumptions. See below.

-----Original Message-----
From: Isaac Efrat [mailto:IEfrat@aladdincapital.com]
Sent: Wednesday, May 17, 2006 12:53 PM
To: belinda_ghetti@sandp.com
Subject: FW: an error in the new correlation assumptions?

Belinda,

It was nice meeting you yesterday at the Bear event. This is a e-mail I told you about regarding the correlation assumption that you probably hadn't intended to make.

Isaac

Isaac Efrat
Senior Managing Director
Aladdin Capital Management LLC
Six Landmark Square
Stamford, CT 06901
Tel: (203) 487-6773
Fax: (203) 326-7902
Cell: (347) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Isaac Efrat
Sent: Monday, March 20, 2006 9:06 AM
To: 'david_tesher@sandp.com'
Cc: 'kai-gilkes@standardandpoors.com'
Subject: an error in the new correlation assumptions?

Hi David,

Thanks for a terrific presentation at the UBS conference. I mentioned to you a possible error in the new Evaluator 3.0 assumptions:

Two companies in the same Region belonging to two *different* local Sectors are assumed to be correlated (by 5%), while if they belong to the *same* local Sector then they are *un*correlated.

I think you probably didn't mean that.

Best regards,
Isaac

Isaac Efrat
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Three Landmark Square
Stamford, CT 06901
Tel: (203) 487-6773
Fax: (203) 326-7902
Cell: (347) [redacted]

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 Jammy.

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 strucutre). If we ran 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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phone: 212-438-3020
fax: 212-438-6021
nicole_billick@standardandpoors.com

-----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)

<< File: Synthetic CDO^2 of ABS.doc >>

R. Christopher Meyer
Associate Director
Global CDO Group
Structured Finance Ratings
Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041

From: Kennedy, Martin
Sent: Wednesday, January 17, 2007 11:00 PM
To: Perelmuter, Monica; Beauchamp, Kyle; Grow , Brian (S&P); Vonderhorst, Brian; Osterweil, Terry
Cc: Uppuluri, Sai
Subject: RE: Summary of Conference Call

Steinman is on your panel... Congrats. Sai, Ken Cheng and I can help you out on this. Actually some are currently part of the CDO talking pts.

-----Original Message-----
From: Perelmuter, Monica
Sent: Wednesday, January 17, 2007 07:26 PM Eastern Standard Time
To: Beauchamp, Kyle; Grow , Brian (S&P); Kennedy, Martin; Vonderhorst, Brian
Subject: FW: Summary of Conference Call

Can anyone give me a crash course on the "hidden risks in CDO's of RMBS"? This panel has evolved from non-agency primary deals (SS, SSOC, NIMs) to a much broader level (CDO's, agencies), and I'm not looking forward to hearing about Assured Guaranty's ability to effect "ratings arbitrage" or their take on net WAC caps in terms of CDO's.

Can you imagine the questions I'm going to receive? If anyone asks how SPIRE is handling net swap payments in terms of the net WAC cap, I'm doomed. Thank goodness we never released the results of the housing simulation study on CDO's. But I have a feeling that's where this guy is going.

I just wanted to talk broadly about our RMBS modeling stresses and documentation requirements. Sounds like I need to read up on Genesis and Evaluator, and fast. Ugh.

-----Original Message-----
From: Steinman, Mark [mailto:MSteinman@assuredguaranty.com]
Sent: Wednesday, January 17, 2007 7:02 PM
To: Schwartz, Jordan; monica_perelmuter@sandp.com; frank.serravalli@us.pwc.com; Crawford, Alec, GCM
Cc: Ross, Justin
Subject: RE: Summary of Conference Call

I prefer not to have slides rather a true panel discussion rather than presentation.

I am happy to participate in panel discussion on hidden risks in CDO's of RMBS (available funds cap prepayment, the ratings arbitrage, ect)

RMBS index trades (ABX1, ABX2 and ABX071). I am a seller of credit protection in these indices at a senior level. Probably one of the most active in the market today. So I am happy to talk about how investors use derivatives

I will put together a list of questions and send it to you.

Thanks,

Mark

From: Schwartz, Jordan [mailto:Jordan.Schwartz@cwt.com]
Sent: Wednesday, January 17, 2007 6:17 PM
To: monica_perelmuter@sandp.com; frank.serravalli@us.pwc.com; Crawford, Alec, GCM; Steinman, Mark
Cc: Ross, Justin
Subject: Summary of Conference Call

To summarize our call:

1. Since this presentation is part of the RMBS track, we will focus, in the first instance, on derivatives used in primary

market non-agency RMBS deals. Other uses of derivatives, such as in CDOs of RMBS or agency securitizations, can be addressed in the interactive panel discussion.

2. We will try to use the format Alec suggested; ie. 5-10 minutes of formal presentation per panelist, with 5 PowerPoint slides, plus or minus, per person, to present an overview, followed by an interactive panel discussion and then audience Q & A.

3. I thought I might lead with 2 minutes or so of very general discussion of why and what kind of derivatives are used in RMBS, and then we would proceed to the individual topics. I will be glad to cover legal issues (ie. a pared-back version of the topics in item VI and VII of my outline), Monica will discuss rating agency analysis and Frank will discuss accounting implications to issuers and investors. Alec and Mark--please suggest what topics you would like to cover, but we could certainly use a more detailed discussion of the economic and investor-driven reasons for using different kinds or durations of derivatives in deals, the effect of their use on the deal's risk profile, pricing considerations etc.

4. The goal is for everyone to circulate drafts of their presentations to the group to look at by early next week so that we can avoid topical overlap and have a follow-up conversation to make sure we've covered everything we want to address in the overview. I will also knit the individual presentations together into a master PowerPoint for ASF's technical staff, which will load it on to a laptop for the conference once we've all signed off. We need to get something finalized by Wednesday/Thursday of next week.

5. In addition to the formal slides, if everyone could jot down and circulate some questions, I will compile those as well ,and from that can come up with the universe of topics for the interactive middle portion of the panel. To get the ball rolling, here are a few:

How have Reg AB requirements affected the availability or cost of derivatives?

How exactly does a swap desk calculate the "maximum probable exposure" of a derivative?

Is the SEC concern about counterparty financial disclosure well founded? From an investor viewpoint? From a rating agency viewpoint?

Monica, Frank and Justin--if I missed or misstated something from our call, please feel free to point it out.

Jordan M. Schwartz
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New York, NY 10281
Phone: 212-504-6136
Fax: 212-504-6666

From: Wong, Calvin
Sent: Wednesday, March 14, 2007 6:45 PM
To: Gillis, Tom
Subject: RE: Proposed plan for review of criteria

Tom,

I'm ok with what you wrote, except that I would add a few sentences to the effect that while Cliff is not asking us to write new criteria, we believe, based in part on some feedback from the AMs, that writing the principles based pieces would save them time in the long run. This is because our published criteria as it currently stands is a bit too unwieldy and all over the map in terms of being current or comprehensive. It might be too much of a stretch to say that we're complying with it because our SF rating approach is inherently flexible and subjective, while much of our written criteria is detailed and prescriptive. Doing a complete inventory of our criteria and documenting all of the areas where it is out of date or inaccurate would appear to be a huge job - that would require far more man-hours than writing the principles-based articles.

Calvin

-----Original Message-----
From: Griep, Cliff
Sent: Wednesday, March 14, 2007 6:17 PM
To: Gillis, Tom; Wong, Calvin
Subject: RE: Proposed plan for review of criteria

I'm OK with sending out a request to your analytical managers to get this started, especially if you want them to create new material, which is likely to be necessary. I would insert the language that I used in the outline that I sent you about the criteria. See the edit in the attached.

I am OK attaching my prior e mail as you have but I have some concern about the use of certification, which was hypothetical.

I'd also like to put together a schedule as to who is doing what by when, with what deliverable. It might be helpful to do this prior to sending, but I defer to you on that.

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, March 14, 2007 9:38 AM
To: Griep, Cliff; Wong, Calvin
Subject: RE: Proposed plan for review of criteria

Ok but time is of the essence!

-----Original Message-----
From: Griep, Cliff
Sent: Wednesday, March 14, 2007 10:25 AM
To: Gillis, Tom; Wong, Calvin
Subject: RE: Proposed plan for review of criteria

Tom, please hold off sending it until after we have discussed at apb. I have drafted language that I will send but we should discuss first.

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, March 14, 2007 10:21 AM Eastern Standard Time
To: Wong, Calvin
Cc: Griep, Cliff
Subject: FW: Proposed plan for review of criteria

Calvin please make any improvements that help clarify or are grammatically necessary. Cliff, I included your memo - is that ok? Tom

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As part of our preparation for our upcoming registration with the SEC, we will need to review all of our published criteria. This project lacks some specifics that should be forthcoming but my understanding is that we will need to certify to the SEC in May that all of our criteria that we have published on S&P.com is accurate. For the purposes of this exercise accurate should be interpreted to mean that the criteria is current, generally applicable, and generally applied in determining credit ratings.

For purposes of this exercise current should be interpreted as .....

Generally applicable means........

And generally applied means......

As you know, we have many volumes of printed material and such a review will vary from practice to practice. The two main questions will be is the criteria current and is it comprehensive.

I believe that we should consider publishing criteria articles that state the principals under which we rate a transaction. These articles would serve to provide both a comprehensive and flexible basis for all our ratings. Each practice will have to determine if they will need to do one or more depending on how varied the types of collateral covered. An example of a principal based criteria article is attached.

Cliff Griep is looking for a project plan detailing how we plan on conducting this review and when it will be complete (with milestones along the way). If you could let me know how I can help you and your staff accomplish this, I will be happy to assist in any way I can. If you could get back to me as soon as practicable, I would appreciate it.

One suggestion I have is to classify all of the articles in your practice by collateral code (or groups of collateral codes) and by broad categorization. The chart below provides a simple picture of what I am suggesting. We would also ask the groups to identify those articles that are misplaced in their web space. I think this will provide an easy to reference picture of the comprehensiveness of the criteria published in any area and the extent that it is current.

DRAFT for Example purposes

ABS

	Legal	Structure	Credit	Cash
AUTO		Article 7/21/04		
Credit Card		Fill in each		
Student Loan				
Manufactured Housing				
Trade Receivables				

Below is an earlier memo from Cliff providing additional background. Thanks! Tom

From: Griep, Cliff
Sent: Thursday, February 22, 2007 1:57 PM
To: Bachmann, Mark; Gillis, Tom; Ganguin, Blaise; Thompson, Ian; Feinland Katz, Laura; Hessol, Gail
Cc: Dawson, Petrina
Subject: Proposed plan for review of criteria

As part of the preparation for our forthcoming registration with the SEC, we need to determine the extent of criteria and methodology content that we will submit with, or reference, in our filing. There was a tentative conclusion in yesterday's discussion among Rita's task force on the comment and filing process that we would limit the submission documents to a general description of our ratings processes, but that we would reference our published criteria posted to our web site. To facilitate this process we will need to review the existing published and posted criteria, and our current analytical processes, to assure that the criteria and methodology accurate represents our current analytical processes. Given the timetable for filing, we will need to do this review quickly.

I am proposing that the CQO's of each practice review the published/posted criteria and methodology for their respective practices, and in conjunction with the relevant practice leader, and that the CCO's in conjunction with their relevant RPL's, provide information in the form of an assessment back to APB on the following issues:

Does the criteria and methodology that is published/posted accurately represents our current analytical processes?

Do the current RAMP's accurately and reasonably reflect the criteria/methodology issues covered in the published/posted criteria and methodology? If not, do the RAMP's need to be updated, expanded, revised to accurately and reasonable reflect the criteria/methodology?

In the absence of the use of a RAMP in the ratings process what are the processes by which the practice assures that the criteria/methodology is being consistently applied in the ratings process? Assuming the CQO and practice leader was asked to "certify" that the published/posted criteria and methodology were being consistently applied, how would you rate each of the following sources of protection:

Training of new staff regarding criteria and methodology?

Supervision of staff regarding the application of criteria and methodology?

Effectiveness of the committee process to assure that the criteria and methodology are being applied as posted?

Effectiveness of the committee chair to assure that the criteria and methodology are being consistently applied?

Effectiveness of the ORB, or other process (please describe) to assure that the criteria and methodology are being consistently applied?

What is the collective effectiveness of the processes in place to assure that the criteria and methodologies as posted are being reasonably consistently applied?

Scale for responding: Highly effective: The process provides very strong protection that the criteria and methodology is well understood and reasonably consistently applied. There should be no cases where the criteria and methodology are not applied.

Reasonably effective: The process provides strong protections that the criteria and methodology is well understood and reasonably consistently applied. There should only be rare exceptions when the criteria and methodology are not applied, and those exceptions would only occur with management approval.

Adequately effective: The process provides good protection that the criteria and methodology is well understood and reasonably consistently applied.

Not completely effective: The process provides protection, but should be strengthened to enhance it's effectiveness.

Again, assuming that the CQO and practice leader would be asked to certify that the published/posted criteria and methodology were being reasonably consistently applied, what additional protections would you consider to be needed and effective?

Expansion of the QRB to include random or risk based file reviews to assure that principal criteria and methodology are applied?

Establishment of a separate QR function to review the files with the above purpose?

Inclusion of an attestation by the lead analyst or by the committee chair that the criteria and methodology has been applied?

The implementation of a peer review process that assesses the application of criteria/methodology?

Some other protection?

Overall we expect that there will be few gaps between our existing published/posted criteria and methodology and current analytical process/practice. However, to the extent gaps are identified, please identify the nature of the gap, and make a specific recommendation as to how the gap should be closed. For example, some gaps may exist because the risk covered by the criteria is no longer considered material or relevant to our analysis, in which case the criteria should be retired. In other cases the criteria may be relevant, but there is some concern about the consistency of application, and the recommendation may include a remediation process.

Given the timetables, we need to conduct this review quickly. Assuming we want to be prepared to file in May, I am initially proposing that we schedule the reviews to occur over the month of March, with recommendations and feedback due to APB by the end of the first week in April. Decision making on the specific criteria /methodology recommendations would occur during the next four weeks up to the end of the first week in May. Decision process would include the practice criteria committees, and regional analytical governance committees, with APB acting as a screen to identify issues that may need to go to CMS EC. The end deliverable would be a recommendation regarding the extent of criteria/methodology to be referenced in our application filing.

As a separate but related matter we will need to identify all of the "qualitative and quantitative models used to determine ratings". We had established a standard that where we are substantially dependent upon a model to determine ratings, or where we have released the model for use by customers, we will have public documentation of the criteria and methodology embedded in the model. The end deliverable would be a list of models and verification that we have a corresponding criteria/methodology article. We need to establish criteria for what constitutes a quantitative or qualitative model used to determine ratings" and inventory these capabilities. I would propose here that we start by identifying models upon which we substantially rely to determine or surveil ratings. The shorter the list the more we can centralize this process. I'd like you suggestions on whether we centralize this process or make it part of the request to each of the practices.

We also need to identify any material third party data or capabilities dependencies we have in ratings process. I'd like your suggestions on the best way to inventory these.

Given that part of this process as proposed involves explicit quality related reporting on our existing ratings process, it would be helpful to have legal's guidance on the proposed process and reporting formats.

I have not copied the BU or region heads at this stage, only because I would like to gauge the level of agreement among ourselves before approaching them with a proposed plan. However, if you believe their feedback is necessary to build toward a project plan, please raise this with them and feel free to pass this e mail along to them. Just cc me when you forward.

Finally, the matrix could create the potential for duplication of effort, and I am open to recommendation on this. My sense was that the regional organization is best positioned to determine the gaps on a regional basis.

Please feel free to respond to this directly. I am looking for an opportunity to get us all together in the near future. Considering the short timetable, please let me know what you think of the feasibility of this, or alternative suggestions, as quickly as possible.

From: immanager@standardandpoors.com
Sent: Thursday, April 05, 2007 3:56 PM
To: Shah, Rahul Dilip (Structured Finance - New York); Mooney, Shannon
Subject: IMlogic IMManager conversation export: Thursday, April 05, 2007 3:55:44 PM EDT: haha

IM Network: MSN IM

IM Users:

participant=rahul_d_shah@standardandpoors.com "Shah, Rahul Dilip (Structured Finance - New York)" "rdsshah@hotmail.com"
participant=shannon_mooney@standardandpoors.com "Mooney, Shannon" "shannon.mooney@comcast.net"

IM Dialog:

Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon started conversation.
Thursday, April 05, 2007 3:55:44 PM EDT Shah, Rahul Dilip (Structured Finance - New York) has entered the conversation.
Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon: haha
Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:55:44 PM EDT Shah, Rahul Dilip (Structured Finance - New York): IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:55:44 PM EDT Shah, Rahul Dilip (Structured Finance - New York): IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:56:35 PM EDT Mooney, Shannon: i didn't really notice...but now that i think about it i kindof tune her out whes she talks
Thursday, April 05, 2007 3:57:39 PM EDT Shah, Rahul Dilip (Structured Finance - New York): well she just is too political...and she doesn't have anything of substance to say...but keeps thinking that she does.
Thursday, April 05, 2007 3:57:53 PM EDT Shah, Rahul Dilip (Structured Finance - New York): (I'm done venting now) :)
Thursday, April 05, 2007 3:58:15 PM EDT Mooney, Shannon: k go take a nap
Thursday, April 05, 2007 3:58:19 PM EDT Mooney, Shannon: see you later
Thursday, April 05, 2007 3:58:24 PM EDT Shah, Rahul Dilip (Structured Finance - New York): ok
Thursday, April 05, 2007 3:58:42 PM EDT Shah, Rahul Dilip (Structured Finance - New York): btw - that deal is ridiculous
Thursday, April 05, 2007 3:59:05 PM EDT Mooney, Shannon: i know right...model def does not capture half of the rish
Thursday, April 05, 2007 3:59:08 PM EDT Mooney, Shannon: risk
Thursday, April 05, 2007 3:59:09 PM EDT Shah, Rahul Dilip (Structured Finance - New York): we should not be rating it
Thursday, April 05, 2007 3:59:17 PM EDT Mooney, Shannon: we rate every deal
Thursday, April 05, 2007 3:59:30 PM EDT Mooney, Shannon: it could be structured by cows and we would rate it
Thursday, April 05, 2007 3:59:54 PM EDT Shah, Rahul Dilip (Structured Finance - New York): but there's a lot of risk associated with it - I personally don't feel comfy signing off as a committee member.

Permanent Subcommittee on Investigations
EXHIBIT #30a

From: immanager@standardandpoors.com
Sent: Tuesday, May 08, 2007 7:27 PM
To: Mooney, Shannon; Loken, Andrew
Subject: IMlogic IMManager conversation export: Tuesday, May 08, 2007 7:27:19 PM EDT: food?

IM Network: MSN IM

~~IM Users:~~

participant=shannon_mooney@standardandpoors.com "Mooney, Shannon" "shannon.mooney@comcast.net"
participant=andrew_loken@standardandpoors.com "Loken, Andrew" "walchuk22@yahoo.com"

IM Dialog:

Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew started conversation.
Tuesday, May 08, 2007 7:27:19 PM EDT Mooney, Shannon has entered the conversation.
Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew: food?
Tuesday, May 08, 2007 7:27:19 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:19 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:48 PM EDT Loken, Andrew: just say the word and I'll go pick it up from Burger King
Tuesday, May 08, 2007 7:29:09 PM EDT Loken, Andrew: nah not really, I am hungry though
Tuesday, May 08, 2007 7:35:47 PM EDT Mooney, Shannon: i have a sandwich from lunch
Tuesday, May 08, 2007 7:36:04 PM EDT Mooney, Shannon: sorry bud
Tuesday, May 08, 2007 7:36:26 PM EDT Loken, Andrew: sorry for what?
Tuesday, May 08, 2007 7:36:30 PM EDT Loken, Andrew: I'm still going to eat
Tuesday, May 08, 2007 7:36:51 PM EDT Mooney, Shannon: have you ever run the PIK genesis>
Tuesday, May 08, 2007 7:37:06 PM EDT Loken, Andrew: I have
Tuesday, May 08, 2007 7:37:10 PM EDT Mooney, Shannon: do you know if it takes a long time...or if it works
Tuesday, May 08, 2007 7:37:28 PM EDT Loken, Andrew: I think it takes the same amount of time as normal
Tuesday, May 08, 2007 7:37:35 PM EDT Loken, Andrew: whether it works or not, I'm not quite sure
Tuesday, May 08, 2007 7:37:44 PM EDT Loken, Andrew: I need to talk with Eileen
Tuesday, May 08, 2007 7:37:45 PM EDT Mooney, Shannon: i have a deal closing tomorrow and failing PIK stress...
Tuesday, May 08, 2007 7:37:51 PM EDT Mooney, Shannon: is it worth a try?

Tuesday, May 08, 2007 7:38:01 PM EDT Mooney, Shannon: make that two deals
Tuesday, May 08, 2007 7:38:20 PM EDT Loken, Andrew: what good would it do if it's already failing?
Tuesday, May 08, 2007 7:38:35 PM EDT Mooney, Shannon: maybe percentile of pik bdrs will be better
Tuesday, May 08, 2007 7:39:16 PM EDT Loken, Andrew: you did what, tested only one scenario?
Tuesday, May 08, 2007 7:39:22 PM EDT Mooney, Shannon: yeah
Tuesday, May 08, 2007 7:39:26 PM EDT Mooney, Shannon: how else?
Tuesday, May 08, 2007 7:40:06 PM EDT Mooney, Shannon: you can test more than one, but how do you make the call?
Tuesday, May 08, 2007 7:40:25 PM EDT Mooney, Shannon: passing majortiy of the runs you chose?
Tuesday, May 08, 2007 7:40:53 PM EDT Loken, Andrew: well, based on the percentile, you know how many runs you're allowed to fail
Tuesday, May 08, 2007 7:41:03 PM EDT Mooney, Shannon: true
Tuesday, May 08, 2007 7:41:05 PM EDT Loken, Andrew: so keep running the worst runs until you fail that many
Tuesday, May 08, 2007 7:41:18 PM EDT Mooney, Shannon: huh?
Tuesday, May 08, 2007 7:42:08 PM EDT Loken, Andrew: if you can fail 5 runs, run the pik stress on the 5 worst and see if they all fail
Tuesday, May 08, 2007 7:42:23 PM EDT Loken, Andrew: and generally the worst runs all occur in a certain interest rate scenario
Tuesday, May 08, 2007 7:42:24 PM EDT Mooney, Shannon: dont you run the ones closest to percentile
Tuesday, May 08, 2007 7:42:51 PM EDT Loken, Andrew: well it is deal dependent
Tuesday, May 08, 2007 7:42:55 PM EDT Mooney, Shannon: and what if i can fail 35

Tuesday, May 08, 2007 7:43:19 PM EDT Mooney, Shannon: i hate the pik stress so much it's rediculous
Tuesday, May 08, 2007 7:43:21 PM EDT Loken, Andrew: 35?
Tuesday, May 08, 2007 7:43:26 PM EDT Mooney, Shannon: or a million
Tuesday, May 08, 2007 7:43:32 PM EDT Loken, Andrew: what rating are you running?
Tuesday, May 08, 2007 7:43:40 PM EDT Mooney, Shannon: doesn't matter unrealistic amount to run manually
Tuesday, May 08, 2007 7:43:44 PM EDT Loken, Andrew: it rarely has a big effect on anything other than AAA from what I've seen
Tuesday, May 08, 2007 7:43:55 PM EDT Mooney, Shannon: not in this case
Tuesday, May 08, 2007 7:44:02 PM EDT Loken, Andrew: how high are you SDRs?
Tuesday, May 08, 2007 7:44:26 PM EDT Mooney, Shannon: 40s
Tuesday, May 08, 2007 7:44:35 PM EDT Mooney, Shannon: alright i need to run this
Tuesday, May 08, 2007 7:44:39 PM EDT Loken, Andrew: oh no wonder
Tuesday, May 08, 2007 7:44:40 PM EDT Mooney, Shannon: so
Tuesday, May 08, 2007 7:45:11 PM EDT Loken, Andrew: that hurts
Tuesday, May 08, 2007 7:45:16 PM EDT Mooney, Shannon: i run scenarios for percentile bdr and below
Tuesday, May 08, 2007 7:45:22 PM EDT Loken, Andrew: all the cdo sq. i've been seeing have 20%
Tuesday, May 08, 2007 7:45:52 PM EDT Loken, Andrew: how much cushion is there?
Tuesday, May 08, 2007 7:46:32 PM EDT Mooney, Shannon: too much talky not enough runny
Tuesday, May 08, 2007 7:46:51 PM EDT Loken, Andrew: then run it
Tuesday, May 08, 2007 7:46:53 PM EDT Mooney, Shannon: i am just going to wing it
Tuesday, May 08, 2007 7:46:56 PM EDT Mooney, Shannon: fuck
Tuesday, May 08, 2007 7:46:59 PM EDT Loken, Andrew: it fails probably
Tuesday, May 08, 2007 7:47:13 PM EDT Mooney, Shannon: no body gives a straight answer about anything around here anyway
Tuesday, May 08, 2007 7:47:42 PM EDT Loken, Andrew: I don't even know what that's supposed to mean
Tuesday, May 08, 2007 7:47:53 PM EDT Loken, Andrew: in this context
Tuesday, May 08, 2007 7:48:55 PM EDT Mooney, Shannon: how about we come out with new cirtieria or a new stress and acutally have clear cut parameters on what the hell we are supposed to do
Tuesday, May 08, 2007 7:49:13 PM EDT Mooney, Shannon: that'll be the day
Tuesday, May 08, 2007 7:49:22 PM EDT Loken, Andrew: what isn't clear?
Tuesday, May 08, 2007 7:49:37 PM EDT Loken, Andrew: running just one run is just a shortcut so you don't have to re-run everything
Tuesday, May 08, 2007 7:50:01 PM EDT Loken, Andrew: if you want to be more accurate, run more than one
Tuesday, May 08, 2007 7:50:06 PM EDT Loken, Andrew: use your judgement
Tuesday, May 08, 2007 7:50:11 PM EDT Mooney, Shannon: sending us a spread sheet and saying this is the pik stress is the farthest thing from clear
Tuesday, May 08, 2007 7:50:51 PM EDT Loken, Andrew: 2 years before a default occurs, the PIK collateral stops paying interest
Tuesday, May 08, 2007 7:50:58 PM EDT Loken, Andrew: clear enough?

From: De Diego Arozamena, Alfredo
Sent: Thursday, May 24, 2007 6:49 PM
To: Ghetti, Belinda; Guadagnuolo, Lapo; Robert, Claire
Cc: Tamburrano, Emanuele; Cecillon, Vanessa
Subject: RE: Modelling of some spread compression on Static CDOs

Yeap, we have not done it. I agree we should begin implementing the methodology and model outlined in Belinda's email – we should update the model and give the market some time to adjust...

Is this an easy model to update/use?

From: Ghetti, Belinda
Sent: Thursday, May 24, 2007 5:38 PM
To: Guadagnuolo, Lapo; Robert, Claire; De Diego Arozamena, Alfredo
Cc: Tamburrano, Emanuele; Cecillon, Vanessa
Subject: RE: Modelling of some spread compression on Static CDOs

ooops, we have not done it!

-----Original Message-----

From: Guadagnuolo, Lapo

Sent: Thursday, May 24, 2007 5:30 PM

To: Ghetti, Belinda; Robert, Claire; De Diego Arozamena, Alfredo

Cc: Tamburrano, Emanuele; Cecillon, Vanessa

Subject: RE: Modelling of some spread compression on Static CDOs

Belinda,

Actually, the cash-flow criteria from 2004 (see below), actually states that....in the usual vague S&P's way...but this is why we have been asking for it in the very few static deals we have done.

Still, consistency is key for me and if we decide we do not need that, fine but I would recommend we do something. Unless we have too many deals in US where this could hurt.

Cheers

Lapo

Because the "fixed" collateral portfolio is identified at the start of the

transaction, it is possible to scrutinize the expected payment characteristics of the asset pool more closely. Defaults are typically applied pro rata across asset pools in revolving CDO transactions, but we might bias defaults toward specific assets in a static portfolio when additional concerns are identified.

For example, concerns might be raised about a portfolio with some relatively low-rated assets that pay a significantly higher-than-average coupon. The default of these assets could result in inadequate interest cash flow from the remaining assets. This scenario is not tested by the standard application of pro rata defaults. In this situation, bias of defaults toward these assets could be warranted.

From: Ghetti, Belinda

Sent: 23 May 2007 14:33

To: Robert, Claire; De Diego Arozamena, Alfredo; Guadagnuolo, Lapo

Cc: Tamburrano, Emanuele; Cecillon, Vanessa

Subject: RE: Modelling of some spread compression on Static CDOs

Claire

We are currently not doing that for deals in the pipeline. What you are describing is actually what we used to do in retranching (crapped out deals that needed to be restructured).

We used to have an amortization biased spread schedule, basically we created a spread schedule based on amortization schedule. I have the model still, I hope I remember how it works. Also we had a default pattern generator which looked at the rating of the portfolio and created default patterns based on the assets probability of default. You can then create a spread matrix that way. The model though has 2.4.3 default probabilities in it as it has never been used since 3.2.

If we do it though we need to publish something as even the quant methodology published in 2004 does not distinguish between static or revolving deals

Let me know what you think

-----Original Message-----

From: Robert, Claire

Sent: Wednesday, May 23, 2007 9:26 AM

To: De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo

Cc: Tamburrano, Emanuele; Cecillon, Vanessa

Subject: Modelling of some spread compression on Static CDOs

All,

You remember we discussed recently the possibility of stressing the actual spread to something lower, when modelling cash flows for static deals - on the assumption that if there is adverse selection when assets default, your spread may go down, esp. if they are even moderately barbelled.

We discussed this with Lehman here, who raised 2 concerns that I just wanted to run by you

- they claim that their competitor investment banks are currently doing loads of deals that are static in the US and where no such stress is applied. It is clear that we cannot appear to be penalising one bank compared to the others - so I was just wondering whether you have started mentioning that stress to investment banks or not and whether you would rather wait until we publish something ? It's clear we cannot use this for one bank and not others.

- the other thing is we'd initially calculated some way of coming up with the stresses, by assuming the lowest rated assets default first, and then among that lowest rating category, assuming the higher paying ones default first. You would do that at the time you are looking into the portfolio, but they claim that once they have priced the whole thing, it is possible that the spreads would change and hence if we ask to update our calculation based on pool at closing, it may be that the stress is completely different and hence they cannot close with the structure they have priced. We suggested that it was up to them to build up some cushion at the time they price, but they say this will always make their structures uneconomic and is basically unmanageable => I understand that to mean they would not take us on their deals.

I personally would not have a pb 'freezing' the extent of the stress on the basis of the figures we have at the time of presale, as this is only for the purpose of coming up with an acceptable yield compression stress, so doesn't need to be exactly scientific.

But your thoughts on this would be welcome - I have to say, I don't know the CDS market enough to know whether spreads would indeed move that much in the interim.

Please let us know what you think.

Regards, Claire.

From: Warner, Ernestine
Sent: Tuesday, July 03, 2007 4:32 PM
To: Pollsen, Robert
Subject: RE: Weekly RMBS/CDO Surveillance performance update - Cliff's questions...

Thanks Bob.

EW

-----Original Message-----
From: Pollsen, Robert
Sent: Tuesday, July 03, 2007 4:21 PM
To: Warner, Ernestine
Subject: RE: Weekly RMBS/CDO Surveillance performance update - Cliff's questions...
Importance: High

Ernestine,

I'll put my "responses" in red *under* each question.

See below.

-----Original Message-----
From: Warner, Ernestine
Sent: Tuesday, July 03, 2007 10:52 AM
To: Pollsen, Robert
Subject: FW: Weekly RMBS/CDO Surveillance performance update

Bob, would you please provide answers to the questions Cliff has below with regard to RMBS. I will answer the questions too then combine our responses for Peter's review.

Thanks

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, July 03, 2007 8:07 AM
To: Warner, Ernestine; Anderberg, Stephen
Cc: Barnes, Susan; Gillis, Tom; D'Erchia, Peter; Buendia, Rosario
Subject: RE: Weekly RMBS/CDO Surveillance performance update

Ernestine, thank you for sending this. Please try to address the following issues in the periodic updates. Overall, our ratings should be based on our *expectations* of performance, not solely the *month to month* performance record, which will only be backward looking. I cannot get a sense of the surveillance group's view of the overall market conditions and implications from this report. What is our macro view of the U.S. housing market, and particularly the sub prime market, how has this view changed or how is it changing regarding the relative risk factors, and what is the implication of that view for the universe of outstanding ratings and our current criteria. What does that view suggest about the way we are responding from a surveillance perspective?

RMBS Surveillance's macro view of the U.S. housing market and particularly the subprime market, are varied within the group. Several expect the U.S. housing market to continue to get *worse*, before it gets better. Subprime mortgage loans, in particular, continue to exhibit worsening performance, even in the 2007 vintage deals. New Issue Ratings group says that they have ~~not yet seen any evidence of tighter underwriting standards in the subprime~~ mortgage loans in the deals securitized so far in 2007. As delinquencies continue to increase, the risk of downgrades increases also. The big "unknown" is at what rate & severity will the high delinquencies translate into actual realized losses? And, when they do, will the monthly excess spread be sufficient to handle those losses? It may take 18 to 24 months before REO results in realized losses. Only then will we know how aggressive we need to be with our downgrades to subprime collateral deals.

To the extent that we are forecasting loss experience, what assumptions is this based on, and more importantly, what percentage of transactions/traunches do we have loss projections for?

We project losses for all transactions and tranches. Only those deals identified through our monthly exception report, already on CreditWatch, or with our normal annual Issuer "shelf" review have "cash flows" run. Only then can the loss projections be made with higher level of certainty, since monthly excess spread is an important percentage of total loss coverage. The rate at which losses are *realized* is one of the most important factors in determining whether or not a class' rating "survives" the stress of those losses. In running those "cash flows", we use the greater of the 12-month, six-month or most recent high monthly loss experience. In addition, for our "CreditWatch stress scenario", for those deals where we have limited or no realized losses, we use the severe delinquencies to estimate future losses: 100% of the REO delinquency bucket are assumed to be liquidated evenly over the next six months. 25% of the loans in Foreclosure are assumed to be liquidated in months one through six, with the remaining 75% liquidated in months seven through 12. 10% of the loans in the 90+ days delinquency bucket are also assumed to be liquidated in months one through six, 30% in months seven through 12, with the remaining 60% in months 13 through 18. We recently changed our assumptions beginning in month 13, to eliminate the drop-off in projected losses, by taking the calculated projected loss amount for month 12 and amortizing that amount down beginning in month 13. For *closed-end* second lien deals, we assume 100% loss severity, since those deals are charged-off after 180 days delinquency. For the 'B' & 'BB' rated classes, 33% loss severity is used, 34% for 'BBB' rated classes.

How does our current expecations about performance and the causes for it, relate to our criteria or other risk assumptions, or what does our surveillance activity in total tell us about historical or existing criteria. Basically, what are we learning through the surveillance process and what are the surveillance group's recommendations on what, if anything we should be doing about it regarding our criteria.

The one main thing that immediately jumps out at RMBS Surveillance is that having monthly excess spread be such an large % of the total overall credit support for the bottommost rated class is very risky! Classes default well before they hit the total original loss coverage amount associated with S&P 's original ratings. One month's excess spread is often not sufficient cover monthly realized losses, which then eats into the overcollateralization ("O/C") amount. Since monthly excess spread that is not needed to cover that month's realized losses is "released" from the deal once O/C has reached its "target" amount, months with large liquidations often result in erosion of O/C. It often doesn't take very long, once O/C has been significantly eroded, for the bottommost rated class to suffer a principal loss, resulting in default.

It is hard to know whether the surveillance process is being applied systematically or in a fragmented way. In other words, is it prioritized by breaking triggers, is it organized by issuer. If we list the issues affected of a specific issuer, does this mean that all the issues of that issuer were reviewed?

The surveillance process utilizes more than one approach. Each month, all 2006 and 2005 vintage subprime & closed-end 2nd lien deals are put through our "exception" report filtering process. Those deals are then further analyzed, having cash flow runs done for each deal, for those deals considered most "at risk", due to high delinquencies, losses, or erosion in credit support. Concurrently, surveillance works through a list of Issuers, such that all major issuers are reviewed within 12 - 18 months, where every deal reviewed, for that collateral type by that issuer In addition, each month all deals on external CreditWatch and internal watch are updated, with deals highlighted for each analyst to take action on classes, where necessary.

How does our view and experience with our rated book compare with that of the major players in the space upon which we have either ratings or servicing surveillance, and thus can collect and review the portfolio performance of? What are financial institution reserve levels or valuation telling us about our own loss assumptions?

[Don't know]

What is surveillance telling us about servicing and the implication of the failure/disappearance of many of the sub prime originators. I was a bit surprised to see that we have only recently added New Century transactions to our credit watch listing, when this entity was a significant focus point only a few months ago due to their insolvency and questions about their accounting. I thought that structured surveillance took a good look at them only a short time ago and determined their transactions were fine.

Deals are added to our CreditWatch lists when our cash flow analysis shows the ratings to be at risk. If delinquencies increase significantly or realized losses suddenly spike up, a deal not previously on CreditWatch may make its way onto our list. Surveillance does not categorically put deals on CreditWatch just because of the financial difficulties of the Issuer or Servicer. Only when those difficulties translate into poor performance do such deals get placed on CreditWatch.

What does it mean to say that there are an increasing number of deals with subordinate bonds "at higher risk of negative ratings adjustment". Should all ~~these be on credit watch? If not, why not. Absent CW, why would we not~~ implement outlooks, as was recommended on several past occasions, if we believe we have a view that would be helpful to differentiate transaction risk?

We have been putting deals on CreditWatch if we expect a rating action within three to six months. If we feel the rating on a particular class may need to be adjusted sometime *after* six months, then we put that deal on "internal watch" for monthly or quarterly review (depending upon the timing of the likelihood of rating action). I think "Outlook" would be a great idea for RMBS Surveillance to use, particularly in those cases where we know the deal to be "risky", but not yet at a point where we should CreditWatch or downgrade. (However, we have been told that Structured Finance does not use "Outlook".)

Could we provide more information on the severity of rating changes, and the severity of expected ratings changes. All CW press releases should be including a reference to what the potential rating is.

Almost all of our CreditWatch actions are expected to have a potential 3-notch rating change. We perhaps need to be more specific in our press releases, as we understand that is supposed to be included.

How do our CW actions get incorporated into our CDO analysis. My understanding is that the rule of thumb is a single notch. Is the implication for CDO's aligned with our actual expectations and if so how?

Single notch is the "rule of thumb" used by CDO for RMBS CreditWatch classes. Unfortunately, only time will tell if the implications for CDO's are sufficiently in line with RMBS Surveillance expectations.

Can our surveillance process tell us anything about potential for loss on the rated securities? Is this a potential way to differentiate. What is our dialogue with investors suggesting about the need for this information?

We generally do not disclose potential loss amounts, but we do utilize them when doing our surveillance analysis. Since so much of the potential for loss is an *estimate*, I don't think it is a good idea to quantify that for the investors.

What has been the level of inquiry/feedback from the market. What is it suggesting about our processes and the timeliness of our ratings actions, or about our ratings in the context of valuations.

As everyone has read by now, there has been much publicity about the apparent "fault" of the rating agencies for rating these deals in the first place, and for being "late" in taking appropriate rating actions. Up to this point, Surveillance has been "limited" in *when* we can downgrade a rating (only *after* it has experienced realized losses), how far we can adjust the rating (no more than 3 notches at a time is preferred), and how high up the capital structure we can go (not downgrading higher rated classes, if they "pass" our stressed cash flow runs).

For CDO's, every report for the last two months has cited the erosion of cushion. At what point in the erosion of cushion does a CW action typically occur. Are we forecasting our mezzanine RMBS or sub prime rating performance, compared to our BBB default assumption backed into the CDO's, and looking at the implication for our standing CDO's. I understand that the CDO's are adjusted when we make a change, but I don't see a proactive view being expressed by us with respect to this book of ratings, and many of the questions above are equally applicable to CDO's in general.

[Ask CDO Surveillance group to respond.]

It would also be helpful to understand how you view the impediments, to the extent they may exist, to responding on a timely basis to the erosion that's occurring. To what extent are our resources, infrastructure, forecasting abilities, criteria, policies, or culture, viewed by you and your team as needing attention to make sure we maintain a leadership position through the downturn.

Recently we received word that Joanne said she'd like us to place the ratings *today*, based upon where we expect the ratings to be *2 years* from now. This is a big departure from our previous process. It remains to be seen if S&P is really prepared to witness drastic rating actions, just to avoid the slower "notching" process and public criticism.

From: Warner, Ernestine

Sent: Monday, July 02, 2007 10:52 PM

To: *SFLT; Anderberg, Stephen; Barnes, Susan; Bryan, Andrea; Griep, Cliff; Kambeseles, Peter; Milano, Patrick; Pollsen, Robert; Stock, Michael; Tesher, David; Warrack, Thomas

Cc: Collingridge, Simon; Quinn, William; Smith, Belinda; South, Andrew; Giudici, Andrew

Subject: Weekly RMBS/CDO Surveillance performance update

Good evening. I have attached an executive summary of rating performance for the week of June 25, 2007 as well as detailed reports of the summarized activity.

At the request of several on the distribution, I have copied the executive summary into the e-mail for easier accessibility, especially if you are reading this via your Treo.

Please let us know if you have question or comments.
Thanks
Ernestine W

RMBS Surveillance:

Executive Summary: There were relatively fewer rating actions taken during the week of June 25th. Performance data for the June distribution is still loading since the feeds from Intex began on June 25th. It is anticipated that the analysis of this data will begin on Tuesday July 3rd, the results of which will likely be additional CreditWatch and downgrades. During the prior week transactions backed by subprime collateral had 10 classes downgraded and 9 classes were placed CreditWatch with negative implications.

2006 CreditWatch and Rating Performance Update: There were no additional rating actions taken on bonds issued during 2006. All subprime and closed end second lien transactions issued during 2006 are being analyzed to ensure that the appropriate ratings are assigned. In addition, the subprime transactions issued during the fourth quarter 2005 and the first quarter 2007 are also included in this analysis. The focus of this analysis is the number of months to default for all rated classes subject to our conservative stress test. At the same time, we are reanalyzing the loss coverage to severely delinquent loan ratios.

Rating Performance for deals issued during 2005: Transaction issued during 2005 had three classes from two deals downgraded and two classes from two deals added to CreditWatch during the week of June 25th.

Vintage Rating and CreditWatch Performance to Date: The total number of deals with subordinate bonds at higher risk of negative rating adjustment increased to 1,252 or 19.05% of the total number of transactions outstanding (or 1,747 classes). There were seven downgrades and six CreditWatch placements during the prior week for transactions issued between 2000 and 2004.

Attachments:
RMBS CreditWatch Summary - and Rating performance summary details.

CDO Surveillance:

As in previous weeks, cushions continue to tighten on Mezz SF CDO of ABS tranches as a result of RMBS negative rating activity. The impact on the 2006 vintage Mezzanine SF CDOs of ABS is still nascent but increasing, with tranches from 6 of these deals getting close to failing current cash flow analysis. CDO Surveillance analysts are currently reviewing the deals for potential CreditWatch placement.

Most High grade SF CDOS of ABS are still maintaining a steady and reasonable cushion against downgrade, the result of relatively few Subprime RMBS rating actions being taken at the single-'A' or higher level, and also because these deals closed with a significant rating cushion as a result of having been rated with E3.X rather than E2.4.3.

We have been holding conference calls with collateral managers to proactively reach out to them and discuss their transactions, so that we won't first be calling them when we need to place the ratings assigned to their transactions on CreditWatch. During the week of June 25th we spoke with two CDO collateral managers:

- Gen Re/New England Asset Management - Ayresome CDO, a Mezz SF CDO that closed in December of 2005, has a tight cushion for two if its rated tranches. Additionally, the deal shows significant levels of stress when we aggregate Subprime delinquencies up to the CDO level. Senior managers (Chris Shane and Brendan Lynch) were on the call from the Gen Re side, but seemed somewhat defensive in discussing the transaction.

- American Capital Access (ACA) - we discussed ACA ABS 2002-1, ACA ABS 2003-1, ACA ABS 2003-2, ACA ABS 2004-1, ACA ABS 2005-1, ACA ABS 2005-2, ACA ABS 2006-1 and ACA ABS 2006-2. Two of these deals are showing a tight rating cushion on one or more tranche. Call went extremely well - we spoke with portfolio managers Laura Schwartz and Keith Gorman, who knew the portfolios backward and forward and were prepared to discuss the deals even though the call was set up with little notice. One concern: the deals each have approximately 10% exposure to Closed End second Lien deals of different vintages.

Attachments:

1. **RMBS Cash Hybrid CDO Exposure YTD.xls -** List of all U.S. Cash Flow and Hybrid CDO transactions with exposure to RMBS tranches downgraded in 2007 through last week, or currently on watch for downgrade. The "Total Exposure" column provides the % of the CDO's RMBS collateral (by par value) that has seen a negative rating action since January 1st; the "RMBS Downgrade Notches" column provides the cumulative number of RMBS downgrade notches across the CDO pool (with CreditWatched assets assumed to be downgraded by one notch); and, the "Rank" column combines both frequency and severity by normalizing the RMBS rating actions to give the equivalent of the CDO collateral pool that has seen a one notch downgrade.

2. **RMBS Synthetic CDO Exposure YTD.xls -** List of all U.S. Synthetic CDO transactions with exposure to RMBS tranches downgraded in 2007 through last week, or currently on watch for downgrade. Same as list above, but covers Synthetic CDOs.

<< File: Memo - RMBS CDO Weekly Update (070207).doc >> << File: RMBS CW-DG Summary 070207.doc >> << File: 062007 RMBS Cash Hybrid CDO Exposure YTD.xls >> << File: 062707 RMBS Synthetic CDO Exposure YTD.xls >>

From: Kambeseles, Peter
Sent: Sunday, September 30, 2007 10:39 PM
To: 'pkambeseles@gmail.com'
Subject: Fw: SIFMA Rating Agency Panel October 4

Attachments: RE: Priviledged and Confidential - Response to J Tavakoli's article; RE: Privileged and Confidential - Response to J Tavakoli's article

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[redacted] = Redacted by the Permanent Subcommittee on Investigations

-Pete
(212) [redacted]
(917) [redacted]

Sent from BlackBerry wireless handheld.

-----Original Message-----
From: Ghetti, Belinda <Belinda_Ghetti@standardandpoors.com>
To: Kambeseles, Peter <Peter_Kambeseles@standardandpoors.com>
Sent: Sun Sep 30 16:35:49 2007
Subject: FW: SIFMA Rating Agency Panel October 4

<<RE: Priviledged and Confidential - Response to J Tavakoli's article>>
<<RE: Privileged and Confidential - Response to J Tavakoli's article>> Left you out. Maybe should have kept it that way?

From: Ghetti, Belinda
Sent: Sunday, September 30, 2007 4:34 PM
To: Tesher, David; De Diego Arozamena, Alfredo; Khakee, Nik; Halprin, James; Jordan, Pat; O'Keefe, Brian; Guarnuccio, Keith; Bryan, Andrea

Subject: RE: SIFMA Rating Agency Panel October 4

Privileged and Confidential

David,

Below I have tried to answer the questions. I have also attached Alfredo's and my email for Vicky's testimony as it could be useful in case you will get some market value/liquidation questions and the other usual questions. I am keeping this email to CDO only peeps and not replying to everybody. You may want to vet it before it goes to legal or other parties.

I have tried to stay away from the underlying rating performance and place the issue more on the newness of the underwriting standards that defied

all common sense. With respect of what we should do, the suggestions I show below are more "my suggestions" so they need to be vetted out in case we think that we should not mention them.

What went wrong?

CDO methodology is based on the well known idea that a diversified pool of risky assets tends to have a relatively predictable return pattern. As everybody knows, CDO takes a pool of risky credits and divide the credit risk up among different investors. So what went wrong?

It isn't that diversification of credit risk doesn't work. It is that the assumptions and the historical data used, NOT JUST BY THE RATING AGENCIES, BUT BY THE ENTIRE MARKET, never included the performance of these types of residential mortgage loans because they were the exception and not the rule. The data was gathered and computed during a time when loans with over 100% LTV or no stated income were rare.

Since a CDO works by then spreading the idiosyncratic risk of single securities among many assets, bankers and managers looked for higher risk/higher yielding residential mortgage deals. Given the current underwriting standards at the mortgage level, the higher yielding items were pools with a higher percentage of 100% (or higher) LTV and/or NO stated income loans. Generally the market, bankers and managers believed that the risk was limited and could have been diversified away. However, what the market did not predict was that pretty much every higher yielding asset was composed by bad mortgage loans. In fact, while CDOs always assume that a fairly high level of defaults will occur, and usually they can perform quite well at default levels a fair bit higher than the assumed level. But what they cannot withstand is a large number of defaults occurring over a short period of time.

From this it stems that the market always believed in a moderated level of correlation in the mortgage market. This is predicated on the fact that, in the past the default likelihood of 2 mortgage loans originated in different part of the country was quite low. Consequently, ABS portfolios had a commensurate level of correlation as data suggested that a portfolio's realized default level would be more likely to fall within a small band, and less likely that a large number of defaults would occur in a single year. However, given the new underwriting standards, historical data was no guide since almost half of the sub-prime loans made for home purchases in 2006 were either low or no doc loans (this is from Bear Stearns). This implies that a gigantic amount of fraud was being perpetrated which does defy common sense. This also implies not only that the default rates would be much higher than the historical data but correlation of mortgage defaults would be higher too as the entire market was underwriting with weaker credit standards.

Short of blaming the underlying ratings, I think this is the only other solution. The only thing is that the statement above will immediately lead to the question why didn't we do due diligence? But I think we have an answer for that. Also, it may back fire as some would say that we should have known it. The lack of underwriting standard, the speed at which the RMBS issuance increased and such should have tipped us that a higher level of defaults and correlation would follow. However, Wall street in its entirety did not forecast to what level.

* What do you need to do now? Do you need to change the way you do business in some fundamental manner? How are you changing your ratings and your methodologies?

In the short term:

We need to quickly re-evaluate the RMBS and CDO ratings as we are already doing. Possibly, if we perceive additional volatility in the market, we will take the additional step of notching RMBS ratings to preempt future actions. I would say that although RMBS group is changing its rating criteria and downgrading at a faster speed, we may apply additional notching to make sure that CDO rating do not lag behind RMBS actions.

In the long term:

For once, wall street needs to stop playing the blame game and determine whether the underlying underwriting standards are here to stay or will they be brought back to a stronger credit worthy standards. If we believe that this is the way the underlying assets will behave going forward the current available historical data may not be the right source to derive information. However, considering that the real level of losses has not manifested itself yet, the only thing we could do is to

1) Revise methodology to derive our default assumptions (which we are with Anton)

2) Assume stochastic correlation and recoveries instead of relying on one number derived from historical data. Meaning that in high level of default scenarios, correlation increases and recovery decreases.

That is what the current data seems to be guiding us toward. Doug is implying that some BBB and As CDO paper will default. Considering that the market is targeting a 15% loss level at the RMBS level (BBB), his statement leads me to believe that he is assuming a level of recoveries which is far lower that our assumptions and that the correlation of bad assets the CDOs is quite high. Implicitly many CDOs will be untouched but many will be blown out.

* Do you want to challenge any of the assumptions underlying these questions? Does anyone want to argue the this isn't "the greatest failure of ratings ever?" Does anyone want me to ask "Is it really as bad as people think?"

I would answer this just like above ... general market failure in anticipating default and correlation behavior. Pretty much the entire market overemphasized historical performance just as I described above.

Belinda

From: Tesher, David
Sent: Friday, September 28, 2007 11:27 AM
To: Ghetti, Belinda; De Diego Arozamena, Alfredo; Khakee, Nik; Halprin, James; Guadagnuolo, Lapo; Tesher, David; Van Acoleyen, Katrien; Jordan, Pat

Cc: Dawson, Petrina; Coleman, Maureen; Manzi, Rosaleen; Rose, Joanne; Mahoney, Patrick
Subject: FW: SIFMA Rating Agency Panel October 4

Hello all;

Some additional insight regarding what Doug is planning on asking me next Thursday (FYI .. I have spoken to Doug about this panel two weeks ago in addition to earlier this morning e contrary to what his e-mail below indicates).

Thanks again for helping me prepare my thoughts/remarks for this conference.

David

From: douglas.lucas@ubs.com [mailto:douglas.lucas@ubs.com]
Sent: Friday, September 28, 2007 10:49 AM
To: eric.kolchinsky@moodys.com; david_tesher@sandp.com; john.schiavetta@fitchratings.com
Subject: RE: SIFMA Rating Agency Panel October 4

Gentlemen:

Our panel next week will be held against an unprecedented backdrop. I have never heard such steady disparagement of rating agencies as I have in the last few months. The accuracy and timeliness of your ratings is not being challenged so much as being called irrelevant. My colleagues and I are predicting subprime bond losses up to the A rated tranches, second lien mortgage bond losses up to the AAA tranches, and mezz ABS CDO losses up to the senior AAA tranches. You're being accused of being in the pocket of the bankers and not doing enough due diligence on issuers. The issuer pay business model is being attacked. Have I missed anything? Lawsuits? Congressional action? Oh yes, the Europeans are investigating you guys!

But I have not heard from any of you on this panel. Are you guys up to the task of mounting a spirited defense? Let's try to make people think a little better about rating agencies after this panel.

Here are some questions that I think are appropriate. What do you want me to ask you?

* What went wrong?
* What do you need to do now?
* Do you need to change the way you do business in some fundamental manner?
* How are you changing your ratings and your methodologies?
* Do you want to challenge any of the assumptions underlying these questions? Does anyone want to argue the this isn't "the greatest failure of ratings ever?" Does anyone want me to ask "Is it really as bad as people think?"

I'm assuming that no one want to present slides.

Please get back to me with better questions and/or the questions you want to answer.

For reference, here is the conference website: http://www.sifma.org/conferences/2007/cdo/Welcome.shtml <http://www.sifma.org/conferences/2007/cdo/Welcome.shtml>

Douglas

Douglas Lucas
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[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Tesher, David
Sent: Thursday, September 27, 2007 8:42 AM
To: Ghetti, Belinda; De Diego Arozamena, Alfredo; Khakee, Nik; Halprin, James; Guadagnuolo, Lapo; Tesher, David; Van Acoleyen, Katrien

Cc: Jordan, Pat
Subject: FW: SIFMA Rating Agency Panel October 4

Hello all;

I would appreciate if you could provide me with your respective perspectives as it pertains to the below questions that I will be asked on my panel discussion next week at the SIFMA conference.

I will use the feedback you respectively provide me with to construct an outline ......which I will then vet/discuss with internal senior management prior to next thursdays conference.

Given the high profiile next weeks conference has, it would be appreciated if you would provide me with any relevant thoughts and feedback by tomorrow (friday).

Thank you in advance for your support.

David

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: douglas.lucas@ubs.com [mailto:douglas.lucas@ubs.com]
Sent: Tuesday, September 25, 2007 09:59 PM Eastern Standard Time
To: eric.kolchinsky@moodys.com; david_tesher@sandp.com; john.schiavetta@fitchratings.com
Subject: SIFMA Rating Agency Panel October 4

Dear Distinguished Rating Agency Panelists:

The agenda for the SIFMA CDO conference is attached. We are on at 11:40.

For reference, here is the conference website: http://www.sifma.org/conferences/2007/cdo/Welcome.shtml <http://www.sifma.org/conferences/2007/cdo/Welcome.shtml>

Obviously, our panel will be of great interest to attendees. How do you want to handle this?

I think we should try to make the panel forward-looking by addressing such questions as:

How are the rating agencies re-measuring subprime and ABS CDO risk?
How can the rating agencies help differentiate credit quality? (On the premise that ABS CDOs are not uniformly bad.)
Is there really credit risk contagion to CLOs?
What have we learned about market value risks? (I'm thinking of SIVs, mainly.)

Please let me know your thoughts and what questions you think are relevant.

I am there to protect against unreasonable questions and keep the discussion constructive.

Douglas

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<<SIFMA CDO Conference Agenda 2007-09-20.doc>>

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Mackey, Robert
Sent: Thursday, November 15, 2007 5:48 PM
To: Gutierrez, Michael; Koch, Richard; Frie, Steven; Highland, Edward
Subject: RE: Resi Mortgage Operations - Conduit & Originator Reviews

~~We believe our analytical process and rating opinions will be enhanced by an~~ increased focus on the role third parties can play in influencing loan default and loss performance. In a continued effort to better communicate and incorporate your (Financial Institutions, Servicer Evaluation & Surveillance) expertise in these areas we would like to propose closer on going dialogue between our groups; specifically we'd like to set up meetings where specific mortgage originators, investment banks and mortgage servicers are discussed. We would like to use these meetings to share ideas with a goal of determining whether loss estimates should be altered based upon your collective input. Should have been doing this all along.

-----Original Message-----
From: Gutierrez, Michael
Sent: Thursday, November 15, 2007 5:41 PM
To: Koch, Richard; Frie, Steven; Highland, Edward; Mackey, Robert
Subject: FW: Resi Mortgage Operations - Conduit & Originator Reviews

FYI

Michael Gutierrez
Managing Director
Standard & Poor's
Structured Finance
Practice Leader
U.S.Servicer Evaluations
55 Water Street, 42nd Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2662

From: Warrack, Thomas
Sent: Thursday, November 15, 2007 5:24 PM
To: Wagner, Victoria; Napier, Ernie; Warner, Ernestine; Gutierrez, Michael; Koch, Richard
Cc: Gillis, Tom; Dhru, Jayan; Albergo, Leslie; Arne, Errol; Bergey, Kent; Fitter, Jenine; Watson, Jeff; Barnes, Susan; Losice, Abe; Mcdermott, Gail; Stock, Michael
Subject: Resi Mortgage Operations - Conduit & Originator Reviews

All,

We believe our analytical process and rating opinions will be enhanced by an increased focus on the role third parties can play in influencing loan default and loss performance. In a continued effort to better communicate and incorporate your (Financial Institutions, Servicer Evaluation & Surveillance) expertise in these areas we would like to propose closer on going dialogue between our groups; specifically we'd like to set up meetings where specific mortgage originators, investment banks and mortgage servicers are discussed. We would like to use these meetings to share ideas with a goal of determining whether loss estimates should be altered based upon your collective input.

To this end, we are in the process of re-invigorating our own emphasis around originator and conduit operational capability reviews as a complement to the reviews conducted by the servicer evaluations group.

Attached is a Strategic Plan developed by our newly formed Conduit & Originator Review team. The team will be lead by Leslie Albergo and Jenine Fitter with contributions by Errol Arne, Kent Bergey and Jeff Watson. The Plan lays out the vision and goals of the team as well as the importance of the involvement that all within the Residential Mortgage Group will play in helping to understand and incorporate the influence that third parties can have on ultimate performance.

The plan encompasses more than simply doing more onsite underwriting reviews and includes responsibility to be shared with (a) Analysts (PACs) in terms of performance data and issuer specific knowledge and (b) the AMs and Criteria & Modeling team in terms of potentially helping to develop originator, issuer and/or servicer level adjustments to loss coverage requirements. Important third party vendors to our market, i.e. Fraud tool providers and Risk management firms, etc. are included as well.

Please share any views and comments as we'd like to begin to set up some institution specific meetings.
Also please share with others in your groups as you see fit.

<< File: RMBS MOR Strategic Plan - Vision & Goals for C&O ReviewsFINAL.doc >>

Thanks, Tom

DATE: Thu, 19 Jan 2006
TIME: 11:21:52
AUTHOR: Siegel, Jay
RECEIPIENT: Stein, Roger; Kornfeld, Warren; DiRienz, Mark
CC:
SUBJECT: RE: 2006 Priorities for M3 team

Absolutely not. It is presumed that M3 for Prime will continue to work and that M3 for Subprime works when it's rolled out. 'Revision of the simulations' and 'recalibrating Prime' are in roughly the same prioritization as you proposed, not sure why you see our list as de-prioritizing the correction of any problems.

Also, I don't know of many complaints that are linked to not-recalibrating the Prime model, but I think none of us will really know that until we see what actually changes when the simulations are fixed.

-----Original Message-----
From: Stein, Roger
Sent: Thursday, January 19, 2006 10:20 AM
To: Kornfeld, Warren; Kanef, Michael
Cc: Siegel, Jay; DiRienz, Mark
Subject: RE: 2006 Priorities for M3 team

By way of disclosure: Not recalibrating the Prime model and not fixing the simulation will create a growing number of inconsistencies (problems) in the existing models as was the case through most of 2004. These typically manifest themselves in complaints from analysts and external users. Addressing these in an ad-hoc manner will likely become a significant part of the team's work and could take significant time away from other initiatives. Is your intent that this ad-hoc work should also be deprioritized?

-----Original Message-----
From: Kornfeld, Warren
Sent: Thursday, January 19, 2006 9:31 AM
To: Kanef, Michael; Stein, Roger
Cc: Siegel, Jay; DiRienz, Mark
Subject: FW: 2006 Priorities for M3 team

Mike/Roger,

Jay, Mark, and I had the chance to get together, yesterday to discuss. The 3 of us believe the priority should be as follows:

Subprime M3
Finish models
Rollout to internal users
Approval by internal users
Rollout out to external beta users
Approval by external beta users
Begin external sales
While completing the items above, develop documentation (Jody/Earl) and marketing material (Berrak)
M3 should include a 2nd lien analysis. Can look to some analyses short of developing a 2nd lien model, if there are time and resource constraints

Maintain Prime/Alt-A M3 product

Support external clients of M3

Develop separate internal database for rating purposes (RMBS, SQ, and monitoring) - build on loan-by-loan data already received when rating transactions plus data the servicer ratings group receives

Complete excess spread model interface

Develop a Prime data set for possible recalibration of Prime M3 as well as eventual product development

Revisė simulation methodology for Prime and Subprime M3

Integrate excess spread model directly into simulations (we need to keep in mind that bankers always push the structures to stay ahead of what we can currently model, so we'll need flexibility to be able to react well)

Expansion of Subprime data set for Subprime M3 as well as eventual product development

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-----Original Message-----
From: Stein, Roger
Sent: Wednesday, January 11, 2006 8:24 PM
To: Siegel, Jay; DiRienz, Mark; Kornfeld, Warren
Cc: Kanef, Michael; Rasch, Jody
Subject: 2006 Priorities for M3 team

Per Michael's request, I'm sending attaching a brief list of development priorities for 2006, in the order (priority) I think we should attack them. Please feel free to weigh in on either the content or the ordering of these.
Maintain current M3 product and generate data updates as needed
Support clients of current M3 product
Develop of second lien models for M3-Sub Prime by 4/06
Develop documentation and marketing material for M3
Conditional on resource (likely to come through) revise of simulation methodology for M3 by 12/06
Conditional on resource (very likely to come through), develop a Prime data consortium and consider recalibrating Prime models, to start by 9/06
EITHER sort out legal issues to permit a single pooled data set for product development and monitoring/analysis OR begin beta development of a separate database for monitoring/analysis
Integrate excess spread model directly into simulations (reducing the need for multiple committees and providing m

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DATE: 04/11/2006
TIME: 16:20:27 GMT
AUTHOR: Ramallo, Karen
RECEIPIENT: Huang, Sarah; Shin, Sang; Frankowicz, Wioletta
CC:
SUBJECT: Goldman CES Deal: Building OC with Cap

When: Tuesday, April 11, 2006 12:45 PM-1:00 PM (GMT-05:00) Eastern Time (US & Canada).

~~*~*~*~*~*~*~*~*

I am getting serious pushback from Goldman on a deal that they want to go to market with today. The structure is coming out worse when compared to the last CES deal that Wioletta worked, and much of that has to do with the lower benefit that we are now giving to caps since in the past we were incorrectly modeling that the cap proceeds were building initial OC to target OC.

I already communicated that we refined the way we are assigning benefit with caps without getting into detail but Goldman needs more of an explanation (I do not know how to get around this without telling them we were wrong in the past).

Please let me know if you are available to quickly discuss - and Wioletta, hopefully you can join them and call them with me since they asked for your input as you worked on the last deal.

Thanks.

DATE: Thu, 19 Oct 2006 09:01:17
AUTHOR: Jones, Graham (FID)
RECEIPIENT: Yoshizawa, Yuri
CC: Miteva, Elena (FID); Rizk, Sergio(FID); Laheja, Ashwin (FID); Fu, Yvonne
SUBJECT: RE: Pro-rata modeling criteria

Yuri

That will fit with the timing of deal that we have historically done pro-rata. We closed TABS in January and Bayberry in February. Everything since then has been sequential until Wadsworth which closed in September. On the Wadsworth deal we were told a few days before the close (after pricing) that we must switch methodology. I only found out about this change in methodology because an MS person from Wadsworth told us about what had happened. At that point we had already launched this deal with a pro-rata element to it.

Our problem here is that nobody has told us about the changes that we are later expected to adhere to. Since there is no published criteria outlining the change in methodology how are we supposed to find out about it? Could there be some way of disseminating this information to all banking teams on the street when the decision is made to change methodology?

Thanks

Graham Jones - Vice President

Morgan Stanley | Fixed Income

1585 Broadway | Floor 02

New York, NY 10036

Phone: +1 212 761-2061

Fax: +1 212 507-4891

Graham.Jones@morganstanley.com <mailto:Graham.Jones@morganstanley.com>

From: Yoshizawa, Yuri [mailto:Yuri.Yoshizawa@moodys.com]
Sent: Wednesday, October 18, 2006 11:44 PM
To: Jones, Graham (FID)
Cc: Miteva, Elena (FID); Rizk, Sergio (FID); Laheja, Ashwin (FID); Fu, Yvonne
Subject: Re: Pro-rata modeling criteria

Graham,

I'm very surprised by this as we've been using the hurdles that Michael told you about for quite a while now - since spring of this year.

As you may remember our original methodology was to use the zero default hurdle for all deals, which automatically took into account the way the deals worked when there were no defaults (i.e., pro rata for pro rata deals and sequential when pro rata did not apply).

The break even concept was a temporary concession that we made for some deals to account for the argument that pro rata amortization is meant to help the junior tranches and that we shouldn't "penalize" those tranches by applying a tighter hurdle. The break even results were looked at in committee in addition to the zero default hurdle as we discussed the results for the junior tranches - it was not meant to be an official change to our methodology, but more information to look at in the committee. However, as more people learned that we were willing to look to the break even results, we found that too many people were creating amortization schedules that were purposely designed to extend hurdles and game the break even results.

It should be noted that even when we looked to the break even, the policy was that it could only be for the junior tranches (i.e., Baa and below).

As of earlier this year, for the reasons above, we decided to remove the break even concession and give credit to the junior tranches in another way. Essentially, since the pro rata feature helps the tranches from a cash flow perspective, but hurts them in terms of the hurdle, we decided to look at the junior tranches without using the pro rata feature. As always, we still ask to see the zero default (with pro rata) as well.

As I said earlier, this is not new. We have consistently asked for the sequential results for junior tranches along with the pro rata results for all other tranches for all deals for many months now. You must have had many deals that we've looked at since we stopped looking to the break even.

If you've been using the break even all long for your ABS CDOs please let me know which deals these have been on and Yvonne and I will look into what's been going on.

Thanks.

Yuri

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: Jones, Graham (FID) <Graham.Jones@morganstanley.com>
To: Yoshizawa, Yuri
CC: Miteva, Elena (FID) <Elena.Miteva@morganstanley.com>; Rizk, Sergio (FID) <Sergio.Rizk@morganstanley.com>; Laheja, Ashwin (FID) <Ashwin.Laheja@morganstanley.com>
Sent: Wed Oct 18 18:53:19 2006
Subject: Pro-rata modeling criteria

Yuri

I tried leaving a voice mail but your VM was full. I am having concerns with the roll out of the revised methodology for modeling deals with pro-rata pay downs as a part of the principal waterfall. The deal that I am working on right now is STACK 2006-2. I was informed by a colleague that the calculation of WAL for the loss hurdles on pro-rata deals has changed. Incidentally he found out about this the week of closing after his Moody's analyst had previously signed off, but that is a separate concern. When I called Michael he explained that the new methodology is that the expected loss hurdle WAL calculation is using zero default sequential for Baa and Ba liabilities and zero default pro-rata for the higher rated tranches. Previously we have used the break-even WAL on each of the liability expected loss hurdles. My concern here is that this is a material change to the Moody's methodology and nobody has been telling us. We are already out in the market with this deal and have been so for some time. It looks really bad to have to change the capital structure after the fact and gives investors who have provided an IOI the right to put their commitments back to us. I don't think that this is the fault of any particular analyst because nobody has been telling us on any of our deals and I am not sure that every Moodys analyst has been told the same thing. We are also not sure how even handedly this approach is being adopted across the street. Elena looked at some competitor deals and given that our deal with triggers is about as delevered as some of the no triggers deals that we are seeing we would be surprised to hear that this standard is being applied consistently across the street.

I am in the office all this week so please feel free to call me.

Thanks

Graham Jones - Vice President

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Phone: +1 212 761-2061

Fax: +1 212 507-4891

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communication is directed in the UK to those persons who are market counterparties or intermediate customers (as defined in the UK Financial Services Authority's rules).

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DATE: 04/26/2007
TIME: 06:05:57 GMT
AUTHOR: Harris, Gus
RECEIPIENT: Kirnon, Noel; Clarkson, Brian; Cantor, Richard
CC:
SUBJECT: Re:

Pretty much the same. As the non-rated bucket grows, taking others' ratings at face value could result in inaccurate ratings. In some deals, such as high grade abs deals, the margin for error is very low. If in our opinion 15% of the ratings are inflated, the impact to the cdo note ratings would be significant. I also refer to the Jerry Gluck study issued a couple years back. That study analyzed the impact on our cdo ratings as the non-rated bucket grows.

DATE: 06/28/2007
TIME: 18:17:43 GMT
AUTHOR: Zhang, Yi
RECEIPIENT: Kornfeld, Warren; Deshetler, Anthony; Agarwal, Navneet; Teicher, David
CC:
SUBJECT: RE: Please READ M-1 sign off

Over time, different chairs have been giving different guidelines at different point of time on how much over-enhancement we need for a bond to be notched up to Aaa, the numbers vary from 10% to 1/3 of bond size.

The main reason I sent Tony to you is to get some general guidance on the notching practice, so that people can follow without having to run by you every time the issue comes up.

This is what I understand for all asset types (though we see notching mostly happen in option ARM deals), and correct me, if I am wrong

1. to notch up to Aaa, the bond at Aaa stress needs to be over-enhanced by 30% of bond size
2. the max number of notching up we do is 2
3. no restriction on the number of notching down.

Please confirm.
Thanks.

Yvonne

-----Original Message-----
From: Kornfeld, Warren
Sent: Thursday, June 28, 2007 2:10 PM
To: Deshetler, Anthony; Agarwal, Navneet
Cc: Zhang, Yi
Subject: RE: Please READ M-1 sign off

Y. Yvonne, why would we not?

-----Original Message-----
From: Deshetler, Anthony
Sent: Thursday, June 28, 2007 2:05 PM
To: Kornfeld, Warren; Agarwal, Navneet
Cc: Zhang, Yi
Subject: Please READ M-1 sign off
Importance: High

Yvonne asked me to run this by you. I am working on an option arm deal for Lehman. When we run the M-1 using a Aaa stress the bond is still over enhanced by about 31%. Would we rate this Aaa?

Final levels for the pool were 6.45/1.00. The primary originators are Indy Mac (76%) and Bank of America (17%). The average FICO is 710 with an LTV of 73%. NOO (8.3%) and 2-4 family (4.2%) were fairly strong. Docs were weak with approximately 70% at C7-C9.

<< OLE Object: Picture (Metafile) >>

Anthony DeShetler
AVP - Analyst

DATE: 08/09/2007
TIME: 19:31:55 GMT
AUTHOR: Swanson, Todd
RECEIPIENT: Shrivastava, Amita
CC:
SUBJECT: Re: Seasoning benefit in Alt-A model is fully functional now

I guess what my larger concern is whether or not we are sacrificing what we considered a legitimate method of differentiating between the relative risk in loans for ease of implementation. Maybe making things easier for the short term, but sacrificing accuracy long term. Or, maybe this is more like rearranging the deck chairs on the Titanic - as in the belief is that the differentiation is immaterial in the grand scheme of things. Actually, my boss from my Texas days had a great analogy for this, but it would take forever to type out on this thing.

-----Original Message-----
From: Shrivastava, Amita
To: Swanson, Todd
Sent: Thu Aug 09 15:24:51 2007
Subject: RE: Seasoning benefit in Alt-A model is fully functional now

Oh that we have concluded that we are fine with the higher levels.

-----Original Message-----
From: Swanson, Todd
Sent: Thursday, August 09, 2007 3:23 PM
To: Shrivastava, Amita
Subject: Re: Seasoning benefit in Alt-A model is fully functional now

Oh the issue of not using doc type to adjust BQ adjustment.

-----Original Message-----
From: Shrivastava, Amita
To: Swanson, Todd
Sent: Thu Aug 09 15:22:14 2007
Subject: RE: Seasoning benefit in Alt-A model is fully functional now

Didn't understand.

-----Original Message-----
From: Swanson, Todd
Sent: Thursday, August 09, 2007 3:22 PM
To: Shrivastava, Amita
Subject: Re: Seasoning benefit in Alt-A model is fully functional now

What about differentiating between means of qualifying borrowers? Not to be a pain........

-----Original Message-----
From: Shrivastava, Amita
To: Swanson, Todd
Sent: Thu Aug 09 15:16:31 2007
Subject: FW: Seasoning benefit in Alt-A model is fully functional now

We might need to change our model as well for this. For now I am asking analysts to do the seasoning benefit themselves outside the model. Also there was something wrong with the way the model was splitting the pools as the sum of the alt-a and subprime was not adding up to the entire pool.

Regarding the doc coding and related hits we are ok with the higher hits as per a recent conversation I had with Warren. Will update you when we speak next.

-----Original Message-----
From: Shi, Shuisheng (Jason)
Sent: Thursday, August 09, 2007 3:14 PM
To: Moody's - SFG/Mortgage Pass Through
Subject: Seasoning benefit in Alt-A model is fully functional now

The seasoning benefit in the Alt-A model is fully functional now. If the FirstPayDue date is populated in the tape, select "Y" in cell F1 on "Summary" tab. Otherwise select "N". When FirstPayDue is missing, the model will pick up the origination date as a proxy and haircut seasoning by 15 days.

The delinquency hit will be automated in the model some time early next week.

Please let me know if you have any questions.

Thanks,

Jason Shi
Asset Backed Securities
Moody's Investors Service
Tel: 212.553.1709
Fax: 212.553.7811

DATE: 08/10/2007
TIME: 19:26:56 GMT
AUTHOR: Witt, Gary
RECEIPIENT: May, William
CC:
SUBJECT: RE: UBS CDO Research

Thanks Bill.

Decent of Doug to include footnote 4 asking readers to delay the massacre of the rating agency analysts.

-----Original Message-----
From: May, William
Sent: Friday, August 10, 2007 2:20 PM
To: Witt, Gary
Subject: FW: UBS CDO Research

Enjoy. Check out Eric's bolded sentence from the article below.

-----Original Message-----
From: Kolchinsky, Eric
Sent: Thursday, August 09, 2007 12:35 PM
To: Fu, Yvonne; Polansky, Jonathan; May, William
Subject: FW: UBS CDO Research

This is depressing:

"In our skewed sample of 111 mezzanine ABS CDOs, collateral losses extend into senior AAA tranches. We predict that 10% of senior AAA tranches we examined will default. Overall, the expected loss of senior AAA tranches is 1%. For BBB tranches, 55% will default and expected losses are 65%. This is horrible from a ratings and risk management point of view; perhaps the biggest credit risk management failure ever."

-----Original Message-----
From: Surana, Sunil
Sent: Thursday, August 09, 2007 12:02 PM
To: Yoshizawa, Yuri; Amador, Luis; Bharwani, Pooja; Cheng, Xiaolin; Chitra, Max; Clarke, Ray; Colby, Emily; Das, Ashish; DiCristino, Michael; Furman, Alicia; Grotta, Jacob; Harris, Gus; Hu, Jian; Huber, Linda; Joffe, Marc; Kim, JiYeon (Clara); Kolchinsky, Eric; Leahy, Jim; May, William; Michalek, Richard; Moody's - SFG/Derivatives - Surveillance US; Mui, Nina; Park, John; Ramachandran, Ramani; Rasch, Jody; Rodriguez, Mirna; Roy, Nawal; Stein, Roger; sushmita_10@yahoo.com; Westlake, Lisa
Subject: FW: UBS CDO Research

-----Original Message-----
From: douglas.lucas@ubs.com [mailto:douglas.lucas@ubs.com]
Sent: Thursday, August 09, 2007 11:54 AM
To: undisclosed-recipients
Subject: UBS CDO Research

The attached article updates our predictions of ABS CDO collateral losses. Our most startling conclusion is that 10% of the mezzanine ABS CDOs we study will suffer default on their senior AAA tranches. But despite this horrible result, the dislocations in the ABS CDO market are such that many CDOs are being marked and traded at much harsher levels than is warranted.

DATE: 08/22/2007
TIME: 10:33:55
AUTHOR: Kolchinsky, Eric
RECEIPIENT: Moody's - SFG/Derivatives - US
CC:
SUBJECT: Deal Management

Dear colleagues,

While the number of deals that are currently active is smaller than what we had in the first quarter, each of our current deals is in crisis mode. This is compounded by the fact that we have introduced new criteria for ABS CDOs. Our changes are a response to the fact that we are already putting deals closed in the spring on watch for downgrade. This is unacceptable and we cannot rate the new deals in the same away we have done before. Given the rating volatility that we anticipate in RMBS, these deals must be better protected, since they are using very similar ref obs. On the other hand, the bankers are under enormous pressure to turn their warehouses into CDO notes

While I understand that bankers are putting a great amount of pressure on you to respond, the other committee chairs and I are not able to sign off on every new change, spreadsheet or mark. We need to try to manage the deals a little better. Here is what I think we need to do:

1. **Don't feel rushed by the bankers** -- we MUST get the ratings right and closings these days just mean the movement of risk from one book to another at the bank. "No" is a remarkably powerful word -- feel free to use it generously.

2. Use the committee process -- the committee process is designed just for situations like this. It allows us to speak with one voice and to reasonably assess the risks. Understand that there will be scheduling conflicts for committees and bankers will pressure you to get a response quickly -- please see 1 above (we need to get the ratings right).

3. If you need help, let me know -- I can staff more people to the deal. One of the ML team's experiences was that having more than one voice on a phone call shifted the power dynamics of the discussion.

4. Use your fellow analysts -- ask them what theory would do or ask them to jump on a call with you even if they are at all not familiar with the deal. When approaching a chair or an MD with an issue, please try to have a potential solution ready.

5. Market prices -- we are seeing some actual prices from the recent liquidations. You can get some good color from Cesar, however, please try to not to overwhelm him and use the committee process instead.

I do understand that you being put under a lot of pressure at this time. Please use the procedures which we have in place to alleviate the pressure from yourself and from the team leaders.

Thank you very much
Eric

DATE: 11/09/2007
TIME: 15:38:53
AUTHOR: Kimball, Andrew
RECEIPIENT: Stein, Roger
CC:
SUBJECT: RE: Fitting a default model on 2006 Alt-A data

Have the discussion, but tell him that to dop it right you will have to check with me on prioritization.

-----Original Message-----
From: Stein, Roger
Sent: Friday, November 09, 2007 3:30 PM
To: Kimball, Andrew
Subject: Re: Fitting a default model on 2006 Alt-A data

Warren and I worked out a solution that he feels will be useful and that my staff feels can be reasonably done in the short time allocated..

My staff is sensitive to both priorities and the risks associates with demands to do somerthing "quick and dirty" that then becomes part of a rating process. The reason Ahish pushed back was that the proposed use of the data would quite likely lead to false conclusions that might be used for rating decisions. In the future, if you would prefer, we can just hand the data over without opining. Our view tends to be, "its not just what you don't know, but what you know that is wrong that is dangerous.". In the past RMBS has ~~published research which we did not review, but that seemed counter to our own.~~

Let me know if you'd like us to stay out of these discussions.

-----Original Message-----
From: Kimball, Andrew
To: Stein, Roger
Sent: Fri Nov 09 15:14:31 2007
Subject: RE: Fitting a default model on 2006 Alt-A data

I was told by warren that he asked for a low level data dump and Ashish pushed back, apparently arguing that they needed something more sophisticated to draw credible conclusions. regardless of who did what, i think warren and David are sensitive to the use of your staff's time. You should in turn have a discussion with your staff and ensure that they also understand the prioritization issue.

-----Original Message-----
From: Stein, Roger
Sent: Friday, November 09, 2007 2:57 PM
To: Kimball, Andrew
Subject: Fw: Fitting a default model on 2006 Alt-A data

-----Original Message-----
From: Stein, Roger
To: Das, Ashish; King, Thom; Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Ding, Yufeng; Cheng, Xiaolin; Liu, Qingyu (Maggie); Chatterjee, Debashish; Agarwal, Navneet; Thomas, Ajit

Sent: Fri Nov 09 13:49:36 2007
Subject: Re: Fitting a default model on 2006 Alt-A data

A few questions:

1) What is the intended use of this estimate? It seems to me, given the timing and the large number of data, econometric and testing issues, that the quality of the estimates will be approximately the same whether we do the work or not, ie, the quality will be poor. Nobody seems to feel that this research willl yield useful results by Monday.

2) Is the objective in doing this to develop a rating approach? Why is the timing so short?

3) How will this estimate be incorporated into whatever analysis it is being done as part of? This is important for us to know in considering a modeling strategy.

4) Should this be th R&A's highest priority? My conversations w Jody and Ashish suggest that given the relatively large number of staff involved, it is likely that this work will delay work on Andy Kimball's priorities by a!out a week or so after considering disruptions and lost computing time. Is this acceptable? Has Andy agreed?

Sorry for these questions, but we have been asked to focus on a specific set of objectives and to get them done in very short order. To the extent we drop current work to do this new project, this will impact our promised deliverables. We very much want to work with you all to do this type of work, but we probably need to discuss how to do so in the interim, with our current staff and budget.

Thanks..

-roger

-----Original Message-----
From: Das, Ashish
To: King, Thom; Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Ding, Yufeng; Cheng, Xiaolin; Liu, Qingyu (Maggie); Chatterjee, Debashish; Agarwal, Navneet; Thomas, Ajit
CC: Stein, Roger
Sent: Fri Nov 09 12:30:56 2007
Subject: Fitting a default model on 2006 Alt-A data

Debash, Maggie, Jody, Tim, Xiaolin, Thom, Ajit, Yufeng, and I met today to discuss a new request from Debash and Maggie about determining (in a quick and dirty way) what some of the important determinants of defaults were specific to Alt-A type loans pertaining to 2006 data. One of the triggers leading to this request is some preliminary analysis done by Debash shows that (after controlling for FICO) a 100% CLTV loan loses about five times as much as (say) 80 CLTV loan does. Currently, Prime M3 would show the increase in losses attributed to the corresponding increase in CLTV to be about 30%. Simply put, CLTV seems to be much more important to losses than Prime M3 tends to show.

Clearly, determining the biggest contributors of default is important. In this case, we need to determine this relationship by Monday morning, which effectively gives us less than a full working day. The reason I am pointing this out is that the analysis (determining the important determinants of default) we will do will, at best, be rather coarse. I understand that, going forward, there may be revisions to the analysis. Debash mentioned that, at this point, he is not so much concerned about using this analysis to calculate expected loss, Aaa, or similar statistic. Should we decide to estimate expected loss, etc we would need to have a model for prepayment and severity in addition to the default model.

We need to set up a panel regression to do a survival analysis using Alt-A data from 2006. 60+ day, and 90+ day delinquencies will be used as proxies for default. We need to download some macro data, including HPI, unemployment rate, etc at the state level from MEDC. This whole exercise is premised on our ability to pull sufficient non-option ARM, Alt-A 2006 data from our CTS link data sources.

As a result of the rushed priority on this, the work Tim requested us to do (i.e. determine whether there is a variable missing that could explain the categorization of Jumbo vs. Alt-A loans based on GMAC data) will be deferred to early next week.

Regards,

Ashish

-----Original Message-----
From: King, Thom
Sent: Thursday, November 08, 2007 6:36 PM
To: Kornfeld, Warren
Cc: Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Das, Ashish; Ding, Yufeng
Subject: FW: Extracting loan level data from the database

Warren,

* Allocated a SAS cruncher machine with significant storage to house, manipulate and analyze the file requested by Tim.
* Created the file of GMAC-RFC Jumbo and ALT-A deals and the loan attributes as per Tim's instruction.
* Introduced Tim to Yufeng Ding (resident Quant and SAS guru): they will begin the analysis tomorrow morning.

BTW,

Just got a call from Debash: he wants to perform a regression analysis on ALT-A deals....and he needs it by Monday. I told him we might be able to leverage Tim's dataset and platform. Briefly, the significant benefit of centralizing these similar efforts means:
* Dataset re-use is maximized;
* Dataset redundancy is minimized;
* the same team is already familiar with the dataset;
* the datasets are synchronized across various efforts
* Similar results result across various teams by using the same formulae for common data items, e.g., WAFICO
* Results can be replicated, stored, archived in a central place for others to use

Tim will provide you an update on JumbAlta drivers tomorrow.

--Thom

-----Original Message-----
From: King, Thom
Sent: Thursday, November 08, 2007 9:29 AM
To: Kornfeld, Warren
Cc: Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Das, Ashish

Subject: RE: Info Request Details

Warren,

Met with Tim, Norah, Ashish, Jody and Felipe regarding the drivers of the performance difference between Jumbo and Alt-A loans. Tim explained his goals, his constraints, his theories and proposals. The team offered suggestions and steps to a solution, albeit intermediary. I will provide a specific data sample recommended by Tim for initial analysis. In addition a comprehensive regression analysis will be performed and overseen by Norah and Ashish. The meeting concluded that this was a non-trivial exercise and care must be taken for an accurate conclusion.

--Thom

-----Original Message-----
From: King, Thom
Sent: Wednesday, November 07, 2007 1:58 PM
To: Gildner, Timothy
Cc: Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael
Subject: RE: Info Request Details

Tim,

This is an excellent start. Back to you in an hour.

Thom

-----Original Message-----
From: Gildner, Timothy
Sent: Wednesday, November 07, 2007 1:48 PM
To: King, Thom
Cc: Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael
Subject: Info Request Details

Thom,

To start the conversation, these are loan subsets and variables that we would like to initally analyze. Could you provide some feedback on how large a file this would be and any other information that my be relevant.

Time Period: 2006-2007 originations
Asset Class: Jumbo, Alt-A
Lien: 1st
Negam: No

Variables
Origination Date
Loan ID
Deal ID/Name
Asset Class
Loan Type
Product Type
Index
IO
IO Term

FICO
LTV
CLTV
Documentation
Purpose
Occupancy
Property
Origination Amount
Appraisal
Maturity Date
Term
Servicing Fee
Property Location (State, ZIPCode??)
DTI
Months PITI
PI Payment
FTHB
And, performance information, 30+, 60+, etc, if possible

Timothy Gildner

-----Original Message-----
From: Gildner, Timothy
Sent: Wednesday, November 07, 2007 1:15 PM
To: King, Thom; Weill, Nicolas; Rasch, Jody; Kornfeld, Warren; Shrivastava, Amita
Cc: Kanef, Michael; Stein, Roger; Das, Ashish; Qian, Xufeng (Norah)
Subject: FW: Extracting loan level data from the database

Thom,

Thank you for the assistance.

Could we set up a time to discuss in further detail the data that Moodys has and the data that you sent. What we currently have will not help us with the necessary research.

Specifically, we are looking at variables like DTI, which I am unable to locate in the file. I also understand your concern with the size of the file, and there is information such as balloondate, capincrease, etc. which could be removed. More importantly, the file does not appear to be delimited in a way that I can readily parse or upload.

I think if we better understood all the options available to us, we could provide your team with better instructions and more effectively work together to get our arms around the jumbo space.

Let me know,
tim

-----Original Message-----
From: King, Thom
To: Weill, Nicolas; Rasch, Jody; Kornfeld, Warren; Shrivastava, Amita
CC: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael
Sent: Tue Nov 06 18:58:51 2007

Subject: RE: Extracting loan level data from the database

Tim,

Here ya go: \\mdynycnetapp01\sfgmonitor\gildner

Thom

-----Original Message-----
From: Weill, Nicolas
Sent: Tuesday, November 06, 2007 5:47 PM
To: Rasch, Jody; Kornfeld, Warren; Shrivastava, Amita; King, Thom
Cc: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael
Subject: RE: Extracting loan level data from the database

Why not give the raw data to Warren's team and let them do whatever they want with the data?

Jody: can we do that?

Nicolas

-----Original Message-----
From: Rasch, Jody
Sent: Tuesday, November 06, 2007 5:45 PM
To: Kornfeld, Warren; Shrivastava, Amita; King, Thom
Cc: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael; Weill, Nicolas
Subject: Re: Extracting loan level data from the database

Warren,

In addition to the analysis issue typically the amount of data needed to be transfered is difficult for other systems to handle. It is preferable and I think it has worked better if you let Thom run whatever queries you want. In addition that makes it easier to do similar queries in the future.

We have found that this is more efficient for us and for the analysts.

Jody

-----Original Message-----
From: Kornfeld, Warren
To: Rasch, Jody; Shrivastava, Amita; King, Thom
CC: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael; Weill, Nicolas
Sent: Tue Nov 06 17:10:52 2007
Subject: RE: Extracting loan level data from the database

Jody,

We appreciate your help, however, in light of how busy your team is and in light of time, let's have Thom provide the loan level data to Amita that she is requesting. Then, to the extent that your group has time, we would welcome your input.

The first cut of loan level data would be Jumbo and Alt A loans originated in 2005 and 2006. The loan level info would include key origination characteristics (FICO, loan size, type characteristics, purpose, DTI, LTV, CLTV, . . .), plus key performance characteristics (current status, amount of loss if any, date of loss, prepayment date, . . .). I will have Amita and Tim follow up with you on the specific fields that they are looking for

Thanks for the help

Warren

-----Original Message-----
From: Rasch, Jody
Sent: Tuesday, November 06, 2007 4:11 PM
To: Shrivastava, Amita; King, Thom
Cc: Stein, Roger; Kornfeld, Warren; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah)
Subject: RE: Extracting loan level data from the database

Amita,

Rather than just doing a data dump what has worked successfully in the past is to develop a research plan where we not only search the data but also help define what the relevant variables are and how to filter for non-relevant factors. As we have the quantitative resources to help with this process, it would be helpful to work together on this project.

If you would like to move ahead in this manner, lets set up a meeting and develop a research plan and timetable that meets your objectives.

Jody

-----Original Message-----
From: Shrivastava, Amita
Sent: Tuesday, November 06, 2007 3:31 PM
To: King, Thom
Cc: Rasch, Jody; Stein, Roger; Kornfeld, Warren; Gildner, Timothy
Subject: Extracting loan level data from the database

Thom,

As per our discussion earlier today we need to extract loan level data from the 2006 closing tapes database to do different analyses at our end (See Tim's email below for details on the kind of analysis we are looking to do). We are looking for loan attributes that are available in the tapes as well as performance information for the subsets that we will identify. We want to be able to extract the information and dump it into another software which will be used for analysis. Please let us know what is the best way of going about this. We need to get started on the analysis right away so we are hoping to expedite the data extraction process. Please advise.

Thanks.

Amita

x8730

-----Original Message-----
From: Gildner, Timothy
Sent: Tuesday, November 06, 2007 2:21 PM
To: Shrivastava, Amita
Subject:

Goal.

To determine the attributes that distinguish Alt-A from Jumbo loans.

Initial process:

To group by common attributes, such as FICO, LTV, documentation, purpose, etc, and see if loans coming from traditional jumbo and alt-a shelves have different DTI, MSA, or other variables that could result in the performance difference.

Then,

Look at actual performance and with stat tools and regression analysis determine what variables are driving the difference in performance.

Data that we need.

All jumbo alt-a originations to date.

Specifically, we would initally only look at 720+ FICO, full documentation, 70-80 LTV, primary residence. Then, we would expand and contract the data depending on our findings

Tools,

We thought using rapid SQL (moody's standard) to retreive the data, and then our own tools (MySQL, SAS, etc.) to house and analyze the data.

Also amita, I used to use SAS if that helps, I know someone here asked for it before.

Timothy Gildner
Moody's Investors Service
7 World Trade Center at 250 Greenwich Street
Asset Finance Group - 24th Floor
New York, NY 10007
Tel: 212.553.2919
Fax: 212.298.6909
timothy.gildner@moodys.com

DATE: 11/28/2007
TIME: 16:51:33 GMT
AUTHOR: Stein, Roger
RECEIPIENT: Kimball, Andrew; Kanef, Michael; Weill, Nicolas
CC:
SUBJECT: Re: Moody's Follow Up

Perhaps we can chat for a few minutes?

-----Original Message-----
From: Kimball, Andrew
To: Stein, Roger; Kanef, Michael; Weill, Nicolas
Sent: Wed Nov 28 10:34:56 2007
Subject: RE: Moody's Follow Up

We should avoid ad hoc rules.
Can you mention an instance?

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, November 28, 2007 10:19 AM
To: Kimball, Andrew; Kanef, Michael
Subject: Re: Moody's Follow Up

It seems, though, that the more of the ad hoc rules we add, the further away from the data and models we move and the closer we move to building models that ape analysts expectations, no?

-----Original Message-----
From: Kimball, Andrew
To: Stein, Roger; Kanef, Michael
Sent: Wed Nov 28 10:00:08 2007
Subject: RE: Moody's Follow Up

Clearly the latter. That said, any usual rules and adjustments should be in the model.

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, November 28, 2007 9:58 AM
To: Kimball, Andrew; Kanef, Michael
Subject: Fw: Moody's Follow Up
Importance: High

Is the goal for analysts results to be the same as M3 or for M3 to be an input into an informed decision?

-----Original Message-----
From: Slicklein, Kelly
To: Stein, Roger; Rasch, Jody; McKenna, Mark; Little, David
Sent: Wed Nov 28 09:51:05 2007
Subject: FW: Moody's Follow Up

I have removed Ariel from this email as I would like to provide a few marketing related details. Accredited is currently trialing the M3 Subprime model. I have been working with them for over a year to get them to take a look at the tool. I'm sure you can understand that with current market conditions it is extremely difficult to have companies commit to a subscription of M3. I have been trying to sell against these horrible market conditions and have had some success. Unfortunately when we add the fact that M3 does not provide much value to a client when they are primarily looking for transparency in the rating process it makes the sale of the model virtually impossible.

-----Original Message-----
From: Slicklein, Kelly
Sent: Wednesday, November 28, 2007 9:34 AM
To: Weil, Ariel; Rasch, Jody; Fishenfeld, Lisa
Cc: McKenna, Mark; Little, David; Stein, Roger; Lacouture, Isabelle
Subject: FW: Moody's Follow Up
Importance: High

Can you please take a look at the results attached? These levels have been provided to us from Accredited who is currently utilizing M3. The difference between the levels produced by M3 Subprime and what our analysts are reporting ranges from 33%-37%. As per Accredited: 'Our primary concern is the relevance of the model when the model results vary widely from those provided by Moody's post committee. It loses a lot of value as a decision making tool when you can't rely on the results with any confidence.'

Should the levels provided by the model be this far off from what our analysts are reporting? This is a concrete example of why we need to incorporate as many of the qualitative pieces of the rating process as possible into the calculations of the model regardless of whether they may change over time. A prime example would be the 10% increase in loss projections for newly originated loans. If this 10% hit is consistently applied to the results provided by M3 then it should be incorporated into the model. Companies are not looking to make adjustments outside of the tool. They are utilizing the model first and foremost to increase transparency in the rating process. When the levels provided by the model are vastly different than what our analysts are reporting then the tool's value greatly diminishes.

Any insight you can provide to the results attached would be extremely helpful.

Thank you,

Kelly

From: Barnes, Susan
Sent: Friday, July 22, 2005 1:50 PM
To: Byrnes, Bernard
Subject: FW: Washington Mutual

-----Original Message-----
From: Michael Blomquist [mailto:michael@resourcerealty.com]
Sent: Monday, June 27, 2005 4:12 PM
To: Barnes, Susan
Subject: Washington Mutual

Hello Susan,

I saw you today on CNBC and the reason for my email is that I am extremely afraid of the seeds of destruction the financial markets have planted. I have contacted the OTS, FDIC and others and my concerns are not addressed. I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk. I am confident our present housing bubble is not from supply and demand of housing, but from money supply. In my professional opinion the biggest perpetrator is Washington Mutual.

1) No income documentation loans.
2) Option ARMS (negative amortization). on over-leveraged collateral.
~~2b) Interest income on negative amortization is not taxed, but booked as~~ revenue. Increase in loan balance shows as an increase on balance sheet and loan losses are not increased. Looks great for financials, but terrible for bank depositors.
2c) Option ARMS are funded and held from depositors. (huge risk to FDIC)
3) Option ARMS make up 90% of Bay Area loans in CA.
4) WAMUs recent bid for Providian is the purchase of another highly leveraged/securitized bank.
5) 100% financing loans.

I have seen instances where WAMU approved buyers for purchase loans; where the fully indexed interest only payments represented 100% of borrower's gross monthly income. We need to put a stop to this madness!!!

Best wishes,

Michael Blomquist
408-[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #45

PSI-SP-000395

From: Richard Koch [rwkoch@operamail.com]
Sent: Saturday, September 02, 2006 4:30 PM
To: Mackey, Robert; Gutierrez, Michael
Cc: michael_Gutierrez@sandp.com
Subject: RE: Nightmare Mortgages

Saw a long t.v. advertisement this morning from Freedom Financial on reverse mortgages . . . their pitch man is James Garner. Must of cost some bucks . . . it was well-produced.

> ----- Original Message -----
> From: "Mackey, Robert" <robert_mackey@standardandpoors.com>
> To: "Richard Koch" <rwkoch@operamail.com>, Michael_Gutierrez@standardandpoors.com
> Subject: RE: Nightmare Mortgages
> Date: Sat, 2 Sep 2006 10:01:04 -0400
>
>
> This is frightening. It wreaks of greed, unregulated brokers, and
> "not so prudent" lenders. However, some borrowers are at fault as
> well. When I first heard of this product, just two years ago, I
> thought it might work for a small niche of the housing market.
> That's where it should have remained:
>
> Option ARMs were created in 1981 and for years were marketed to
> well-heeled home buyers who wanted the option of making low
> payments most months and then paying off a big chunk all at once.
> For them, option ARMs offered flexibility.
>
> Hope our friends with large portfolios of these mortgages are
> preparing for the inevitable.
>
>
>
> -----Original Message-----
> From: Richard Koch [mailto:rwkoch@operamail.com]
> Sent: Friday, September 01, 2006 10:17 PM
> To: Michael_Gutierrez@sandp.com
> Cc: Robert_Mackey@sandp.com
> Subject: Nightmare Mortgages
>
>
> Interesting Business Week article on Option ARMs, quoting anecdotes
> involving some of our favorite servicers (It's no wonder
> Homecomings is under FTC scrutiny; could WAMU be next?). Also
> includes a brief quote from Tom Marano.
>
>
> Nightmare Mortgages
> They promise the American Dream: A home of your own -- with
> ultra-low rates and payments anyone can afford. Now, the trap has
> sprung
>
>
> For cash-strapped homeowners, it was a pitch they couldn't refuse:
> Refinance your mortgage at a bargain rate and cut your payments in
> half. New home buyers, stretching to afford something in a
> super-heated market, didn't even need to produce documentation,
> much less a downpayment.
>
> Those who took the bait are in for a nasty surprise. While many

> Americans have started to worry about falling home prices,
> borrowers who jumped into so-called option ARM loans have another,
> more urgent problem: payments that are about to skyrocket.
>
> Slide Show >>
> The option adjustable rate mortgage (ARM) might be the riskiest and
> most complicated home loan product ever created. With its
> temptingly low minimum payments, the option ARM brought a whole new
> group of buyers into the housing market, extending the boom longer
> than it could have otherwise lasted, especially in the hottest
> markets. Suddenly, almost anyone could afford a home -- or so they
> thought. The option ARM's low payments are only temporary. And the
> less a borrower chooses to pay now, the more is tacked onto the
> balance.
>
> The bill is coming due. Many of the option ARMs taken out in 2004
> and 2005 are resetting at much higher payment schedules -- often to
> the astonishment of people who thought the low installments were
> fixed for at least five years. And because home prices have leveled
> off, borrowers can't count on rising equity to bail them out.
> What's more, steep penalties prevent them from refinancing. The
> most diligent home buyers asked enough questions to know that
> option ARMs can be fraught with risk. But others, caught up in real
> estate mania, ignored or failed to appreciate the risk.
>
> There was plenty more going on behind the scenes they didn't know
> about, either: that their broker was paid more to sell option ARMs
> than other mortgages; that their lender is allowed to claim the
> full monthly payment as revenue on its books even when borrowers
> choose to pay much less; that the loan's interest rates and
> up-front fees might not have been set by their bank but rather by a
> hedge fund; and that they'll soon be confronted with the choice of
> coughing up higher payments or coughing up their home. The option
> ARM is "like the neutron bomb," says George McCarthy, a housing
> economist at New York's Ford Foundation. "It's going to kill all
> the people but leave the houses standing."
>
> Because banks don't have to report how many option ARMs they
> underwrite, few choose to do so. But the best available estimates
> show that option ARMs have soared in popularity. They accounted for
> as little as 0.5% of all mortgages written in 2003, but that shot
> up to at least 12.3% through the first five months of this year,
> according to FirstAmerican LoanPerformance, an industry tracker.
> And while they made up at least 40% of mortgages in Salinas,
> Calif., and 26% in Naples, Fla., they're not just found in
> overheated coastal markets: Through Mar. 31 of this year, at least
> 51% of mortgages in West Virginia and 26% in Wyoming were option
> ARMs. Stock and bond analysts estimate that as many as 1.3 million
> borrowers took out as much as $389 billion in option ARMs in 2004
> and 2005. And it's not letting up. Despite the housing slump,
> option ARMs totaling $77.2 billion were written in the second
> quarter of this year, according to investment bank Keefe, Bruyette
> & Woods Inc.
>
> The First Wave
> After prolonging the boom, these exotic mortgages could worsen the
> bust. They also betray such a lack of due diligence on the part of
> lenders and borrowers that it raises questions of what other
> problems may be lurking. And most of the pain will be borne by
> ordinary people, not the lenders, brokers, or financiers who
> created the problem.

>
> Gordon Burger is among the first wave of option ARM casualties. The
> 42-year-old police officer from a suburb of Sacramento, Calif., is
> stuck in a new mortgage that's making him poorer by the month.
> Burger, a solid earner with clean credit, has bought and sold
> several houses in the past. In February he got a flyer from a
> broker advertising an interest rate of 2.2%. It was an unbeatable
> opportunity, he thought. If he refinanced the mortgage on his
> $500,000 home into an option ARM, he could save $14,000 in interest
> payments over three years. Burger quickly pulled the trigger,
> switching out of his 5.1% fixed-rate loan. "The payment schedule
> looked like what we talked about, so I just started signing away,"
> says Burger. He didn't read the fine print.
>
> After two months Burger noticed that the minimum payment of $1,697
> was actually adding $1,000 to his balance every month. "I'm not
> making any ground on this house; it's a loss every month," he says.
> He says he was told by his lender, Minneapolis-based Homecoming
> Financial, a unit of Residential Capital, the nation's
> fifth-largest mortgage shop, that he'd have to pay more than
> $10,000 in prepayment penalties to refinance out of the loan. If
> he's unhappy, he should take it up with his broker, the bank said.
> "They know they're selling crap, and they're doing it in a way
> that's very deceiving," he says. "Unfortunately, I got sucked into
> it." In a written statement, Residential said it couldn't comment
> on Burger's loan but that "each mortgage is designed to meet the
> specific financial needs of a consumer."
>
> The loans certainly meet the needs of banks. Option ARMs offer
> several payment choices each month. Among Burger's alternatives
> were one for $2,524, about what a standard fixed-rate mortgage
> would be on the new amount, and the $1,697 he pays. Why would his
> bank make the minimum so low? Thanks to a perfectly legal
> accounting practice, no matter how little Burger pays each month,
> the bank gets to record the full amount.
>
> Option ARMs were created in 1981 and for years were marketed to
> well-heeled home buyers who wanted the option of making low
> payments most months and then paying off a big chunk all at once.
> For them, option ARMs offered flexibility.
>
> So how did these unusual loans get into the hands of so many
> ordinary folks? The sequence of events was orderly and even
> rational, at least within a flawed system. In the early years of
> the housing boom, falling interest rates made safe fixed-rate loans
> attractive to borrowers. As home prices soared, banks pushed
> adjustable-rate loans with lower initial payments. When those got
> too pricey, banks hawked loans that required only interest payments
> for the first few years. And then they flogged option ARMs -- not
> as financial-planning tools for the wealthy but as affordability
> tools for the masses. Banks tapped an army of unregulated mortgage
> brokers to do what needed to be done to keep the money flowing,
> even if it meant putting dangerous loans in the hands of people who
> couldn't handle or didn't understand the risk. And Wall Street
> greased the skids by taking on much of the new risk banks were
> creating.
>
> Now the signs of excess are crystal clear. Up to 80% of all option
> ARM borrowers make only the minimum payment each month, according
> to Fitch Ratings. The rest of the money gets added to the balance
> of the mortgage, a situation known as negative amortization. And

> once balances grow to a certain amount, the loans automatically
> reset at far higher payments. Most of these borrowers aren't paying
> down their loans; they're underpaying them up.
>
> Yet the banking system has insulated itself reasonably well from
> the thousands of personal catastrophes to come. For one thing,
> banks can sell some of their option ARMs off to Wall Street, where
> they're packaged with other, better loans and re-sold in chunks to
> investors. Some $182 billion of the option ARMs written in 2004 and
> 2005 and an additional $83 billion this year have been sold,
> repackaged, rated by debt-rating agencies, and marketed to
> investors as mortgage-backed securities, says Bear, Stearns & Co.
> (BSC)Banks also sell an unknown amount of them directly to hedge
> funds and other big investors with appetites for risk.
>
> The rest of the option ARMs remain on lenders' books, where for now
> they're generating huge phantom profits for some lenders. That's
> because, according to generally accepted accounting principles, or
> GAAP, banks can count as revenue the highest amount of an option
> ARM payment -- the so-called fully amortized amount -- even when
> borrowers make only the minimum payment. In other words, banks can
> claim future revenue now, inflating earnings per share.
>
> For many industries, so-called accrual accounting, which lets
> companies book sales when they contract for them rather than when
> they receive the cash, makes sense. The revenues will eventually
> come. But accrual accounting doesn't apply well to option ARMs,
> since it's more difficult to know if unpaid interest will ever
> cross a banker's desk. "This is basically an IOU that may never get
> paid," says Robert Lacoursiere, an analyst at Banc of America
> Securities. James Grant of Grant's Interest Rate Observer recently
> wrote that negative-amortization accounting is "frankly a
> fraudulent gambit. But what it lacks in morality, it compensates
> for in ingenuity." The Financial Accounting Standards Board, which
> is responsible for keeping GAAP up to date, stands by its standard
> but told BusinessWeek in a written statement that it is "concerned
> that the disclosures associated with these types of loans [are] not
> providing enough transparency relative to their associated risks."
>
> Camouflaged Losses
> Risks or not, the accounting treatment is boosting reported profits
> sharply. At Santa Monica (Calif.)-based FirstFed Financial Corp.
> (FED), "deferred interest" -- what an outsider might call phantom
> income -- made up 67% of second-quarter pretax profits. FirstFed
> did not respond to requests for comment. At Oakland (Calif.)-based
> Golden West Financial Corp. (GDW), which has been selling option
> ARMs for two decades, deferred interest made up about 59.6% of the
> bank's earnings in the first half of 2006. "It's not the loan
> that's the problem," says Herbert M. Sandler, CEO of World Savings
> Bank, parent of Golden West. "The problem is with the quality of
> the underwriting."
>
> In the middle of one of the hottest U.S. markets, Coral Gables
> (Fla.)-based BankUnited Financial Corp. (BKUNA) posted a $14.8
> million loss for the quarter ended June, 2005. Yet it reported
> record profits of $23.8 million for the quarter ended in June of
> this year -- $20.9 million of which was earned in deferred
> interest. Some 92% of its new loans were option ARMs. Humberto L.
> Lopez, chief financial officer, insists the bank underwrites
> carefully. "The option ARMs have gotten a bit of a raised eyebrow
> because we generate and book noncash earnings. But...it's our

> money, and we do feel comfortable we'll get it back."
>
> Even the loans that blow up can be hidden with fancy bookkeeping.
> David Hendler of New York-based CreditSights, a bond research shop,
> predicts that banks in coming quarters will increasingly move weak
> loans into so-called held-for-sale accounts. There the loans will
> sit, sequestered from the rest of the portfolio, until they're sold
> to collection agencies or to investors. In the latter case, a
> transaction on an ailing loan registers on the books as a trading
> loss, gets mixed up with other trading activities and -- presto! --
> it vanishes from shareholders' sight. "There are a lot of ways to
> camouflage the actual experience," says Hendler.
>
> There's no way to camouflage what Harold, a former computer
> technician who asked BusinessWeek not to publish his last name, is
> about to face. He's disabled and has one source of income: the
> $1,600 per month he receives in Social Security disability
> payments. In September, 2005, Harold refinanced out of a fixed-rate
> mortgage and into an option ARM for his $150,000 home in Chicago.
> The minimum monthly payment for the first year is $899, which he
> can afford. The interest-only payment is $1,329, which he can't.
> The fully amortized payment is $1,454, which his lender, Washington
> Mutual (WM), gets to count on its books. WaMu, no fly-by-night
> operation, said it couldn't comment on Harold's case, citing
> confidentiality issues. A spokesman says the bank "accounts for its
> option ARM product in accordance with generally accepted accounting
> principles." WaMu has about $12 billion in loans negatively
> amortizing right now, up from $2.5 billion in 2005, estimates
> CreditSights' Hendler. In a written statement, WaMu said "borrowers
> who request an adjustable loan with payment options should
> understand those options and potential adjustments throughout the
> life of the loan. We make detailed disclosures to customers that
> are designed to develop a more informed consumer of mortgage
> products and ensure that our customers are comfortable with the
> loan products they select."
>
> Hard Sell
> To get the deals done, banks have turned increasingly to
> unregulated mortgage brokers, who now account for 80% of all
> mortgage originations, double what it was 10 years ago, according
> to the National Association of Mortgage Brokers. In 2004 banks
> began offering fatter sales commissions on option ARMs to encourage
> brokers to push them, says Gail McKenzie, assistant U.S. attorney
> in Atlanta, who is investigating mortgage brokers for improper
> practices.
>
> The problem, of course, is that many brokers care more about
> commissions than customers. They use aggressive sales tactics,
> harping on the minimum payment on an option ARM and neglecting to
> mention the future implications. Some even imply verbally that
> temporary teaser rates of 1% to 2% are permanent, even though the
> fine print says otherwise. It's easy to confuse borrowers with
> option ARM numbers. A recent Federal Reserve study showed that one
> in four homeowners is mystified by basic adjustable-rate loans. Add
> multiple payment options into the mix, and the mortgage game can be
> utterly baffling.
>
> Billy and Carolyn Shaw are among the growing ranks of borrowers who
> have taken out loans they say they didn't understand. The retired
> couple from the Salinas (Calif.) area needed to tap about $50,000
> in equity from their $385,000 home to cover mounting expenses.

> Billy, 66, a retired mechanic, has diabetes. Carolyn, 61, has been
> caring for her grandchildren, 10-year-old twins, since her
> daughter's death in 2000. The Shaws have a fixed income of $3,000 a
> month that will fall by about $1,000 in November after Billy's
> disability benefits run out. Their new loan's minimum payment of
> about $1,413 is manageable so far, but the fully amortized amount
> of about $3,329 is out of the question. In a little over a year,
> they've added some $8,500 to their loan balance and now face a big
> reset if they continue to pay only the minimum. "We didn't totally
> understand what was taking place," says Carolyn. "You have to pay
> attention. We didn't, and we're really stuck here." The Shaws'
> lender, Golden West, says it routinely calls customers to ask them
> if they are happy and understand their mortgage loan.
>
> Then there's the illegal stuff. Mortgage fraud is one of the
> fastest-growing white-collar crimes in the nation, costing $1
> billion in 2005, double the year before. A slower housing market
> could foster more wrongdoing. "With a tighter market, you are going
> to find there is more incentive to manipulate," says Tim Irvin of
> Irvin Investigations & Research Services in Spring, Texas. "Brokers
> are having a harder time getting business, so they're getting
> creative."
>
> Concerns like these haven't curbed Wall Street's hunger for option
> ARMS. "At a price, you can originate or sell anything," says Thomas
> F. Marano, global head of mortgage and asset-backed securities at
> Bear Stearns. Hedge funds have been particularly active, buying
> risky loans directly from banks and cutting out the bundlers in the
> middle. Kathleen C. Engel, an associate professor of law at
> Cleveland-Marshall College of Law at Cleveland State University,
> says Wall Street and hedge fund money has helped to finance
> widespread lending abuses, particularly among the most vulnerable
> borrowers.
>
> Pros Go Unscathed
> Why are hedge funds willing to buy risky loans directly? Because
> they can demand terms that help insulate them from losses. And
> banks, knowing what the hedge funds want in advance, simply take it
> out of the hides of borrowers, many of whom qualify for lower rates
> based on their credit histories. "Even if the loan goes bad, [the
> hedge funds are] still making money hand over fist," says Engel.
>
> Eventually, some of it will go sour. But the Wall Street pros who
> buy option ARMs are in the business of managing risk, and no one
> expects widespread losses. They've taken on billons in iffy option
> ARMs, but the loans are no shakier than the billions in emerging
> market debt or derivatives they buy and sell all the time. Blowups
> are factored into the investing decision.
>
> Banks that hold lots of option ARMs on their books will surely be
> hit by loan defaults in coming years. "It's certainly reasonable to
> expect to see some excesses wrung out," says Brad A. Morrice,
> president and CEO of New Century Financial Corp. But even here the
> damage will likely be limited. Banks use insurance and other
> financial instruments to protect their portfolios, and they hold
> real assets -- homes -- as collateral. Christopher L. Cagan,
> director of research and analytics at First American Real Estate
> Solutions, a researcher and unit of title insurer First American,
> forecasts total defaults of $300 billion across all types of loans,
> not just option ARMs, over the next five years -- less than 1% of
> total homeowner equity. (In comparison, JPMorgan Chase & Co. alone

> has a mortgage portfolio of $182.8 billion.) Cagan estimates that
> banks will end up losing only $100 billion of it all told.
>
> Most of the pain will be born by ordinary people. And it's already
> happening. More than a fifth of option ARM loans in 2004 and 2005
> are upside down -- meaning borrowers' homes are worth less than
> their debt. If home prices fall 10%, that number would double. "The
> number of houses for sale is tripling in some markets, so people
> are not going to get out of their debt," says the Ford Foundation's
> McCarthy. "A lot are going to walk."
>
> Jennifer and Eric Hinz of Somerset, Wis., are feeling the squeeze.
> They refinanced out of a 5.25% fixed-rate, 30-year loan in June,
> 2005, and into an option ARM with a 1% teaser rate from Indymac
> Bank. The $1,483 payment for their original mortgage dropped to as
> low as $747 with the new option ARM. They say they had no idea when
> they signed up, however, that the low payment adds $600 in deferred
> interest to their balance every month. Worse, they thought the 1%
> would last three years, but they're already paying 7.68%. "What
> reasonable human being would ever knowingly give up a 5.25%
> fixed-rate for what we're getting now?" says Eric, 36, who works in
> commercial construction. Refinancing is out because they can't
> afford the $15,000 or so in fees. "I'm paying more, and the
> interest is just going up and up and up," says Jennifer, 34, a
> stay-at-home mom. "I feel like we got totally screwed." They say
> their mortgage broker has stopped returning their phone calls.
> Indymac declined to comment on the loan's specifics.
>
> Stories like these can be found across the socioeconomic spectrum,
> says Allen J. Fishbein, director of Housing & Credit Policy for the
> Consumer Federation of America. In a May focus group, the CFA found
> that option ARM customers at all income levels said the loans were
> the only way they could afford their homes. While many recognized
> that their mortgages could increase, "they professed complete
> surprise that they could increase as much as they could," says
> Fishbein. That lack of diligence will cost them over time.
>
> Not that all option ARM holders go in blindly. While the loans are
> marketed aggressively, plenty of holders know exactly what they're
> getting into. Jon and Meghan Bachman of Portland, Ore., consider
> them wealth-building tools. "We want to own a bunch of houses,"
> says Meghan. "We're hoping for early retirement."
>
> So far they have stayed out of the fire. The couple, who are in
> their 30s, bought their first home, a 100-year-old farm house in
> Portland, Ore., in October, 2005, with a no-money-down loan for
> $200,000 from GreenPoint Mortgage, a unit of NorthFork
> Bancorporation Inc. By May, the value of the house had soared to
> $275,000. Rather than sit tight as their grandparents might have,
> the Bachmans, with an annual household income of $70,000, took out
> a home equity loan to put a $30,000 downpayment on an investment
> property in an up-and-coming neighborhood nearby. They pay a
> minimum of just $825 on their new $191,000 mortgage, and rent the
> house out for $100 more than that. Sooner or later, the payment
> will rise. Then they'll have to raise the rent to stay in the
> black. If the still-strong Portland housing market tanks, they
> could find themselves in deep trouble. It's a risk they say they're
> willing to take.
>
> Public policy has yet to catch up with the new complexities of the
> lending industry. Comptroller of the Currency John C. Dugan, the

> banking industry's main regulator, wants banks to clean up their
> act. A source inside the federal Office of the Comptroller says
> Dugan intends to raise lending standards, as he did last year on
> credit cards, where super-low minimum payments made it improbable
> that cardholders would ever pay down debts. New guidelines are
> expected this fall.
>
> Fair-housing pundits suggest that mortgage lenders follow the lead
> of the securities industry and require that mortgage borrowers be
> not only eligible for a product but also suitable -- meaning the
> loan won't impose hardship. Says Consumer Federation of America's
> Fishbein: Buyers have to have a "reasonable prospect of being able
> to handle the payments, not at the initial rate, but [assuming] the
> worst-case scenario."
>
> So far, banks have shown little desire to raise their standards. In
> February, Golden West announced it would raise its minimum option
> ARM payment to 2.6% of the loan. In March, Golden West's Sandler
> wrote a nine-page letter to the Office of Thrift Supervision
> decrying the lax lending standards he was seeing. "Foolish lenders
> who eventually stumble under the weight of their missteps will
> bring down innocent borrowers with them and leave the rest of us to
> clean up the mess," he wrote. But on May 7, Golden West announced
> it was selling out to Charlotte (N.C.)-based Wachovia Corp. (WB).
> By June it had dropped its option ARM rate back down to 1.50%.
> Sandler says the rates were changed according to the bank's
> interest rate outlook.
>
> Analyst Frederick Cannon of Keefe Bruyette & Woods says most banks
> don't apologize for their option ARM businesses. "Almost without
> exception everyone says [the option ARM] is a great loan, it's
> plenty regulated, and don't bug us," he says. In an April letter to
> regulators, Cindy Manzettie, chief credit officer for Fifth Third
> Bank in Cincinnati, said it's not the "lender's responsibility to
> help the consumer determine the appropriate payment option each
> month.... Paternalistic regulations that underestimate the
> intelligence of the American public do not work."
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From: Highland, Edward
Sent: Tuesday, September 05, 2006 8:21 PM
To: Gutierrez, Michael; Richard Koch
Cc: Mackey, Robert
Subject: RE: Nightmare Mortgages

Had the same feeling. This is deja vu 1980's without the goodwill asset.

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-----Original Message-----
From: Gutierrez, Michael
Sent: Tuesday, September 05, 2006 6:53 PM
To: Highland, Edward; Richard Koch
Cc: Mackey, Robert
Subject: RE: Nightmare Mortgages

Good grief -I had no idea about how GAAP allows the lenders to book the income - I'm surprised the OCC and FDIC doesn't come downharder on these guys- this is like another banking crisis potentially looming!!

-----Original Message-----
From: Highland, Edward
Sent: Tuesday, September 05, 2006 12:28 PM
To: Richard Koch; Gutierrez, Michael
Cc: Mackey, Robert
Subject: RE: Nightmare Mortgages

I smell class-action!

Edward B. Highland, Jr
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Tel 212-438-1287
Fax 212-438-2662

From: Gutierrez, Michael
Sent: Friday, October 20, 2006 9:41 AM
To: Koch, Richard; Mackey, Robert; Frie, Steven; Highland, Edward

Pretty grim news as we suspected - note also the "mailing in the keys and walking away" epidemic has begun - I think things are going to get mighty ugly next year!

More Home Loans Go Sour --- Though New Data Show Rising Delinquencies, Lenders Continue to Loosen Mortgage Standards

By Ruth Simon
1,155 words
19 October 2006
The Wall Street Journal
D1
English

MORTGAGE lenders are making it easier to get loans even as the housing market cools -- and as the number of borrowers struggling to make their payments continues to rise, new studies show.

In the latest sign that a cooling housing market and weaker credit standards are beginning to take their toll on borrowers and lenders, the number of past-due mortgages continued to rise in the three months ended Sept. 30, according to data from Equifax Inc. and Moody's Economy.com Inc.

The increase is particularly notable because bad loans normally climb when the economy weakens and job losses rise, leaving more borrowers unable to make their monthly payments. By contrast, the latest increase appears to be more closely tied to looser lending standards, borrowers tapping their equity and slowing home-price growth.

"We're seeing rises in delinquencies and loan losses that are unrelated to what's going on in the job market," says Mark Zandi, chief economist of Moody's Economy.com. "It's very unusual."

Some 2.33% of mortgages were delinquent at the end of the third quarter, the highest level since 2003, according to Equifax and Moody's Economy.com. Among the areas that saw the biggest jump in the delinquency rate since the end of last year were Stockton and Merced, Calif., and Las Vegas-Paradise, Nev. Delinquency rates were highest in McAllen-Edinburg-Mission, Texas; Brownsville-Harlingen, Texas; and Detroit-Livonia-Dearborn, Mich.

A separate report released yesterday by the federal Office of the Comptroller of the Currency found that lenders continued to ease credit standards over the past year.

To be sure, mortgage delinquencies have been at low levels in recent years, and the recent uptick only brings them closer to historical averages. The seasonally adjusted mortgage-delinquency rate reached its most-recent peak of 2.53% in the first quarter of 2002, according to Equifax and Moody's Economy.com.

The latest news comes amid increasing concerns that lenders have been loosening their standards in an effort to boost loan volume as refinancings and home purchases wane. In a speech to the American Bankers Association this week, Comptroller of the Currency John Dugan noted that bank regulators have seen a "significant easing" of mortgage lending standards this year, even though banks normally tighten standards when the housing market cools. "We don't want to see the lending decisions bankers make today result in excessive foreclosures -- and reduced affordable housing credit -- tomorrow," he said.

The Comptroller's report found that competitive pressures are driving many banks to further loosen their credit standards. More than one-third of the lenders relaxed their standards for home-equity loans in the 12 months ended this March, according to bank examiners, while less than 5% tightened their standards.

Over the same period, 26% eased their mortgage-lending standards, most often by increasing the use of nontraditional mortgage products. These include loans that allow borrowers to pay interest and no principal in the early years or make a minimum payment that can lead to a rising loan balance. Yesterday, regulators released a booklet designed to help consumers understand these exotic mortgage products.

"We have reason to believe that the amount of easing we saw back in March is continuing," says Kathryn Dick, deputy comptroller for credit and market risk at the OCC. Federal bank regulators have been stepping up their scrutiny of residential mortgage lending by large banks, she says, with a particular focus on banks that lend heavily in cooling housing markets.

There are signs that some lenders are beginning to pull back. Last week, New Century Financial Corp. said it would begin tightening lending guidelines for adjustable-rate mortgages sold to "at-risk" borrowers. The company also said it would offer the option of refinancing into a low-fee 30-year or 40-year fixed-rate mortgage to certain borrowers with adjustable-rate or interest-only loans held by the company.

Agencies that counsel homeowners with mortgage problems say that many borrowers are running into problems because of the terms of their loans, not their personal circumstances. "It's mostly people with adjustables" who are having trouble paying their loans, says Pam Canada, executive director of the NeighborWorks HomeOwnership Center in Sacramento, Calif.

David M. Crosby, a Las Vegas bankruptcy attorney, says he has seen a "surge" in borrowers with mortgage problems. "Most of it is [tied to] the end of the housing boom, but I do see a good percentage of clients who got caught by a change in their mortgage rates." In addition, some clients "bought a number of speculative homes," he says. "The market turned on them, and now they are in a real financial mess."

Some homeowners are calling it quits. "A surprising number of people are walking away from their homes rather than trying to save them," says Mr. Crosby, either because the rate on their loan has jumped or because they owe more than the home is worth.

While the number of bad loans remains manageable, higher loan losses could force lenders to cut back on credit, making it more difficult for some borrowers to get a loan. A spike in foreclosures could also help push home prices downward in some markets if lenders were forced to sell significant numbers of homes at a loss.

Absent a recession and job losses, the rise in delinquencies is unlikely to have an impact on the national economy, says Doug Duncan, chief economist of the Mortgage Bankers Association. But an increase in bad loans could hurt some local housing markets, "especially if you see home price declines," he says.

An analysis by Moody's Economy.com found that a weak economy -- as measured by payroll growth -- was the driving factor in less than one-quarter of the metro areas with large increases in delinquencies. Instead, the rise in bad loans was more closely correlated with "mortgage equity withdrawal," a measure of how much cash homeowners have pulled out by refinancing, taking out home-equity loans or selling their homes and pocketing some of the profits, the study found.

Other factors included slowing home-price growth and a high proportion of loans given to borrowers with scuffed credit. The study was based on an analysis of credit records and included late payments on mortgages and home-equity loans and lines of credit.

Michael Gutierrez
Director
Standard & Poor's
Structured Finance
Servicer Evaluations
55 Water Street, 41st Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2664

From: Warner, Ernestine
Sent: Thursday, October 26, 2006 1:30 PM
To: Pollsen, Robert
Subject: RE: Home Prices Keep Sliding; Buyers Sit Tight - Wall Street Journal - 10/26/2006
bob, just curious...are there ever any positive repots on the housing market? I think this information need to be balanced with other view points (my general feeling).

Ernestine

-----Original Message-----
From: Pollsen, Robert
Sent: Thursday, October 26, 2006 10:11 AM
To: Agbabiaka, Taoheed; Avant-Koger, Paula; Clarke, Lisa; Consul, Manish; Davey, Scott; Giudici, Andrew; Graffeo, Michael; Joyce, Kristymarie; Kim, Min; Mahabir, Lal; Rao, Asha; Ren, Chuye; Rivera, Jessica; Rivera, John; Warner, Ernestine; Young, Steven
Cc: Albergo, Leslie; Kostiw, Karen; Mcdermott, Gail; Osterweil, Terry; Stock, Michael; Tencer, Steve; Warrack, Thomas
Subject: Home Prices Keep Sliding; Buyers Sit Tight - Wall Street Journal - 10/26/2006

Home Prices Keep Sliding; Buyers Sit Tight

August and September Declines
Were Largest in at Least 38 Years;
Yanking a Listing in Naples, Fla.

By JAMES R. HAGERTY
October 26, 2006; Page D1

The air continues to seep out of the U.S. housing market, according to the latest data, and some economists are warning that prices will keep declining through much of 2007.

The National Association of Realtors yesterday reported the biggest drop in home prices since the trade group began compiling price data in 1968. Specifically, the association said the median price for home sales completed in September was $220,000, down 2.2% from a year earlier. That matched a revised 2.2% decline in August. In addition to being the largest price drops in at least 38 years, the back-to-back declines are the first time median home prices have fallen since 1995.

Other data gathered by The Wall Street Journal show large inventories of unsold homes and declining price trends in most major metropolitan areas.

BUYER'S MARKET

* National median home price falls 2.2%.
* Prices fall 7.7% in Massachusetts and 4.8% in Phoenix.
* Inventories decline less than usual in September.
* Seattle shows signs of losing steam.

See details on where 27 major housing markets are headed.

Permanent Subcommittee on Investigations
EXHIBIT #48

"Housing is still contracting," says Gregory Miller, chief economist at SunTrust Banks Inc. in Atlanta. "We haven't yet found the bottom." Mr. Miller doesn't expect house prices to resume their usual rising trend until 2008.

The latest report is likely to encourage many potential buyers to hold off in the hope of further price declines. "There's no rush," says Robert Cook, a procurement manager living in Whitehall, Pa., who is looking to buy a larger home for his family in Pennsylvania's Lehigh Valley.

Rather than slash their prices, some sellers are taking homes off the market until they see stronger demand. Audrey Heckaman, a pharmaceutical sales representative in Cleveland, bought a new condo in a golfing community in Naples, Fla., in 2004 for $221,000. Early this year, she put it on the market for $429,000. But she found that too many other units in the same development were on the market. After cutting her price to $384,000, she yanked the home from the market in June and found renters for part of the year. In the long run, she figures, demand from retiring baby boomers will drive prices back up.

For those who want to buy now, sellers are dangling lots of incentives. A developer in Dadeland, Fla., near Miami, is offering $5,000 of furniture as an inducement for buyers of new condominiums, says Ronald A. Shuffield, president of the brokerage firm Esslinger-Wooten-Maxwell Inc. Other developers offer to pay some of the fees and other costs usually borne by home purchasers.

Some people who are forced to sell quickly are suffering huge losses. At an auction in Naples last weekend, the highest bid for a three-bedroom lakefront house was $440,000, including commissions and auction fees. The house had sold in July 2005 for $690,000.

Despite the recent drop-off, house prices remain far above the levels of five years ago, and they continue to rise in some areas, including Seattle, Houston and Raleigh, N.C. But they are falling sharply in other places. In Massachusetts, the median price for single-family homes in September was down 8.3% from a year before, according to Warren Group Inc., a publisher and data collector in Boston. In Phoenix, the median price dropped 4.8% in September, the local Realtors association reported.

In some areas, prices are only just beginning to fall back toward realistic levels, says Thomas Lawler, a housing economist in Vienna, Va. He believes that prices could fall more than 10% from their peak levels in markets such as Sacramento, Calif.; San Diego; Las Vegas; Reno, Nev.; Phoenix and parts of northern Virginia and Florida.

Nationwide, sales of previously occupied homes in September were at a seasonally adjusted annual rate of 6.2 million, down 1.9% from August and 14% from a year earlier, the Realtors group reported.

In a mildly positive sign for home sellers, the number of homes listed for sale at the end of September declined 2.4% from a month earlier to 3.75 million. But that was smaller than the usual decline in September, when the resumption of school and the approach of the holidays typically begin to reduce the number of for-sale signs. Over the past decade, inventories of home sales have declined an average of 3.6% in September from the previous month.

Inventories in September were up about 35% from a year earlier. A surge in inventories, fueled partly by investors rushing for the exits, began chilling the housing market in mid-2005 after a five-year boom that more than doubled prices in many areas.

Despite the spreading weakness in house prices, few experts expect anything approaching a collapse. The economy continues to expand, though at a slower rate, and a recent drop in interest rates helps make mortgage costs more affordable.

To gauge residential real-estate prospects for 27 major metro areas, The Wall Street Journal gathered data on inventories of homes for sale at the end of the second quarter from a variety of local sources; pricing trends based on surveys of real-estate agents by Daniel Oppenheim, an analyst at Banc of America Securities in New York, a unit of Bank of America Corp.; and data on late mortgage payments and job-creation prospects from Moody's Economy.com, a research firm in West Chester, Pa. Employment trends tend to drive demand for housing.

Metropolitan areas with large increases in homes on the market and weak job-growth projections include Detroit, New York and Los Angeles. Inventories have more than doubled from a year earlier in the Miami, Orlando, Tampa and Phoenix metro areas, but strong job and population growth should help to soak up excess supply in the next few years.

Even within metro areas, price trends vary considerably depending on neighborhoods and types of housing. In northern New Jersey, for instance, prices for homes below about $400,000 may start rising again slightly by next spring if interest rates remain around current levels, says Jeffrey Otteau, president of Otteau Valuation Group Inc., an appraisal and research firm in East Brunswick, N.J. At that price level, "there's virtually zero construction," he says. But he says there is such a glut of luxury housing in the area that prices of such homes won't recover before 2008.

Tom Doyle, an agent at Naples Realty Services who compiles market data on his Web site (www.naplesinsider.com), estimates that prices for typical homes in the area are down 15% to 20% from their peak a year ago. Inventory has doubled during that time, but many of the homes on the market are priced so high that they have "only a lottery's chance of selling," he says. Looking ahead to this winter's selling season, Mr. Doyle says he expects prices to be flat to lower because of the large supply of homes for sale.

Where Housing Is Headed

A look at fundamental indicators in 27 major real-estate markets.

METRO AREA/RECENT PRICE TREND[1]		RISE IN HOUSING INVENTORY[2]	EMPLOYMENT OUTLOOK[3]	LOAN PAYMENTS OVERDUE[4]	METRO AREA/RECENT PRICE TREND[1]		RISE IN HOUSING INVENTORY[2]	EMPLOYMENT OUTLOOK[3]	LOAN PAYMENTS OVERDUE[4]
Atlanta	▼	19%	Average	3.83%	**New York**	▼	47%	Weak	2.22%
Boston	NA	22	Weak	2.20	**Orange Cty., Calif.**	NA	134	Average	1.36
Charlotte	▲	NA	Strong	3.36	**Orlando**	▼	133	Very strong	2.20
Chicago	▼	51	Average	2.30	**Philadephia**	▼	34	Weak	2.19
Dallas	▼	13	Very strong	3.90	**Phoenix**	▼	146	Very strong	1.48
Denver	▼	16	Strong	2.74	**Raleigh-Durham**	▲	9	Strong	2.16
Detroit	▼	38	Very weak	3.94	**Sacramento**	▼	47	Average	2.03
Houston	▲	5	Very strong	2.92	**St. Louis**	NA	31	Weak	2.83
Jacksonville	▼	96	Strong	2.43	**San Diego**	▼	52	Average	1.88
Las Vegas	▼	66	Very strong	3.15	**San Francisco**	▼	63	Average	1.11
Los Angeles	▼	121	Weak	1.61	**Seattle**	—	37	Strong	1.36
Miami	▼	177	Strong	2.38	**Tampa**	▼	219	Strong	2.28
Minneapolis	▼	27	Average	2.33	**Washington, D.C.**	▼	69	Average	1.56
Nashville	—	29	Average	3.23					

Note: NA–not available

[1] Price trend compared with prior month, based on a September survey of real estate agents by Banc of America Securities.

Seattle has been one of the strongest markets in recent months but is showing signs of losing s steam as inventories of unsold homes rise. In 17 counties of western and central Washington St covered by the Northwest Multiple Listing Service, the median price in September was up 9.4% a year earlier, the first single-digit increase in two years.

Mike Skahen, owner of real-estate brokerage Lake & Co. in Seattle, says inventory is still lean ir good neighborhoods near the area's biggest employers. But the overall market is slowing to a m normal pace as "buyers are feeling they can be more selective."

Houston's market is benefiting from job growth at energy and technology companies and draws newcomers because of its low home prices. The median price in the second quarter was $152,7 compared with a national median of $227,500, according to the National Association of Realtors

In North Carolina, Charlotte, Raleigh and some other areas have been strong lately as moderate weather and relatively low housing costs attract employers and retirees. Pat Riley, president of / Tate Realtors in Charlotte, has noticed increasing numbers of people moving to North Carolina f Florida to flee congestion and high housing and insurance costs. One hitch: Some people movir Charlotte are having trouble selling their homes elsewhere and so are delaying purchases.

The median price of new and previously occupied homes sold in the eight-county Charlotte regi was $182,000 in the third quarter, up 6% from a year earlier, according to Market Opportunity Research Enterprises, a research firm in Rocky Mount, N.C. But the Charlotte market may be starting to cool a bit. The Charlotte Regional Realtors Association reported that home sales in September slipped 2% from a year earlier, while the average price edged down 0.2%.

The California Association of Realtors last week forecast that the median home price in the state slip 2% to $550,000 in 2007, after rising 7% in 2006 and 16% in 2005. That would mark the first California-wide decline since 1996. California's last house-price slump lasted from 1992 through 1996.

Leslie Appleton-Young, the California Realtors' chief economist, says she doesn't expect the cu downturn to be as severe as the one in the 1990s because she thinks the job market will be hea this time. Many people don't need to sell and will withdraw their homes from the market until der recovers, she says. Still, she adds, some investors who bought near the top and took on too mu debt "are going to get into trouble."

---- Michael Corkery contributed to this

Write to James R. Hagerty at bob.hagerty@wsj.com

From: Highland, Edward
Sent: Tuesday, February 27, 2007 4:52 PM
To: Gutierrez, Michael; Koch, Richard
Cc: Frie, Steven; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Agree. Also remember, our data is the aggregrate and most of the deals alledgely have better (cough, cough) subprime loans. Therefore, would the cure rate for the "better loans" be greater? Hummm. Something to dr/th-ink about or both.

From: Gutierrez, Michael
Sent: Tuesday, February 27, 2007 4:45 PM
To: Highland, Edward; Koch, Richard
Cc: Frie, Steven; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Ed:

I'm just thinking if they are assuming 100% of foreclosures go REO and we know from SEAM data that 40% foreclosures on average cure and go back to performing it seems odd that S&P would still use the incorrect assumptions in running cashflows - I would scratch my head as an investor

-----Original Message-----

From: Highland, Edward
Sent: Tuesday, February 27, 2007 2:11 PM
To: Koch, Richard; Gutierrez, Michael
Cc: Frie, Steven; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Ern, I believe, is looking for seasoned and transaction data. I agree that they can obtain aggregate trending; however, I don't believe that will help them with deal projections.

Ed

From: Koch, Richard
Sent: Tuesday, February 27, 2007 2:06 PM
To: Gutierrez, Michael
Cc: Frie, Steven; Highland, Edward; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Perhaps we should give Bob and Ern a general user password for web-SEAM and a tutorial. I think the problem with web-SEAM for them is that the data is aggregate, as Ern pointed out in an earlier e-mail, but as Mike points out they can use the data for trending; I don't mind giving them access to the system...your thoughts....

-----Original Message-----

From: Highland, Edward
Sent: Tuesday, February 27, 2007 1:22 PM
To: Mackey, Robert; Gutierrez, Michael
Cc: Koch, Richard; Frie, Steven
Subject: RE: Data sharing between surveillance and servicer evaluations

I believe the deal docs should disclose the loan level data Surveillance is to receive for each securitization transaction. Surveillance should provide the protocol and data element format as well as timelines so that servicers know what they need to do. With the number different servicing systems used and non-standard transaction codes attempting to compile and correlate data files is daunting.

Ed

From: Mackey, Robert
Sent: Tuesday, February 27, 2007 11:13 AM
To: Gutierrez, Michael
Cc: Koch, Richard; Highland, Edward; Frie, Steven
Subject: RE: Data sharing between surveillance and servicer evaluations

Mike - as I have previously mentioned I think it's important for us to make sure relevant data we receive from our servicers is shared with rmbs surveillance. In particular, the data operational/practical data we receive that should be applied to their analyses, like delinquency trends, forbearance cures, recidivism rates, foreclosure cures, foreclosure timelines, REO liquidation data and timelines, and overall loss rates. I would invite rmbs staff to learn what SEAM is and how they can apply what we get directly from the servicers. It wouldn't be good if rendered opinions/assumptions issued by surveillance differ from data we collect.

-----Original Message-----
From: Gutierrez, Michael
Sent: Tuesday, February 27, 2007 10:34 AM
To: Warner, Ernestine; Chun, Roy; Anderberg, Stephen; Coyne, Patrick; D'Erchia, Peter; Hobbs, Rodney; Thompson, Eric

Cc: Koch, Richard; Frie, Steven; Mackey, Robert; Highland, Edward
Subject: RE: Data sharing between surveillance and servicer evaluations

Yes Ern we will continue working with you and Andrew to see if we have any success getting the LEVELS format data from servicers on your deals -I believe we tried with an initial number of companies with little or no success - we can meet on this again and determine nest steps.

In addition however you may be able to use some of the info we get from SEAM to incorporate in some of your assumptions - for instance if our subprime average marketing time is 120 days you can adjust your liquidation time estimate of 180 days accordingly. Also if we know the average foreclosure cure rate for all suborime and prime servicers we can adjust the assumption that all foreclosures go into REO - unless these assumptions are absolute worst possible case scenarios and not meant to reflect industry activity per se

Mike

-----Original Message-----
From: Warner, Ernestine
Sent: Monday, February 26, 2007 6:04 PM
To: Chun, Roy; Anderberg, Stephen; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Hobbs, Rodney; Thompson, Eric

Subject: RE: Data sharing between surveillance and servicer evaluations

There are a few items I would like to see reported by the servicers. Since SEAM data is report in the aggregate it is not very useful to me. I need data at the individual pool level (if not loan level). Mike the data fields are in the Levels File Format for RMBS Surveillance that I sent to you and Steve Frie in the past. I will convert the data fields to bullets and share them with the group. Receiving this data would make it possible for us to more accurately project losses on these appreciating assets (well let's hope this continues to be the case).

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Wednesday, February 21, 2007 5:01 PM
To: Anderberg, Stephen; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Hobbs, Rodney; Thompson, Eric; Warner, Ernestine

Subject: Data sharing between surveillance and servicer evaluations

Dear all, as part of the requirements gathering let me know if you have any data needs between surveillance and servicer evaluations.

These can be some bullet point thoughts about what information you want from the other. If some reports already exists please provide a copy.

Mike, when reviewing a servicer what info would you like from surveillance to help in your assessment.

For Ernestine, Patrick and Eric, when reviewing a deal what info would you like from SE? What other info would you like or need from SE for any research report? We already have alert requirements captured for when SE takes a action that impacts a servicer on SF deals.

Stephen, anything you want from CDO manager focus group and they want from you?

Please provide feedback by March 1st.

Thank you

Roy

Roy L. Chun
Managing Director
Standard & Poor's
55 Water Street
New York, NY 10041
tel: 212-438-2430
fax: 212-438-2662
e-mail: roy_chun@sandp.com

From: Giudici, Andrew
Sent: Monday, March 05, 2007 9:31 AM
To: Quinn, William
Cc: Mason, Scott; Warner, Ernestine
Subject: RE: Subprime Vintage Comparison

Bill, We need to make a change to the paragraph below.

2006 Deals May Be Worst Performing In Recent History
The number of ~~T~~total and serious delinquencies for the 2006 vintage ~~are~~ is consistently higher than the more recent vintages. However, ~~the serious delinquencies (90-plus-days, foreclosure, and REO)2006 deals nearly equal to the 6.0% delinquencies reported for the 2000 vintage after just 12 months of performance~~ the loans in the transactions issued in 2006 have nearly the same level of serious delinquencies after just 12 months of performance as those in the 2000 vintage, which had 6% in serious delinquencies after one year of performance. (Bill, The statement above is no longer true. I think we should take it out and combine the first sentence with the paragraph below.)

Chart 1 contains delinquency information for ~~each~~ the 2000-2006 vintages ~~in~~ at six- and 12-month intervals. After 12 months of seasoning, the 2006 vintage had approximately 13% in total delinquencies, with 6.65% categorized as seriously delinquent. Comparatively, after one year of performance, ~~D~~delinquencies for the 2006 vintage ~~have increased by~~were approximately 13%, 14%, 59%, 94%, 95%, and 41% higher ~~when compared with~~ than those~~e~~ for the 2000-2005 vintages, respectively. In addition, serious delinquencies in the 2006 transactions have increased ~~by~~ approximately 11%, 22%, 73%, 105%, 113%, and 43% faster than those ~~when compared with~~in the 2000-2005 vintages, respectively (see chart 2).

Please let me know if you have any questions.

Thanks,

Andrew

-----Original Message-----
From: Mason, Scott
Sent: Monday, March 05, 2007 7:56 AM
To: Giudici, Andrew
Subject: FW: Subprime Vintage Comparison

FYI

-----Original Message-----
From: Quinn, William
Sent: Friday, March 02, 2007 6:51 PM
To: Mason, Scott
Cc: Bessenoff, Arlene; Warner, Ernestine
Subject: RE: Subprime Vintage Comparison

Scott -

Permanent Subcommittee on Investigations
EXHIBIT #50

I'm sending you my edits for the 2000 vs. 2006 subprime article.
I've attached 2 versions {1 is tracked, and the other is clean, which is easier to read}

The reason for this: This is a huge topic and your research will get a ton of market exposure/coverage. Given the topic and market relevance, we, as editors, have been asked to raise the bar a little in terms of how material flows and reads. I don't believe I did anything that changed any meaning, but I did try to enhance with some clearer language and added transitions. I also tried to provide more information in your sub-heads and headlines.

We can certainly discuss, and I certainly am only trying to help. Feel free to reject anything I've done that damages/changes meaning or you don't feel is appropriate. {I've cc'd Ernestine Warner because she is working on a separate article on subprime.}

Hope this helps.

Best,

Bill Quinn
SF Editorial
Ext. 37504

<< File: Subprime vintage comparison--BQ1.doc >> << File: Subprime vintage comparison--BQ1clean.doc >>

From: Bessenoff, Arlene
Sent: Friday, March 02, 2007 10:42 AM
To: Quinn, William; Mason, Scott
Cc: Schneider, Michael
Subject: FW: Subprime Vintage Comparison
Importance: High

I am out of the office, but did check in to see e-mails. With this message, I am asking Bill Quinn to assign this article, if it has not already been assigned. Scott, I am concerned that, to my knowledge, we had no advance notice of a piece this size (and priority), especially since we were all in contact with you about the LEVELS article during the week. Going forward, we need advance notice.

Once we assign, we will let you know a reasonable time for editing and publishing, keeping in mind that you would like to get this out soon.

Thank you!

Arlene

From: Mason, Scott
Sent: Friday, March 02, 2007 7:24 AM
To: Bessenoff, Arlene; Schneider, Michael
Subject: Subprime Vintage Comparison

Hi Arlene and Michael:

Here is another article we would like to have published ASAP. It is a comparison of the 2006 vintage of subprime loans with prior vintages. Please let me know what we can do to help. Thanks.

<< File: 2000 and 2006 Subprime Vintage Comparison 3-2-07 v1.doc >>

M. Scott Mason
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scott_mason@sandp.com

From: Rajan, KP
Sent: Friday, March 09, 2007 11:37 AM
To: Kobylinski, Jimmy; Anderberg, Stephen; Muthukrishnan, Ramki
Subject: RE: The Mortgage Mess Spreads; The subprime lending industry is getting hammered, and hedge funds and investment banks are feeling the pain

Thanks Jimmy.

This is like watching a hurricane from FL moving up the coast slowly towards us.

Not sure if we will get hit in full or get trounced a bit or escape without severe damage...

-----Original Message-----
From: Kobylinski, Jimmy
Sent: Friday, March 09, 2007 11:04 AM
To: Anderberg, Stephen; Carrington, Chwan-Jye; Cullen, Brian; Davis, Chris; Hu, Daniel; Joy, Samson; Lewison, Martin; Muthukrishnan, Ramki; Rajan, KP; Scanlin, Kate; Shah, Niyati; Stewart, Ian; Subramanian, Jayashree; Walsh, Tim; Zhang, Jennifer (Lei)

Subject: The Mortgage Mess Spreads; The subprime lending industry is getting hammered, and hedge funds and investment banks are feeling the pain

The Mortgage Mess Spreads; The subprime lending industry is getting hammered, and hedge funds and investment banks are feeling the pain

Mara Der Hovanesian and Matthew Goldstein
1,211 words
8 March 2007
BusinessWeek Online
English

The canaries in the coal mine are keeling over fast. After years of easy profits, the $1.3 trillion subprime mortgage industry has taken a violent turn: At least 25 subprime lenders, which issue mortgages to borrowers with poor credit histories, have exited the business, declared bankruptcy, announced significant losses, or put themselves up for sale. And that's just in the past few months.

Now there's evidence that the pain is spreading to a broad swath of hedge funds, commercial banks, and investment banks that buy, sell, repackage, and invest in risky subprime loans. According to Jim Grant of Grant's Interest Rate Observer, the market is starting to wake up to the magnitude of the problem, entering what he calls the "recognition stage." Says Terry Wakefield, head of the Wakefield Co., a mortgage industry consulting firm: "This is going to be a meltdown of unparalleled proportions. Billions will be lost."

Hedge funds, those freewheeling, lightly regulated investment pools, seem particularly vulnerable. BusinessWeek has learned that $700 million Carrington Capital and $3 billion Greenlight Capital may have gotten badly burned because of their intricate dealings with New Century Financial, a major subprime lender whose stock has plunged 84% in four weeks amid a Justice Dept. investigations into its accounting. Magnetar Capital, a $4 billion fund formed two years ago, may be on shaky ground, too. The question is, how many others may be suffering? "This is a very opaque industry, so no one really knows," says Mark M. Zandi, chief economist and co-founder of Moody's Economy.com (MCO) "My guess is that if you look at the top hedge funds, they're bearing most of the risk."

Bigger Losses

Not that big commercial and investment banks will go unscathed. Citigroup (C), HSBC (HBC), and Countrywide Financial (CFC) have boosted their estimates of losses and warned of credit troubles. Sanford C. Bernstein analyst Brad Hintz predicts that the subprime meltdown will result in earnings reductions for Bear Stearns (BSC), Lehman Brothers (LEH), Goldman Sachs (GS), Merrill Lynch (MER), and Morgan Stanley (MS).

Among hedge funds, Greenwich [Conn.]'s Carrington seems particularly vulnerable. Managed by ex-Citigroup banker Bruce M. Rose, the fund was launched in 2003 with $25 million in seed money from New Century, which owns about a 35% equity stake. Such an intimate tie between a lender and a hedge fund is highly unusual, say analysts. Carrington specializes in turning subprime mortgages into sophisticated bonds called collateralized debt obligations [CDOs] and selling them to other investors. Not surprisingly, New Century is one of Carrington's biggest suppliers, providing 17% of the loans in a recent deal. Another major supplier is Fremont General (FMT), which says it plans to exit the subprime business.

With Carrington on the verge of losing loans from two major providers, the fund, which counts Citigroup as an investor, seems to be in a bind. Rose says he expects the market for subprime loans to pick up again and is in talks with several lenders to buy mortgages. "We have no exposure to New Century as a corporate entity," he says. "Our deals have outperformed just about everything out there."

"Stress Scenario"

One clear loser is David Einhorn, manager of hedge fund Greenlight Capital, who made a big, ill-timed gamble on the subprime sector when he fought his way onto New Century's board last March. Greenlight, which regularly posts double-digit annual gains, is down about 2.5% on the year; its stake in New Century, valued at $109 million at the start of the year, has shrunk to $21 million. Einhorn's seat on New Century's board prohibited him from selling even as the lender warned that it would restate most of its 2006 earnings results and said federal prosecutors are investigating its accounting. Einhorn, through a spokeswoman, declined to comment.

Some on Wall Street point out that Magnetar showed bad timing, too, by entering the subprime arena last year just as the underwriting quality of subprime loans began to deteriorate rapidly [table]. For now, Magnetar isn't showing any outward signs of trouble. A person familiar with the fund says it took steps to minimize its exposure to the subprime market, and a Magnetar spokesman says the fund is doing well.

Other hedge funds that have feasted on mortgage-backed securities will be hit hard if rating agencies start downgrading them, as is widely expected. That would be likely to send their values plummeting. "This is indeed a stress scenario," says Glenn T. Costello, co-head of the residential MBS Group at Fitch Ratings. Kevin J. Kanouff, who heads bond surveillance for Clayton

Holdings (CLAY), a consulting firm for institutional investors, adds that "hedge funds are getting very nervous about their investments."

But those downgrades likely won't come right away. Observers say ratings agencies may rely on some models that don't fully account for the recent explosion in exotic mortgages, such as interest-only loans. Says Susan Barnes, managing director in the U.S. residential mortgage-backed securities group of Standard & Poor's, which, like BusinessWeek, is a unit of The McGraw-Hill Companies (MHP): "Our models are continually adjusted and enhanced." Adds Fitch's Costello: "There's a clear trend that we've expected higher and higher losses."

Commercial and investment banks have many tendrils in the mortgage business, too. They earned fat fees during the housing boom by packaging loans into pools and selling them to investors. That market is shrinking as subprime lenders and investors pull in their horns, leaving banks holding risky loans.

Up the Food Chain

There's also growing talk that many firms, in particular Goldman Sachs, incurred steep losses in trades based on the ABX subprime index. As market makers, the big banks were forced to take the other side of clients' short trades, or bets that the index would fall. When the index plunged 34% in the first 10 weeks of the year, the banks lost. Goldman, which reports first-quarter earnings on Mar. 13 and is a big player in the ABX market, declined to comment.

In another case of dreadful timing, Citigroup disclosed on Feb. 28 that it recently upped its stake in New Century to over 5%, adding some 1 million shares just weeks before New Century revealed the investigation by federal prosecutors. Citigroup declined to comment.

The biggest fear is that the trouble will move up the food chain. The same questionable lending practices that were used for subprime mortgages during the boom were also used for regular, or "prime," mortgages -- among them low or zero downpayments, loose loan-to-value ratios, and exotic mortgages with low up-front payments that balloon later.

While subprime loans accounted for 20% of mortgages originated last year, David Liu of UBS estimates that fully 40% of last year's loans are "showing a lot of signs of stress." Says Nouriel Roubini, economics professor at New York University's Stern School of Business: "The risk that prime borrowers will start to feel financial stress in 2007 cannot be underestimated."

From: wleroy [wleroy@e-afn.org]
Sent: Monday, March 19, 2007 4:53 PM
To: Gutierrez, Michael
Cc: 'wleroy'
Subject: RE: member firms reaction to troubled servicers
Give me few days and I will ring you...great idea! And Congrats!!!

Best regards,

William M. LeRoy, CEO
American Legal and Financial Network
Office: 480.575.8194
Cell: 480[redacted]
e-mail: wleroy@e-afn.org
Website: e-afn.org

▬ = Redacted by the Permanent Subcommittee on Investigations

"And God took a handful of southerly wind, blew his breath upon it, and created the horse." Bedouin legend.

From: Gutierrez, Michael [mailto:michael_gutierrez@standardandpoors.com]
Sent: Sunday, March 18, 2007 4:02 PM
To: wleroy@e-afn.org
Subject: member firms reaction to troubled servicers

William:

I was thinking about the New Century scenario where they may be short of funds and falling behind on paying service providers. Do you have any sense if your member firms, especially after the Mortgage Lenders Network fiasco, are taking a harder line on their policies regarding accounts receivable. What I 'm thinking about is the real possibility that (using them as an example only) attorney firms representing New Century start getting late payments or no payments on their billings and withdraw their representation of the company. This scenario would really disrupt servicing and increase loss severity for the mortgage backed securities in a previously unforeseen way. I recall during our last teleconference you mentioned that the firms burned by MLN had allowed accounts receivable to go beyond 60 days - I'm sure many of them will be doubly conservative this time (I trust you noted the Ohio Attorney general getting a TRO against initiating foreclosures, getting appraisals, proceeding with foreclosures, holding foreclosure sales or conducting eviction on foreclosed homes in the state of Ohio for any loans originated by New Century. He is supposedly seeking an injunction this coming week. Five other states are reported to be taking action this next week as well)

Any thoughts you have would be helpful. To give you a confidential tidbit among friends the subprime brou haha is reaching serious levels - tomorrow morning key members of the RMBS rating division are scheduled to make a presentation to Terry McGraw CEO of McGraw-Hill Companies and his executive committee on the entire subprime situation and how we rated the deals and are preparing to deal with the fallout (downgrades) Yours truly is not among the anointed for that dubious 15 minutes of fame.

PS: S&P finally realized servicing matters - I am officially a Managing Director as of April 1st

Hope you are feeling better and hope to hear from you soon

regards

Mike

Michael Gutierrez
Director
Standard & Poor's
Structured Finance
Servicer Evaluations
55 Water Street, 41st Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2664

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Structured Finance Ratings

Overview and Impact of the Residential Subprime Market

Monthly Review Meeting
March 19, 2007

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Agenda

Overview and Impact

Appendix

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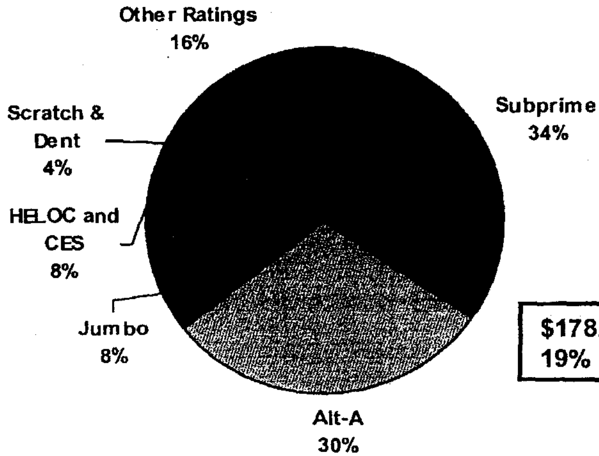
Presentation Overview

- The Subprime residential mortgage market is attracting considerable attention amid mounting delinquencies and defaults. In particular, Subprime originated in 2006 that has been out there for a year is experiencing more financial difficulties than loans from previous vintage years.
- Subprime issuance has been a significant and increasing component of mortgage lending in the last two to three years.
- Numerous Subprime lenders, such as New Century, are facing financial difficulties, while larger, more diversified firms, such as HSBC Holdings, have also been negatively impacted.
- S&P has been proactive in anticipating potential credit quality issues arising from the loosening in lending standards by increasing loss expectation and required credit support.
- It is still early, but there have been some 2006 vintage ratings put on CreditWatch... We expect losses to be only slightly worse than 2000 vintage ratings - the worst performing in recent history.
- In the 2007 Plan, we anticipated and continue to project a RMBS decline of 10% to 15% in 2007.
- S&P has an integrated surveillance process to ensure the ratings on rated RMBS bonds and CDO transactions reflect our most current credit view.
- There will be some impact to CDOs as RMBS has been a growing source of collateral. RMBS CreditWatch placements and downgrades undertaken during 2007 year to date have not yet led to any downgrades or CreditWatch placements on our CDO ratings. In the Plan, we forecast a slowdown in the rate of growth in CDO issuance vs. the very significant rate of growth experienced last year.

Market Overview: U.S. RMBS Gross Revenue and Issuance Profile

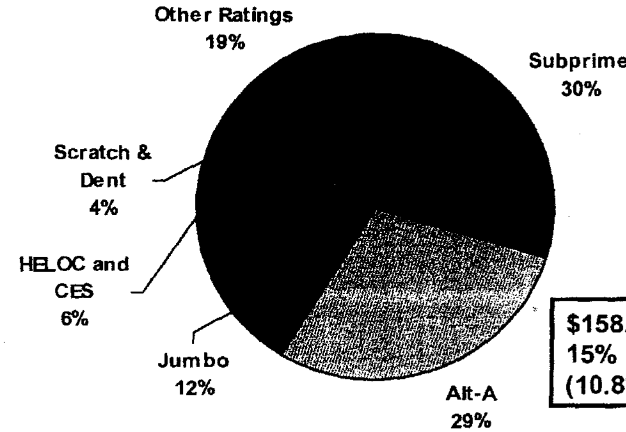
Gross Revenues

2006



$178.1M
19% of SF

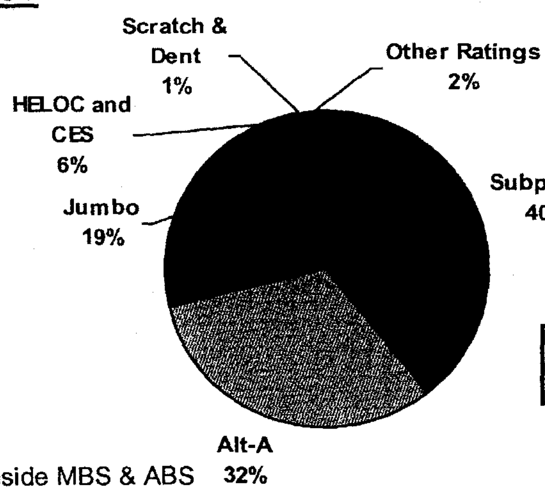
2007



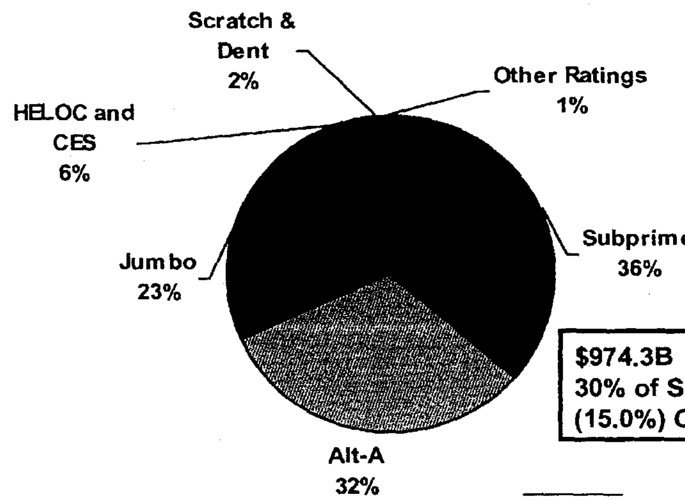
$158.9M
15% of SF
(10.8%) Chg vs. '06

Subprime | Alt-A | Jumbo | HELOC and CES | Scratch & Dent | Other Ratings

Issuance



$1,145.6B
38% of SF Mkt



$974.3B
30% of SF Mkt
(15.0%) Chg vs. '06

Source: Inside MBS & ABS

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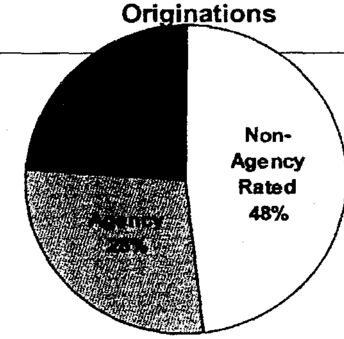
Market Overview: 2006 Originations and RMBS Issuance

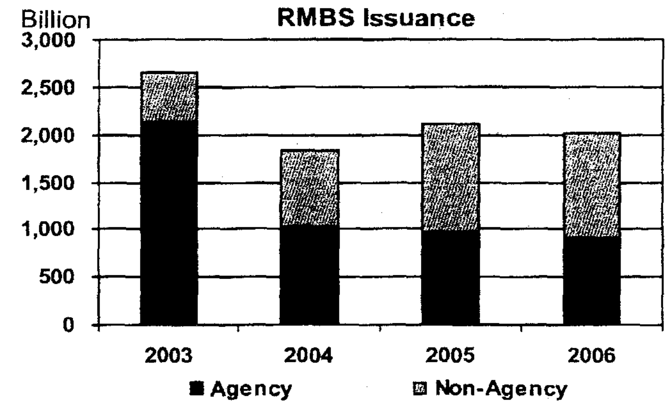
- **Mortgage Originations - $2.5 Trillion**
  - Subprime Originations - $600 Billion

    (70-75% of which is securitized and rated)

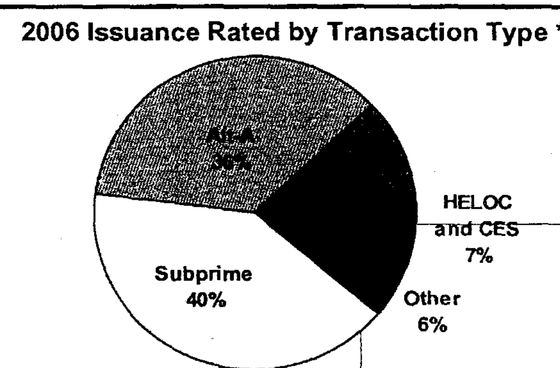
- **RMBS Issuance - $1.9 Trillion**
  - Non-Agency (Rated) Market - $1.2 Trillion
    - Subprime Issuance - $435 Billion or 36%
  - Agency (Freddie, Fannie and GNMA) Market - $0.7 Trillion

- **Other Non-Securitized Outstandings - $0.6 Trillion**
  - Held on balance sheet or in portfolio by financial institutions and privately financed generally through a base of retail deposits





Source: Inside MBS & ABS



* $1.1 trillion

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Market Overview: Top RMBS Subprime Issuers by S&P Revenue

Rank	Issuer	Issuance ($)	Revenue ($)	% of S&P RMBS Revenue
1	Lehman Brothers	41,466,271,000	4,953,000	2.8%
2	Merrill Lynch	25,299,551,323	4,514,900	2.6%
3	Countrywide	31,443,723,000	4,354,500	2.5%
4	Residential Funding	21,154,328,000	4,282,300	2.4%
5	Morgan Stanley	30,974,753,000	3,072,000	1.7%
6	JP Morgan Chase	19,007,026,000	2,800,000	1.6%
7	Washington Mutual	24,134,373,100	2,601,150	1.5%
8	Citigroup	16,152,194,000	2,459,000	1.4%
9	UBS Warburg	12,494,335,000	2,422,060	1.4%
10	RBS Greenwich Capital	19,726,766,000	2,397,000	1.4%

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Current Subprime Market Conditions

Challenging landscape for the residential Subprime mortgage market

- Lenders underwriting guidelines stretched too far
- Slowing home price appreciation ("HPA") rates
- Adjustable Rate Mortgage (ARM) Loans reset risk
  - Credit Component: Will borrowers be able to make larger payments?
  - Refinance activity may bolster origination volume
- Buyback of early payment defaults ("EPD") strain lenders' profitability
- Financial distress for some smaller players leads to consolidation; large lenders also grappling with loss reserves
- Underperformance of 2006 vintage loans
- Increased ratings transitions
  - CreditWatch, downgrade actions as a result of defaults.
- Steps being taken by S&P to help quantify risk

Current Subprime Market Conditions (cont'd)

2006 Underperformance and Lenders' Financial Strain

- **Primary reasons for early payment defaults**
  - Speculative buying behavior
  - Fraud
  - Predatory Lending?
  - First time homebuyers
  - Stated Income
  - High Combined Loan To Value (100%) – "Piggyback loans"
  - Limited Documentation

Conduits put back delinquent loans to their seller-originators … and cause financial hardship of originators

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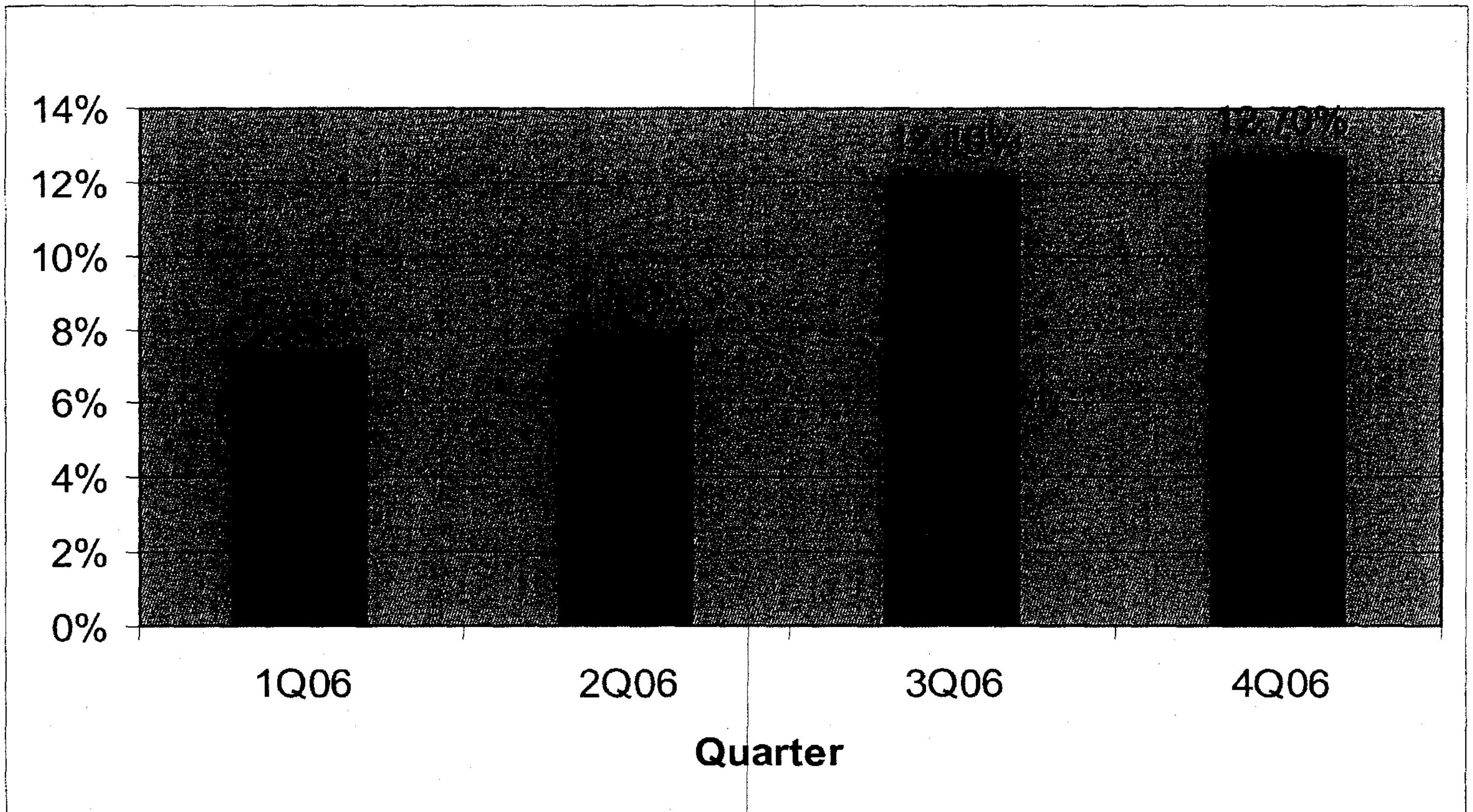
S&P Responds: Increasing Loss Expectation and Credit Support

'BBB' Subprime Loss Coverage Quarterly Averages 2006

In April 2006, S&P changed its credit support requirements which effectively increases the loss amount that transactions can experience prior to bond investors absorbing a shortfall in payments.



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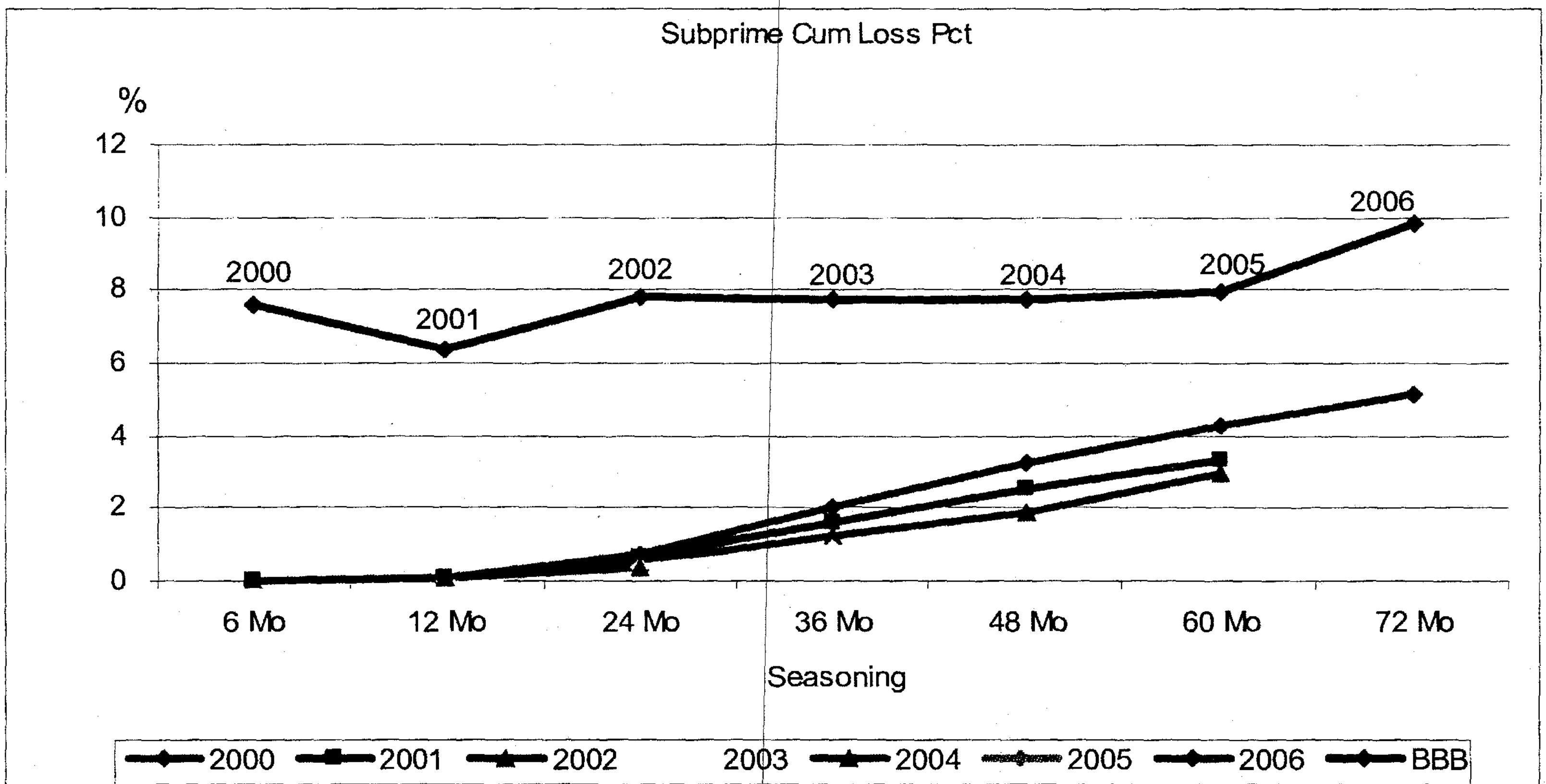
S&P Responds: Increasing Loss Expectation and Credit Support

Subprime loan performance declines but Subprime transactions have the benefit of higher enhancement levels. The black line represents forecasted losses modeled into BBB rated deals. The chart shows the average gap between losses experienced and losses forecasted.



Source: Standard & Poor's

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Ratings Process Overview

- Loan level collateral analysis (LEVELS Model)
  - Anticipating turn of credit cycle S&P enhances criteria
    - LEVELS 5.7 in May 2006.
    - LEVELS 6.0 in March 2007.
- Cashflow modeling the structure (SPIRE Model)
- Establishing credit support requirements
- Review of originator and servicer
- Legal and document review
- Fundamental Structured Finance analysis assumes originator bankruptcy
- Ongoing surveillance

RMBS Surveillance Process

- Heightened sensitivity around surveillance
  - Deals with high risk profiles are being flagged and scrutinized shortly after issuance.
- Constant dialogue with the marketplace
  - New ratings, servicer evaluation, and surveillance teams are working in close coordination with servicers and investors.
- Automated surveillance processes used to flag deals for increased scrutiny with out of the norm performance profiles.
- Isolating deals with collateral most identified with EPD in our surveillance analysis
  - First time homebuyers.
  - Stated income.
  - High CLTV piggyback loans.
- Increased analysis in cashflow modeling around alternative default curves
  - Front-loaded.
  - Back-ended, etc.

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Integrated Process for CDO and RMBS Surveillance

- Standard & Poor's has an integrated surveillance process to ensure the ratings on our rated RMBS bonds and CDO transactions reflect our most current credit view.
- CDO Surveillance is informed of RMBS Surveillance's current credit opinion and outlook for rated transactions.
- RMBS Surveillance is aware of RMBS exposure within Standard & Poor's rated CDO transactions.
- Prior to the release of RMBS rating action we are fully aware of any implications to our outstanding CDO ratings.

View on Exposure – Potential Losses to 2006 Subprime Vintage

- Using current loss projection of 5.25% - 7.75% for 2006 vintage deals; categorize transactions rated in the first half of 2006 into low, medium and high probability of default buckets.
- Medium risk tranches could be susceptible to rating transitions given a mild economic downturn.
- In comparison, the experience was 4.75% - 5.50% for 2000 vintage transactions.

Risk Profile of Subprime Deals from first half 2006	BBB-	BBB
Low Risk	73.25%	91.00%
Medium Risk	24.00%	7.50%
High Risk	2.75%	1.50%

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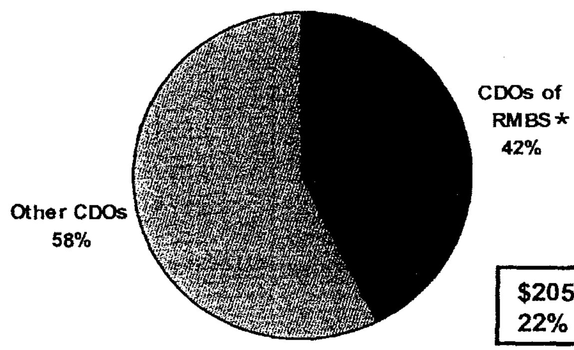
Impact of Subprime on CDOs

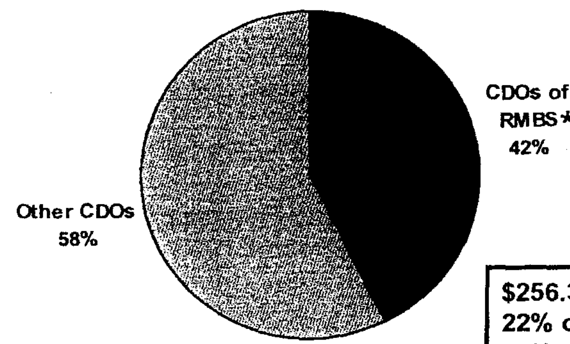
- RMBS has grown as a source of collateral for CDOs; 33% of U.S. CDOs of ABS rated by S&P in 2006 had either Subprime RMBS or CDOs of Subprime RMBS as their largest single category of collateral held.
- Of CDOs collateralized primarily by Subprime RMBS (including CDO^2 transactions collateralized by CDOs of RMBS), 32% of the transactions rated in 2006 held primarily senior ('AAA' through 'A' rated) Subprime RMBS tranche collateral and 68% held primarily mezzanine ('A' through 'BB' rated) collateral.
- Across different types of CDOs of ABS, Subprime RMBS far outranks all other types of SF as a collateral type, comprising 43% of total CDO of ABS assets by par value held (Q4 2006).
- RMBS CreditWatch placements and downgrades undertaken during 2007 year to date have not yet led to any downgrades or CreditWatch placements on our CDO ratings.
- However, earlier (2002 - 2004 vintage) RMBS transactions are seeing increased downgrade activity, and the notes from these RMBS transactions appear in the collateral pools of CDOs of ABS issued in 2005 and before.
- Currently, 35 U.S. CDOs have seen 1% or more of their RMBS collateral placed on CreditWatch negative or downgraded since January 1st, 2007.

Market Overview: U.S. CDO Revenue and Issuance Profile

Revenue — **2006** — **2007 Plan**



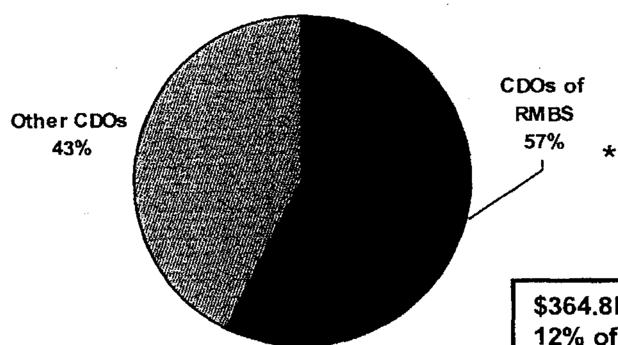
$205.0M
22% of SF



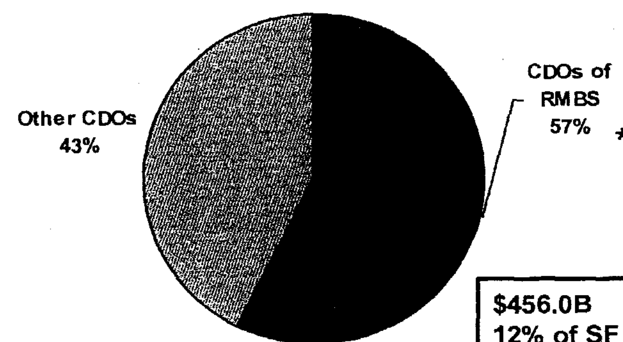
$256.3M
22% of SF
25% Chg vs. '06

CDOs of RMBS | Other CDOs

Issuance



$364.8B
12% of SF Mkt



$456.0B
12% of SF Mkt
25% Chg vs. '06

* *Estimate*

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2007 through 2008 Outlook

- Subprime downgrades will continue to increase moderately.
- Rate of future losses and ratings actions will be a function of macro-economy.
  - Home values, unemployment and interest rates.
- Interest rates will moderate.
- Loan originations and issuance will continue to decline.
- Credit spreads are widening due to Subprime and Alt-A concerns.
- Slower home appreciation will adversely impact home equity activity.
- Credit quality will deteriorate and defaults will rise – potential impact upon CDO market.
- CDO issuance of ABS will depend upon investor demand, and will most likely be lower than 2006.
- CDO issuance of corporate risk should remain strong, unless corporate credits experience problems.
- With the unemployment rate holding below the 5.0% mark and interest rates holding steady, RMBS should not decline sharply, despite the slowdown in housing.

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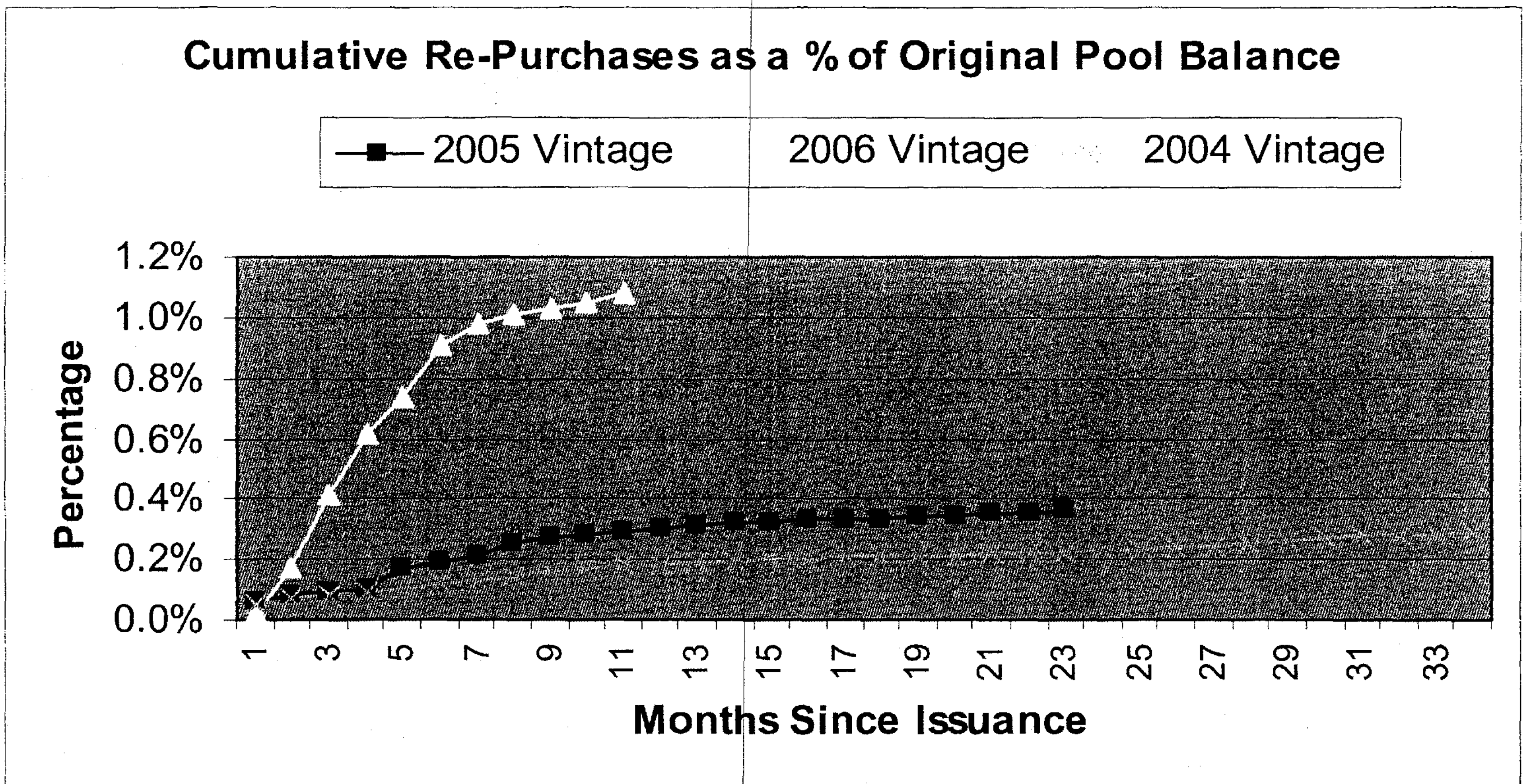
APPENDIX

EPD on the 2006 vintage are substantially above recent vintages



Source: Standard & Poor's

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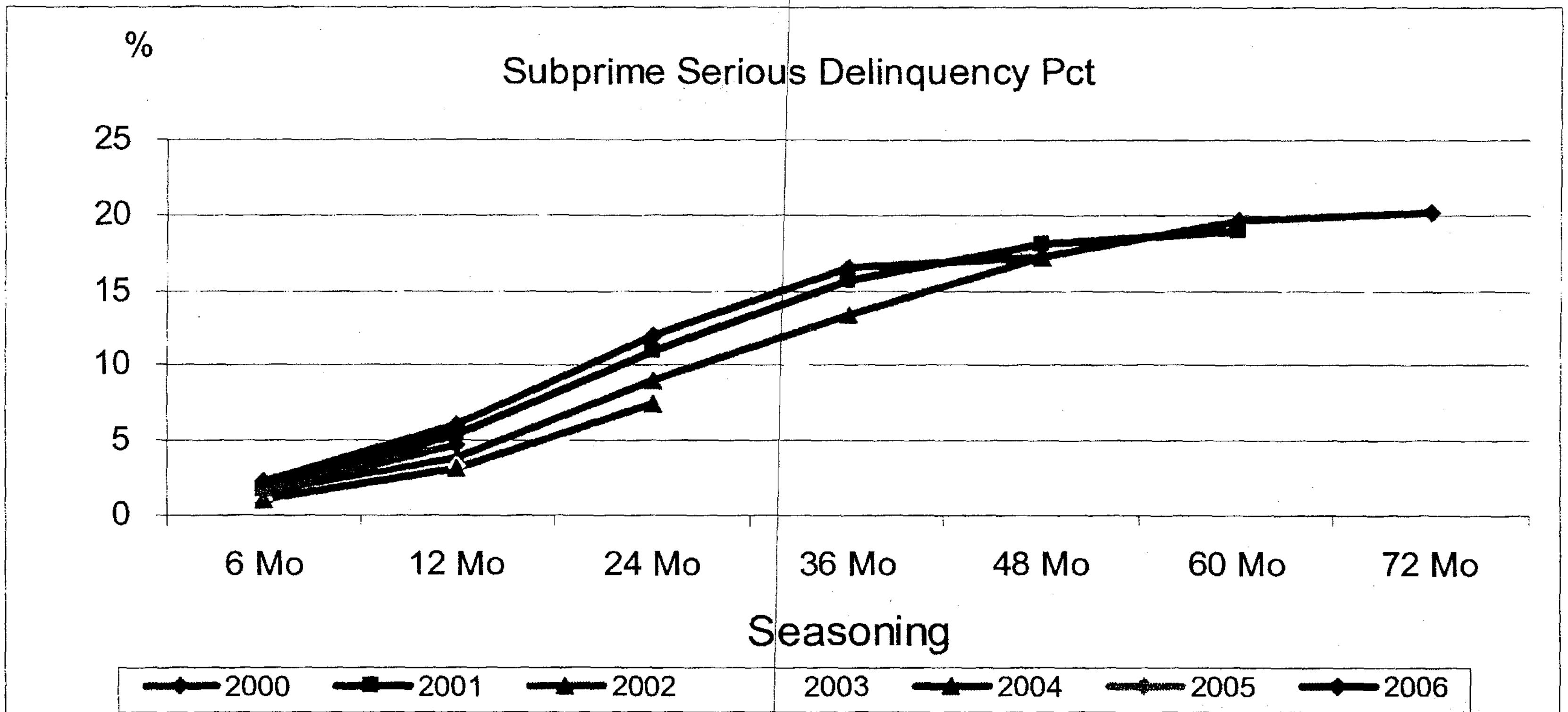
Subprime Delinquencies are rising fast



Source: Standard & Poor's

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Record 2006 Ratings Volume

SECTOR	DEALS RATED	% Of Deals	ISSUANCE RATED ($B)	% of Par
Subprime	446	26.6	$435.6	40.8
Alternative A	461	27.5	$384.4	36.0
Net Interest Margin	306	18.2	$10.8	1.0
Prime-Jumbo	162	9.7	$116.4	10.9
2^{nd} Liens	118	7.0	$70.4	6.6
Other	185	11.0	$49.2	4.6
Total	1,678	100.0	$1,066.8	100.0

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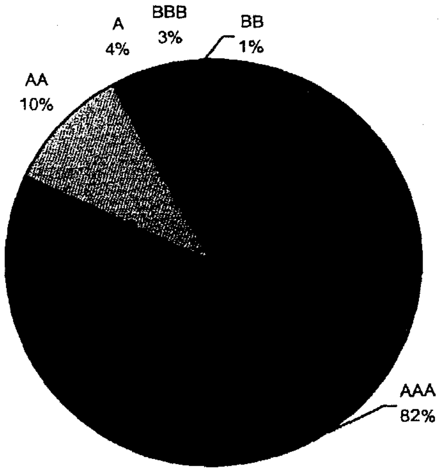
Subprime and Total RMBS Initial Ratings by $ Issuance

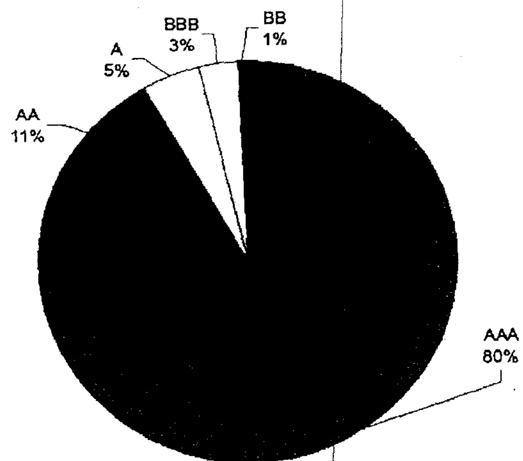
Subprime RMBS

2006 Vintage



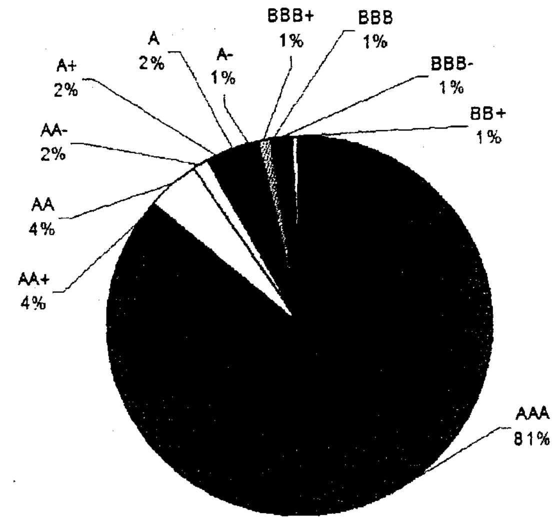
IG: 99.24%
NIG: 0.76%
Total: 4,480 Ratings

2005 Vintage



IG: 99.25%
NIG: 0.75%
Total: 4,736 Ratings

All 1978-2006 RMBS Ratings



IG: 99.24%
NIG: 0.76%
Total: 46,912 Ratings

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Summary of Recent Ratings Actions

	Collateral	Ratings Lowered	CreditWatch Placements
Terwin 2006-1	2nd Lien	1	0
Terwin 2006-HF1	2nd Lien	1	2
Terwin Mortgage Trust 2006-2HGS	2nd Lien	3	2
GSAMP Trust 2006-S3	2nd Lien	3	4
SG Mortgage Securities Trust 2006-FRE1	Subprime	0	2
MASTR Asset Backed Securities Trust 2006-FRE1	Subprime	0	1
MASTR Second Lien Trust 2006-1	2nd Lien	4	5
Terwin Mortgage Trust 2006-4SL	2nd Lien	1	1
Asset-Backed Certificates Trust 2006-IM1	Alt-A	0	1
Structured Asset Investment Loan Trust 2006-1	Subprime	0	2
Structured Asset Securities Corp 2006-BC1	Subprime	0	1
Structured Asset Investment Loan Trust 2006-2	Subprime	0	1
Structured Asset Investment Loan Trust 2006-BNC1	Subprime	0	1
Securitized Asset Backed Receivbles LLC Trust 2006-NC1	Subprime	0	1
Structured Asset Investment Loan Trust 2006-BNC2	Subprime	0	1
Terwin 2006-6	2nd Lien	3	4
Terwin 2006-8	2nd Lien	3	3
GSAMP Trust 2006-S5	2nd Lien	0	3
New Century 2006-S1	2nd Lien	0	2
GSAMP Trust 2006-S2	2nd Lien	0	0
SASCO 2006-OW1	Subprime	0	0
Fremont 2006-B	Subprime	0	0
Terwin Securitization Trust 2006-R2 (CONFIDENTIAL)	ReREMIC	1	0
Total		**20**	**37**

Source: Standard & Poor's RMBS Surveillance

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Subprime RMBS Is the Largest Collateral Type Found in CDOs of ABS

Top 10 Collateral Types Found in U.S. Cash Flow & Hybrid CDOs of ABS (Q4 2006)

#	Collateral Type	% of Total Assets
1	RMBS Subprime	43.1%
2	RMBS Alt-A	12.1%
3	CMBS Diversified	11.1%
4	Cash Flow CDOs	10.8%
5	RMBS Prime Jumbo	7.0%
6	RMBS Prime 2nd Lien	2.2%
7	Synthetic CDOs	3.1%
8	RMBS Outside Guidelines	1.5%
9	RMBS Re-performing Loan	1.4%
10	ABS Manufactured Housing	1.0%
	TOTAL	**93.2%**

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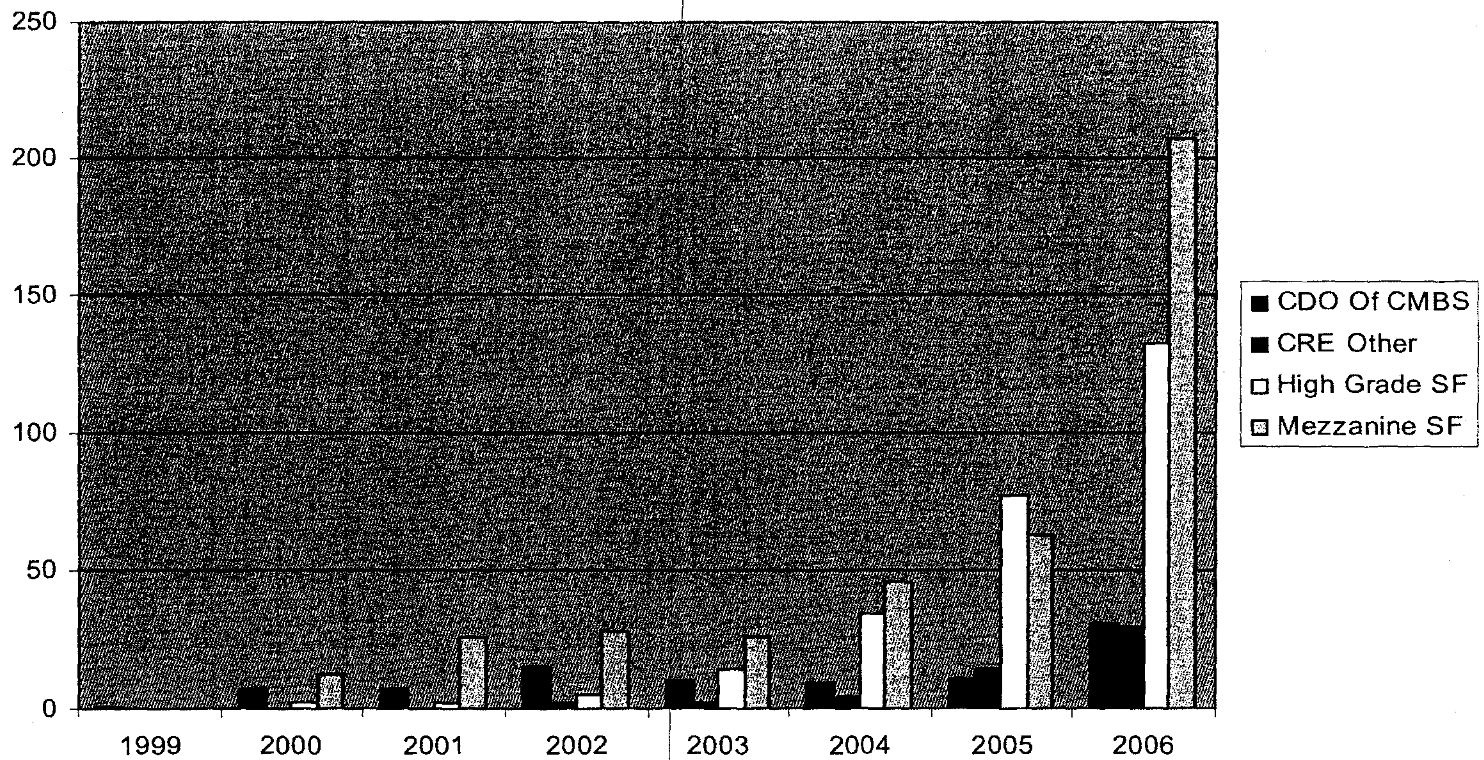
U.S. Cash, Hybrid & Synthetic CDOs of ABS by Sub-Type, 1999 - 2006

- **Mezzanine SF CDOs:** Collateralized primarily by mezzanine tranches of SF transactions; earlier vintage collateral pools were typically multi-sector ABS, but from 2002 onward these deals have been increasingly collateralized by RMBS securities
- **High-Grade SF CDOs:** Collateralized by senior tranches of SF transactions (i.e., tranches rated "AAA" through "A")
- **CDOs of CMBS:** Collateralized primarily by securitized CMBS assets (i.e., "CUSIP CMBS")
- **CRE CDOs:** Collateralized primarily by unsecuritized commercial real estate (whole loans, B-pieces, etc.)



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CDOs Have Increasingly Been Collateralized by RMBS Subprime

- Earlier vintage Mezzanine SF CDOs were collateralized by a wide variety of Structured Finance assets, but have become increasingly collateralized by Subprime RMBS
- For the 2006 vintage Mezzanine SF CDO transactions, more than 70% of the total collateral consists of mezzanine ('A' and 'BBB' rated) tranches of Subprime RMBS transactions
- Majority of Cash Flow and Hybrid CDO transactions are actively managed and typically incorporate a three year reinvestment period, so asset concentrations can migrate over time in deals that have already closed

Cash Flow & Hybrid Mezzanine SF CDOs of ABS: Exposure to Subprime RMBS Collateral by Cohort	
CDO Year of Origination	**Subprime RMBS Exposure**
2000 Mezz SF CDOs	**9.9%**
2001 Mezz SF CDOs	**11.3%**
2002 Mezz SF CDOs	**24.4%**
2003 Mezz SF CDOs	**41.2%**
2004 Mezz SF CDOs	**44.5%**
2005 Mezz SF CDOs	**52.4%**
2006 Mezz SF CDOs*	**70.6%**

* Data for 2006 vintage deals includes deals having gone effective and started reporting by the end of February 2007

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From: Gutierrez, Michael
Sent: Tuesday, March 20, 2007 5:49 PM
To: D'Erchia, Peter
Subject: FW: Pre-empting bad press on the subprime situation

Here is the email about the Subprime Marketing Campaign

-----Original Message-----
From: Warrack, Thomas
Sent: Tuesday, March 20, 2007 1:57 PM
To: Barnes, Susan; Losice, Abe; Mcdermott, Gail; Stock, Michael
Cc: Jordan, Pat; Buendia, Rosario; Gillis, Tom; Perelmuter, Monica; Warner, Ernestine; Pollsen, Robert; Koch, Richard; Gutierrez, Michael
Subject: FW: Pre-empting bad press on the subprime situation

FYI- This is the background that lead to the meeting tomorrow.
Thanks, Tom

-----Original Message-----
From: Johnson, Ronald Keith Louis
Sent: Tuesday, March 20, 2007 12:10 PM
To: Warrack, Thomas; Barnes, Susan
Subject: FW: Pre-empting bad press on the subprime situation

FYI

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Schachne, Bruce
Sent: Tuesday, March 20, 2007 12:01 PM Eastern Standard Time
To: McDavid, Veronica
Cc: Bessenoff, Arlene; Traverso, Lucy; Johnson, Ronald Keith Louis; Yan, Amy; Desai, Prashant; Goldstein, David; Tempkin, Adam; Atkins, Chris

Subject: RE: Pre-empting bad press on the subprime situation

Hi all,
In a meeting with Kathleen Corbet today, she requested that we put together a marketing campaign around the events in the subprime market, the sooner the better. She also requested that it incorporate not only how we market our thinking on the subprime topic to our traditional audience, but also the press, government and regulatory bodies, etc. She says that Moody's has been calling Chuck Shumer every week with an update on their thinking on subprime, and she didn't feel that we are being proactive enough in communicating our thinking to the market as well as proactively protecting ourselves against bad press. Ronnie, could you schedule a meeting for all of us to organize this campaign, the sooner the better?

Thanks,
Bruce

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #52c

From: Schachne, Bruce
Sent: Thursday, March 15, 2007 7:45 AM
To: McDavid, Veronica; Sedov, Dmitri
Cc: Bessenoff, Arlene; Traverso, Lucy; Johnson, Ronald Keith Louis; Yan, Amy; Desai, Prashant; Goldstein, David
Subject: RE: Pre-empting bad press on the subprime situation

Ronnie, thanks for the idea. The resoruces to produce and edit the podcasts are relatively limited, which is why we're starting with one per week. Your idea is good but not feasible as a multi-part series given the available resources. However, I do think it makes sense in the short-term to have a podcast that focuses on sub-prime and also discusses somw of the basics of RMBS. Arlene, what do you think of this idea?

-----Original Message-----
From: McDavid, Veronica
Sent: Tuesday, March 13, 2007 10:30 AM Eastern Standard Time
To: Sedov, Dmitri
Cc: Ranganath, Ram; Traverso, Lucy; Johnson, Ronald Keith Louis; Yan, Amy; Desai, Prashant; Schachne, Bruce; Goldstein, David

Subject: Pre-empting bad press on the subprime situation

Dmitri,

There's already a lot of press about the subprime meltdown, and there's going to be a lot more. For some of the consumer-oriented podcast aggregators (like iTunes), what about doing --"Structured Finance 101"? It could be a series, in which one podcast would explain how a mortgage-backed security worked, another would differentiate between RMBS and CMBS, a third explain what an ABS is, and a fourth, how these structured products make up a CDO--or it could all be done as one longer podcast.

All market participants will be getting negative press before this subprime thing is finished playing out. We could hold a tcon about how we're concerned about the public not understanding structured finance and how we want to educate them, offering our podcasts to the WSJ, FT, Bloomberg, and the NYTimes business editors. Making a pre-emptive move like this, to educate Main St. investors, would be perceived as a public service and an effort to increase transparency in the marketplace. We'd be one of the good guys instead of just one of the institutions under attack.

Ronnie

From: Diamond, Kim
Sent: Thursday, April 26, 2007 2:55 PM
To: Scott, Gale
Cc: Palmisano, James; Duka, Barbara; Mei, David
Subject: FW: PWR 16

Gale, the newest sickening trend. Issuers trying to pass their loss of profitibility resulting from the latest blow out in spreads by demanding severe rating fee pricing reductions.....we lost the pwr deal because we refused to reduce our fee from 1.4 million to 1.1 million for a 4 billion dollar pool....unbelievable...the bankers make shitty loans with such skinny margins tha they can't make any money and expect us to eat it. Given our current staffing (i.e. Not enough analysts to rate the current pipeline of deals), the opportunity cost of doing the deal at that ridiculously low fee and risking eroding our pricing structure going forward was deemed too high...lets just hope the deal prices like crap without us.

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: Duka, Barbara
Sent: Thursday, April 26, 2007 12:18 PM Eastern Standard Time
To: Diamond, Kim; Pollem, Kurt
Subject: PWR 16

Add this to your lost deal list. The problem was fees. They wanted the entire amount they spoke to D. Mei about (a reduction from $1.4MM to $1.1MM). We agreed to $1.35MM.

Kim, your gut about what was driving this is largely true. Spreads widened. Uncertainty caused profitability concerns. They were putting it on us.

Barbara Duka
Managing Director
Structured Finance
Standard & Poor's
55 Water Street, 41st Floor
New York, New York 10041-0003
Phone : (212) 438-2447
Fax : (212) 438 - 0125
barbara_duka@standardandpoor's.com

From: Bell, Ian
Sent: Friday, July 13, 2007 5:44 AM
To: Rose, Joanne; Gillis, Tom
Subject: FW: Tomorrow's FT Column -- Saskia Sholtes

Joanne/Tommy

More for the post-mortem than now but one aspect of our handling of the subprime that really concerns me is what I see as our arrogance in our messaging. Maybe it is because I am away from the center of the action and so have more of an "outsider's" point of view. The comment from Chris below for me is a sign of that attitude.

I listened to the telecon TWICE. That guy was not a "jerk". He asked an entirely legitimate question that we should have anticipated. He then got upset when we totally fluffed our answer. We did sound like the Nixon White House. Instead of dismissing people like him or assuming some dark motive on their part, we should ask ourselves how we could have so mishandled the answer to such an obvious question.

I have thought for awhile now that if this company suffers from an Arthur Andersen event, we will not be brought down by a lack of ethics as I have never seen an organisation more ethical, nor will it be by greed as this plays so little role in our motivations; it will be arrogance.

Maybe worth a discussion either at SFLT or just around a glass of wine and a diet Coke.

Ian

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Winn, Martin
Sent: Thursday, July 12, 2007 10:55 PM GMT Standard Time
To: Albert, Felicity; Bell, Ian; Ridpath, Barbara
Subject: FW: Tomorrow's FT Column -- Saskia Sholtes

Worth knowing ....

> -----Original Message-----
> From: Winn, Martin
> Sent: 12 July 2007 22:53
> To: Atkins, Chris
> Subject: RE: Tomorrow's FT Column -- Saskia Sholtes
>
> Aahhh ...
>
> > -----Original Message-----
> > From: Atkins, Chris
> > Sent: 12 July 2007 22:52
> > To: Winn, Martin
> > Subject: RE: Tomorrow's FT Column -- Saskia Sholtes
> >
> > He was the very first questioner, the jerk who wouldn't let go...

From: Winn, Martin
Sent: Thursday, July 12, 2007 5:50 PM
To: Atkins, Chris
Cc: Appel, Marjory
Subject: FW: Tomorrow's FT Column -- Saskia Sholtes

Who is Eisman?

The FT ran a story earlier this week about hedge funds profiting from shorting subprime. I've already pointed out to one or two journalists they should take with a pinch of salt what hedge fund investors tell them - they're probably just talking their book.

Martin

-----Original Message-----
From: Rose, Joanne
Sent: 12 July 2007 22:46
To: Atkins, Chris; Corbet, Kathleen; Anderberg, Stephen; Tillman, Vickie; Gillis, Tom; Buendia, Rosario; Barnes, Susan; Warrack, Thomas; Warner, Ernestine; Pollsen, Robert; Mason, Scott; Winn, Martin; Jordan, Pat; Appel, Marjory; Weiss, Steven (MHC - steven_weiss); Stafford, David (MHC - david_stafford); Rubin, Donald (MHC - donald_rubin); Bolger, Rita; Braddon, Cindy (MHC - cindy_braddon); Netram, Melissa (MHC - melissa_netram); Briamonte, Frank (MHC - frank_briamonte)

Cc: Benjamin, Bette-Kay
Subject: RE: Tomorrow's FT Column -- Saskia Sholtes

just so you know the guy Eisman actually is at a hedge fund and he sounds like he is a short.

-----Original Message-----
From: Atkins, Chris
Sent: Thursday, July 12, 2007 5:35 PM
To: Corbet, Kathleen; Anderberg, Stephen; Tillman, Vickie; Rose, Joanne; Gillis, Tom; Buendia, Rosario; Barnes, Susan; Warrack, Thomas; Warner, Ernestine; Pollsen, Robert; Mason, Scott; Winn, Martin; Jordan, Pat; Appel, Marjory; Weiss, Steven (MHC - steven_weiss); Stafford, David (MHC - david_stafford); Rubin, Donald (MHC - donald_rubin); Bolger, Rita; Braddon, Cindy (MHC - cindy_braddon); Netram, Melissa (MHC - melissa_netram); Briamonte, Frank (MHC - frank_briamonte)

Cc: Benjamin, Bette-Kay
Subject: Tomorrow's FT Column -- Saskia Sholtes

Rating agencies under scrutiny

By Saskia Scholtes in New York

Published: July 12 2007 20:08 | Last updated: July 12 2007 20:08

When debt investments turn sour, the rating agencies have grown accustomed to drawing criticism for spotting problems too late and then taking too long to act on them.

The current turmoil in the US subprime mortgage market is no different for them. The crisis has generated a barrage of such investor criticism, which reached fever pitch this week in response to a swathe of downgrades of mortgage bonds and related complex debt products.

One investor repeatedly asked analysts at Standard & Poor's on a conference call this week: "What is it that you know today that the markets didn't know three months ago?"

Amid the steady drumbeat of bad subprime news - late payments and defaults on subprime home loans have been worryingly high for several months - the downgrades were broadly expected. But investors and analysts are struggling to understand what additional evidence the agencies were waiting for to justify the moves, and have raised a series of questions over the reliability of their analysis.

Susan Barnes, analyst at S&P said on the conference call that the rating agency waits for a body of evidence to accumulate before taking action: "It takes a period of time for these deals to show their true performance. We have been reviewing these deals closely and felt it was time to take action."

However, the rating agencies admit that the level of losses continues to exceed their initial expectations and historical precedent, prompting both Moody's and S&P to review their loss estimates and ratings process. Moody's announced its review in April, and S&P followed this week.

For many investors, the delay in taking action has raised concerns over the agencies' dependence on performance data that could be unreliable. This is partly because structural changes in the mortgage market and a higher incidence of mortgage fraud mean that relying on comparisons with data from previous housing downturns could give an incomplete picture.

Meanwhile, some analysts raise concerns that the rating agencies are not asking some of the most basic questions. Christian Stracke, analyst at research firm CreditSights, said: "An apparent lack of basic analysis behind [mortgage bond] ratings was on display in S&P's discussion of their estimate of the sensitivity of [late payment] rates to changes in interest rates: namely, they have no such estimate."

Josh Rosner, consultant at research firm Graham Fisher said: "The rating agencies appear to have relied, almost exclusively, on information provided to them by issuers and even have chosen not to require some meaningful disclosures about underlying residential loans included in the structures."

Mr Rosner points to an April report from Moody's that showed the rating agency did not consider debt-to-income ratios as a primary piece of data in their mortgage models, although this is generally considered as one of the three key predictors of mortgage default.

In the same report Moody's said it would for the first time request loan level data detailing the structure of adjustable-rate mortgages, the servicer, the month of the first interest rate adjustment and other data that would allow them to analyse risks. S&P admitted this week that it does not receive this kind of granular data on performance of individual loans within the mortgage pools backing the bonds that it rates.

One revelation that analysts have described as "extraordinary" this week is that S&P has no specific estimate of how much turmoil in the housing market would be needed to force downgrades of the AAA and AA ratings that have been left untouched in this round of downgrades and constitute the bulk of the principal value of most mortgage-backed deals. Moody's also said in an interview that it had no such estimate.

The rating agencies wield enormous influence, not only because their pronouncements can affect the cost of funds for issuers of debt, but because ratings are often enshrined in the regulations that govern what securities can be bought by insurance companies, pension plans and mutual funds.

Analysts say some of the main reasons that initial ratings for subprime bonds may have been over-optimistic are weaker underwriting standards, fraud, and concentration in overvalued regions. Some analysts also warn that other parts of the mortgage market are beginning to show symptoms of similar troubles.

Meanwhile, many of these bonds are held by complex collateralised debt obligations. Roughly half of the CDOs issued in 2005 and 2006 were backed by mortgage- related debt.

Vishwanath Tirupattur, CDO analyst at Morgan Stanley said in a recent report: "Like it or not, rating agencies, as arbiters of credit quality, wield enormous influence - nowhere more so than in the context of CDOs."

From: Pollsen, Robert
Sent: Thursday, July 19, 2007 5:55 PM
To: Warner, Ernestine
Subject: No one should be "faulted" for 2006 Subprime performance - Q&A after Conference Call -- How Bad Is 2006 Subprime Collateral? (Tuesday, November 21st @10:30AM EST)
-----Original Message-----
From: Pollsen, Robert
Sent: Tuesday, November 21, 2006 12:52 PM

In case some of you *missed* the Q & A at the *end* of the conference call, I thought you might want to know the following:

David Liu of UBS said that the "wave" (of year 2006 Subprime poor performance) was stronger than anticipated - even by UBS. According to David, UBS held among the most "gloomy" of the views out there, and yet even *they* were (negatively) surprised!

David said he'd "not fault anyone" for not anticipating such poor performance of year 2006 Subprime collateral.

Although the Rating Agencies have *increased* their Loss Coverage %, David Liu thinks it will not compensate *enough* for the poor performance of year 2006 Subprime collateral. According to David, "the Rating Agencies were caught off guard, too!"

Fremont (Investment & Loan, an issuer) is only the tip of the iceberg (to poor performance).

Other year 2006 issuers' performance is not that much different (better).

Clink on the link below to download the 27-page document.

http://www.mtgstrat.com/getpdfmail.asp?F:\sub\NW\CURRENT\20061121nw.pdf

Replay Info:

Conference ID:	**1003479**
Toll free dial-in	1-888-266-2081 (Domestic) 1-703-925-2533 (International)
Replay Dates:	November 21st, 2006 to December 21st, 2006

Robert B. Pollsen ("Bob")
Director
Structured Finance Ratings
Standard & Poor's
55 Water St., **42nd** Floor
New York, NY 10041-0003
Phone: (212) 438-2577
Fax # (212) 438-2664
E-mail: robert_pollsen@standardandpoors.com

Permanent Subcommittee on Investigations
EXHIBIT #54b

-----Original Message-----
From: Warrack, Thomas
Sent: Monday, November 20, 2006 5:19 PM
To: Ahn, Laura; Albergo, Leslie; Alizadeh, Rasool; Arne, Errol; Barnes, Susan; Beauchamp, Kyle; Bergeland, Regina; Bergman, Mathew; Bliss, Brendan; Boardman, Jeremy; Bruzese, Frank; Cao, Becky; Chu, Eliza; Clements, Julia; Conon, Jonathan; Davis, Jessica; Deasy, Chris; Dougherty, Mike P; Epstein, Kenneth; Gleeson, Michael S; Glehan, David; Goldenberg, Mark; Graham, Peter; Grow , Brian (S&P); Grundy, James; Guinyard, Anthony; Hall, Daniel; Hawkins, Kisha; Hierl, Jonathan; Hinman, Carissa; Hongwei Wang, David; Hopkins, Amanda; Kahan, Jack; Kennedy, Martin; Kimmel, George; Kostiw, Karen; Kumar, Rohit; Larkin, Daniel; Levin, Mark; Listner, Michael; Lukacsko, Erik; Maciaszek, Matthew; Mahdavian, Sharif; Manasseh, Rani; Mason, Scott; Mccormick P, Michael 9/7/2006; Mcdermott, Gail; McMillon, Robin; Messler, Julie; Muhammad, Aliyma; Neary, Rebecca; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Polumbo, Kimberly; Rossmann, Anne; Rubino, Beth; Samuels, Amy; Sang, John; Schneider, Jeremy; Shaikh, Waqas; Sharma, Sudhir; Siber, Matthew; Skuthan, Natalia; Smith, Keith; Solar, Mona; Stock, Michael; Stumberger, Danielle; Taylor, James; Tegen, Daniel; Tencer, Steve; Uppuluri, Sai; Van Kirk, Spencer; Vonderhorst, Brian; Wallace, Vanessa; Warrack, Thomas; Watson, Jeff; Weller, Brian; Wray, Michael; Yioupis, Leo; Zimmerman, Allen
Cc: Kambeseles, Peter; Cheng, Kenneth; Wong, Elwyn; Warner, Ernestine; Pollsen, Robert; Koch, Richard; Gutierrez, Michael
Subject: FW: Conference Call -- How Bad Is 2006 Subprime Collateral? (Tuesday, November 21st @10:30AM EST)

FYI- "Recommended listening"

Kisha, can you see if we can reserve room 3, 6 or 7, so the whole group can dial in together.

Thanks, Tom

-----Original Message-----
From: Jeana.Curro@ubs.com [mailto:Jeana.Curro@ubs.com]
Sent: Monday, November 20, 2006 4:35 PM
Subject: Conference Call -- How Bad Is 2006 Subprime Collateral? (Tuesday, November 21st @10:30AM EST)

Mortgage Strategist Readers:

Conference Call

How Bad Is 2006 Subprime Collateral?

Deals from 2006 have performed poorly compared to earlier vintages.

Why the poor performance?
Loose underwriting?
Collateral characteristics?

Higher interest rates and slower HPA??

How is the 2006 vintage likely to perform going forward.

Speakers:

- **Thomas Zimmerman - Executive Director**
- **David Liu - Director**

Tuesday, November 21st, 2006
10:30am - 11:30am EST

Dial-in Info:	
Conference ID:	**1003479**
Toll free dial-in	1-866-227-1582 (Domestic)
	1-703-639-1130 (International)
Replay Info:	
Conference ID:	**1003479**
Toll free dial-in	1-888-266-2081 (Domestic)
	1-703-925-2533 (International)
Replay Dates:	November 21st, 2006 to December 21st, 2006

From: Tillman, Vickie
Sent: Monday, November 26, 2007 1:01 PM
To: Barnes, Susan; Gillis, Tom
Subject: RE: November presentation

This looks fine and thanks

-----Original Message-----
From: Barnes, Susan
Sent: Monday, November 26, 2007 10:36 AM
To: Tillman, Vickie; Gillis, Tom
Subject: RE: November presentation

Vickie,
Here's our proposed response to Kurt's question. If you have any questions or need further clarification feel free to give us a call. Regards, Susan

Standard & Poor's LEVELS model evaluates loan characteristics and assigns a default probability on a loan level basis. These loan characteristics that you mention including piggy back, speculative borrowing, and affordability loans have been included in various forms of mortgage loans and securitizations for some time. And therefore are included in our analysis, specifically the LEVELS model. What is transpiring is how the performance of these characteristics is differing from historical norms. The cause or causes at this time are still uncertain. Macroeconomic factors as well as the combination of these higher risk characteristics coupled with fraud seem to be the most likely reasons for the anomalous behavior.

While the ultimate performance of these loans still remains to be seen, Standard & Poor's adjusted it's default expectations for the anomalous behavior and has increased its default expectations accordingly for all loans analyzed since July 2007.

-----Original Message-----
From: Tillman, Vickie
Sent: Saturday, November 24, 2007 3:07 PM
To: Gillis, Tom; Barnes, Susan
Subject: FW: November presentation

Could you get answers to these questions on Monday thanks

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Rubin, Donald (MHC - donald_rubin)
Sent: Friday, November 23, 2007 04:57 PM Eastern Standard Time
To: Tillman, Vickie
Cc: Milano, Patrick; Schuman, Adam (MHC - adam_schuman)
Subject: FW: November presentation

Vickie: Kurt Havnaer is an analyst for Jensen Investment Management, a solid long term holder of MHP shares. Jensen currently holds over 2.0 million shares. He's called with questions about S&P and I have been sending him material from S&P, including your complete testimony filed with the Senate banking committee.

Today, Kurt e-mail the attached question, which focuses on possible problems with LEVELS and the possibility that the original ratings for 2005 and 2006 RMBS issues were too high relative to earlier originations. Clearly, he is aiming for a "gotcha," but I doubt he is alone..

Need some help in responding.

Thanks,

Don

From: Kurt Havnaer [mailto:KHavnaer@jenseninvestment.com]
Sent: Friday, November 23, 2007 2:09 PM
To: Rubin, Donald
Subject: RE: November presentation

Don,

I have a question on the recent downgrades of RMBS backed by pools of sub-prime mortgages originated in 2005 and 2006. My question is based on reading Vickie Tillman's Congressional testimony. I believe she indicated that the performance of sub-prime mortgages issued in 2005 and 2006 was very different than the performance of sub-prime mortgages issued prior to 2005. In her testimony, she implies that the characteristics of the mortgage loans originated in 2005 and 2006 were different from those orginated prior to 2005. For example, on page 23 of my copy of her testimony she indicates that, "many of the 2006 transactions may be showing weakness because of origination issues, such as aggressive residential mortgage loan underwriting, first-time home-buyer programs, piggyback second-lien mortgages, speculative borrowing for investor properties, and the concentration of affordability loans." While I'm certainly not a mortgage expert, I wonder if the performance difference was due to the possibility that the characteristics of the sub-prime mortgage loans issued in 2005 and 2006 were different from the sub-prime mortgage loans issued prior to 2005. My understanding is that your LEVELS model analyzes historical mortgage loan defaults and is used, along with other models, to assign ratings to RMBS. It seems possible to me that some of the RMBS issued in 2005 and 2006 that have already been downgraded were originally rated too high because the LEVELS model did not account for differences in the characteristics of the sub-prime mortgage loans originated in 2005 and 2006 relative to those originated prior to 2005. My guess is that other investors have brought this point up, and I'm wondering how management is responding to this line of reasoning. Thanks for your time. I appreciate it.

Kurt

From: Rubin, Donald [mailto:donald_rubin@mcgraw-hill.com]
Sent: Wednesday, November 21, 2007 8:37 AM
To: Kurt Havnaer
Subject: RE: November presentation

Kurt: We do not break out the revenue contribution of various asset classes, but the notion of "majority" doesn't make sense to me. There is a lot more to S&P than structured finance, important as it is.

Donald S. Rubin

The McGraw-Hill Companies

Senior Vice President - Investor Relations

1221 Avenue of the Americas

48th Floor

New York, NY 10020

Tel: 212.512.4321

Fax: 212.512.3840

donald_rubin@mcgraw-hill.com

From: Kurt Havnaer [mailto:KHavnaer@jenseninvestment.com]
Sent: Wednesday, November 21, 2007 11:15 AM
To: Rubin, Donald
Subject: RE: November presentation

Don,

Thanks for answering my questions yesterday. I appreciate it. I have another question for you--not sure if this is something the company discloses or not. I just read an article that indicates that structured finance ratings account for the majority of the revenues in your ratings business. Can you tell me if this is correct? Thanks.

Kurt

From: Rubin, Donald [mailto:donald_rubin@mcgraw-hill.com]
Sent: Tuesday, November 20, 2007 8:47 AM
To: Kurt Havnaer
Subject: November presentation

Kurt:

As promised, here is a copy of a recent presentation.

Look forward to talking to you this afternoon.

Sincerely,

Donald S. Rubin

The McGraw-Hill Companies

Senior Vice President - Investor Relations

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Fax: 212.512.3840

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The McGraw-Hill Companies, Inc.

MINUTES

Regular Meeting of Board of Directors

December 5, 2007

A regular meeting of the Board of Directors was held at The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, New York at 10:00 a.m., pursuant to notice sent to all Directors in accordance with the By-Laws.

The following Directors of the Corporation, consisting of consisting of a quorum of the Board, were present:

Pedro Aspe
Douglas N. Daft
Linda Koch Lorimer
Harold McGraw III
Robert P. McGraw
Sir Michael Rake
James H. Ross
Edward B. Rust, Jr.
Kurt L. Schmoke
Sidney A. Taurel

Ms. Hilda Ochoa-Brillembourg participated via teleconference call.

Sir Winfried F. W. Bischoff was absent.

Mr. Harold W. McGraw, Jr., Chairman Emeritus, was absent.

An executive session of the Board commenced at 10:00 a.m. At such session, only the members of the Board and Mr. Vittor were present.

Mr. Terry McGraw, Chairman presided and Mr. Vittor recorded the proceedings of the executive session.

[redacted]

Permanent Subcommittee on Investigations
EXHIBIT #56

[redacted]

With respect to media coverage of S&P and the subprime matter, Mr. Terry McGraw noted the key issue raised by critics relates to the conflicts of interest in S&P's issuer pays model. Mr. Terry McGraw noted in response we acknowledge such conflicts and go to great lengths to manage them. Mr. Terry McGraw noted the SEC concurs these potential conflicts of interest are present but manageable by the rating agencies. Mr. Terry McGraw indicated the issuer pays model (in contrast with a subscription model) permits S&P to provide substantial transparency to its rating process through the dissemination of its ratings globally. Mr. Rust noted the quality of the data provided by issuers to S&P and the other rating agencies is critical; more attention needs to be paid in the media and by regulators to the fact that issuers are responsible for providing reliable data to the rating agencies.

Mr. Terry McGraw noted another criticism of the rating agencies is they are rating new structured finance instruments with no prior history. Mr. Terry McGraw noted S&P has been rating mortgage-backed securities for more than 30 years without any problems. Mr. Terry McGraw noted the 2005-06 vintage loans appear to be the key problem areas in the recent subprime situation. Mr. Terry McGraw noted S&P has refused to rate certain deals when it was not comfortable in rating the proposed security. In response to a question by Mr. Aspe, Mr. Terry McGraw noted if information provided by issuers turns out to be erroneous, S&P would refuse to rate the deal; if information were found to be fraudulent, S&P would go to the SEC with such a finding. Mr. Terry McGraw emphasized it is important the rating agencies take the actions required so that the new Credit Rating Agency Reform Act succeeds. In response to a question by Mr. Schmoke, Mr. Terry McGraw noted any report of fraud to the SEC would not be public unless and until the SEC determined to make it public and that ratings would be withdrawn by S&P if it were determined that S&P was provided fraudulent information. Mr. Terry McGraw noted the market would reject ratings that were too volatile because ratings are supposed to be less volatile than market prices. Sir Michael Rake noted there is a fine line between rating agencies reviewing data provided by issuers and actually performing due diligence.

[redacted]

[redacted]

At Mr. Terry McGraw's request, Mr. Sharma joined the Board meeting to review the voluntary actions that are currently being considered by S&P in response to the subprime situation. Mr. Sharma noted Ms. Tillman and he were spending significant time with regulators, legislators, representatives of central banks and investors in order to listen to their concerns and to advise them of what S&P is doing in response to the subprime situation. Mr. Sharma noted Treasury Department officials indicated to him they believe investors did not understand what they were investing in as they should have and that the Treasury Department has been advising the market not to blame the rating agencies for this problem. Mr. Sharma noted the risk management function at many financial institutions has been downgraded in recent years which explains in part the failure of the market to understand what they were investing in. Ms. Ochoa-Brillembourg noted the market has confused rating risks with pricing risks which has resulted in a mispricing of risk. In response, Mr. Sharma noted he has discussed with regulators the need for the market to obtain independent market pricing assessments to address this issue. Mr. Sharma noted the comparability

of S&P's ratings and that S&P has a strong record demonstrating that defaults over time are consistent with S&P's rating expectations. Mr. Sharma noted the key issue is liquidity rather than default. Mr. Sharma noted S&P will be offering additional perspectives to the market concerning liquidity and volatility in addition to continuing to publishing default assessments.

Mr. Sharma reviewed the various voluntary actions that have been considered by S&P in response to the subprime situation. Mr. Sharma reviewed the policies and practices currently in place at S&P with respect to governance; analytics; information; and education and reviewed proposed new voluntary actions that are being considered to be taken by S&P in each of these areas.

In response to an inquiry by Mr. Daft as to how S&P will explain why S&P is proposing these voluntary actions at this time, Mr. Sharma stated that S&P continues to evolve and enhance its governance and analytical processes in response to changing conditions. [redacted] **In response to an inquiry by Mr. Rust, Mr. Sharma noted S&P understands the importance of our role in the capital markets and that S&P will do our part to respond to the subprime situation but that others in the market must also do their part. In response to a comment by Ms. Lorimer that S&P should encourage issuers to improve their own practices, Mr. Sharma noted that S&P is launching a review of originators' due diligence practices. In response to a question by Mr. Schmoke, Mr. Sharma indicated the cost of implementing the proposed voluntary actions has not yet been calculated because we have not yet decided which voluntary actions will be pursued.** [redacted]

DATE: 04/20/2007
TIME: 15:47:00
AUTHOR: Alina Pak
RECEIPIENT: Derek Miller
CC:
SUBJECT:

Derek,

two things:
1) do you want to invite Brian V and KK for the subprime discussion with Jill?
2) all the info from the RMBS group: list of 100% 2nds and list of cusips failing RMBS screeners and info from Ian on rating variance for RMBS is in the file called SF Deal Screener April 2007 on p/credit products/subprime exposure - greent tabs.

This is supposed to be a shared foder for the PA team with all potentially problematic subprime RMBS - as long as we keep updating it.

----- Forwarded by Alina Pak/LP/CHI/F-I on 04/20/2007 11:25 AM -----

Alina Pak/LP/CHI/F-I
04/19/2007 12:12 PM

To
US CTP_Performance Analytics
cc

Subject
Fw: Treatment of subprime RMBS in CDO reviews

Just wanted to clarify an important point.
Q-n: A deal does not have any of the CUSIPs on the RMBS screener or SPAM variance report and is not 100% backed up by 2nd lien loans - how do we address the subprime exposure?

The best option is to ask the manager if they have any concerns about any specific names in addition to those we already identified. This has to be done at the same time when we talk (call or email) to the mgr. For those reviews which are already being wrapped up, if you still have time, email the manager.
Please also check with the trustee reports for servicer exposure. If you see the headline risk names (NC, Freemont, Novastar etc) include this in your discussion. We are already required to use servicer concentration model. But in addition to that, we should include the RMBS deals serviced by such servicers in the discussion with the manager. Please continue to check for servicer ratings on Fitch's RMBS page for d/graded servicers.

I don't think we should be notching down all subprime RMBS under some broad assumptions, unless we have an indication of a specific bond heading towards a downgrade - based on an expert RMBS opinion (manager, Fitch's RMBS group, SPAM), mkt price indication. We will not be able to justify our rating action to the public or manager.

Please note that while everyone is concerned about late 05 and 06 subprime RMBS, most downgrades by our RMBS group have taken place in the 02-04 space. See the file from the RMBS group in the folder p/credit products/SUBPRIME EXPOSURE for some interesting data, including rating actions they've taken.

----- Forwarded by Alina Pak/LP/CHI/F-I on 04/19/2007 10:46 AM -----

Alina Pak/LP/CHI/F-I
04/18/2007 03:52 PM

To
US CTP_Performance Analytics
cc

Subject
Re: Treatment of subprime RMBS in CDO reviews

Sorry for another email. The fodler SUBPRIME EXPOSURE is created. There is 1 file there called SF Deal Screener April 2007.
The green tabs show "problematic" subprime RMBS, based off Grant's "failed screeners", 100% 2nds, and rating variances.

Check wether the deal you are reviewing has any of these assets. Most of the data is already allocated by deal. Thanks to Francis who put together this file.

Alina Pak/LP/CHI/F-I
04/18/2007 03:35 PM

To
US CTP_Performance Analytics
cc

Subject
Treatment of subprime RMBS in CDO reviews

PA: For everyone who is planning to work on DSF or other sector CDOs with a substantial exposure to subprime RMBS.

The problem: we continue to base our reviews of DSF CDOs loaded with mezz subprime bonds on the current asset ratings. We are yet to see the bulk of downgrades. The pitfall is that we may affirm a CDO and a few months later there will be a significant d/grading activity in the portfolio. While we could recommittee, it's clearly the least preferable approach. We also can not defer the reviews until we get a clearer picture on subprime RMBS since the pile of stale deals grows and RMBS rating actions will be happening gradually over a long time.

Here is what I suggest. I will create a folder on the p-drive:

Credit Products/SUBPRIME EXPOSURE, which stores info on subprime RMBS which were identified as potential "near future downgrades". This folder will include info:

1) From the RMBS "failed screeners", deals 100% backed up by 2nd lien loans, and any other heads up from them.
2) RMBS deals serviced by failing subrprime servicers: filing Ch 11 or those whose servicer ratings are on RWN or dgraded below RS3+.
3) RMBS bonds identified from the discrepancy report from Ian as Erika suggested. E.g. if SPAM has a more recent and lower rating than us.

We will have to maintain this folder to capture all new developments. I am not sure yet how to synthesize all of the RMBS screeners and reports in one place.

Does anyone think that we may need to maintain the file with all of the estimates from the managers - similar to what Zach was doing a year ago for aircraft and MH? How much did people use it before?

All assets identified based on the information saved in the folders should be considered potentially distressed but not necessarily always treated as distressed. This folder is to share info for identifying "near future downgrades" in subprime RMBS space. The analyst then should be using discretion whether to treat these assets as distressed or performing. Those failing RMBS screeners are clearly distressed (see Grant's description below). Bonds below A from the RMBS deals 100% backed up by 2nd lien loans are very likely to be distressed as well (see Grant's quote below).
For those which have lower SPAM rating, let's consult RMBS. It's possible that SPAM developed a more conservative opinion than our RMBS analysts.

Traditionally we've been leaving distressed assets out of Vector and treating them separately based on the estimated CFs for P&I. An alternative treatment could be "notch down" the asset rating and leave it in Vector.

In all cases with material exposure (>10%?) to such assets we should make an effort to get the manager estimates. We want to avoid a situation where a manager challenges our rating action because they feel that we treated some underlying assets too harshly without talking to them first.

PS: Here is what Grant said about 100% 2nd lien loan backed subprime RMBS:

Yes, I agree with Kevin - 2005 bonds initially rated 'BBB-' and below will have writedown risk in 2007. 2006 second lien performance has been even worse, so a number of 2006 second lien bonds rated 'BBB-' and below will face writedown risk this year as well.

Because the triggers on these deals fail (and because the losses on the second lien deals are more front-loaded), we're showing that 'A' and above still hold-up pretty well. Not only do we not foresee writedown risk any time soon, many aren't even showing any downgrade risk yet.

DATE: 11/27/2007
TIME: 16:45:19 GMT
AUTHOR: Advani, Deepali
RECEIPIENT: May, William
CC:
SUBJECT: RE: Overnightor NY - November 26th

Wow Bill- that must be horrible. . .morale here is not terrific either- but we are moving along - we are all getting the managing expectations talk for the bonus- but as we all know we are lucky to be employed. Just very disappointing since we made a lot of money and as you can imagine the fine-toothed comb that is going through our book is finding that it is clean business (ie nothing residual on the book to reserve for)- nevertheless FI down for the year - and we will all have to pay for that. But the counter argument is - you could have hired the ML guys- but then who knows how the book would look.

Believe it or not- folks still want to trade - though as you can imagine- short - liquid - transparent - also restructuring opportunities which are a good fit for my skillset - so I am not too worried- assuming of course that the wheels don't come off the bus altogether.

So as I mentioned I put my place on and got an offer the first day! I am willing to be flexible (I share your view of downward pressure- but felt a little beaten down)- so for now nothing - but I am hopeful. My life in general feels better now that I have WE - I ran into one of our salesmen from the west coast yesterday - he says I look better too - so all is well.

Will you be out in CA next week- if so - would love to see you - I am going all the way out for dinner Mon night- so I have a lot of spare time. . .

Hope we will meet soon - best wishes,
Dee

From: May, William [mailto:William.May@moodys.com]
Sent: Tuesday, November 27, 2007 11:21 AM
To: Advani, Deepali
Subject: RE: Overnightor NY - November 26th

It looks like a good time to sell your apartment and rent: Manhattan can't resist the downward pressure on home prices forever.

We are about to have layoffs. Don't know how many exactly but it will be substantial in the CDO group. Needless to say, morale is not sterling. Eric was transferred to the New Products Group so we only have 3 MDs now.

It feels as if a recession is a given; I'm just wondering if we are in for actual depression.

You're right about CDOs as WMD--but it's only CDOs backed by subprime that are WMD. CLOs, TruPS, synthetic CBOs, etc. are all performing very well. Unfortunately the market isn't distinguishing among CDO types so all CDOs are languishing.

How's life with you? Do you have any business?

-----Original Message-----
From: Advani, Deepali [mailto:deepali.advani@lehman.com]
Sent: Tuesday, November 27, 2007 9:50 AM
To: May, William
Subject: RE: Overnightor NY - November 26th

Yes- I knew you would appreciate - Bill who ever thought CDOs would be WMD?

How is all with you?

I am enjoying my WEs and freedom - no luck finding a new place- so I listed mine and I think I will rent for a year or so - will be fun to try something new. Though have to say - every day more bad news- would be much too bad for the world to end- but that's sure how it feels.

From: May, William [mailto:William.May@moodys.com]
Sent: Tuesday, November 27, 2007 9:46 AM
To: Advani, Deepali
Subject: RE: Overnightor NY - November 26th

I think he's too optimistic.

-----Original Message-----
From: Advani, Deepali [mailto:deepali.advani@lehman.com]
Sent: Tuesday, November 27, 2007 8:23 AM
To: da80@columbia.edu
Subject: FW: Overnightor NY - November 26th

Even for those who are not in the correlation markets- sometimes our trader gets it really right- so on our march to the end. . .

From:
Sent: Monday, November 26, 2007 9:34 PM
Subject: Overnightor NY - November 26th

IG close 11/23 : 80.25
IG close 11/26: 85.25 (mids)
Change: + 5 bps
Equity Base Correlation Change: +1.8%

The wheels on the bus are falling off, falling off, falling off...the wheels on the bus are falling off, all over Wall Street. For those of you without an English based pre-school experience give me a ring -- I'll sing the above refrain for you. It is very catchy. Volumes in the CDX indices were meek and we went out weak. I can't see Asia/Europe feeling too excited about their WEI screens when they walk in to reverse the trend either. Bespoke activity remains muted at best. As an aside, while I was not trading bespokes this afternoon I spent some time looking deep in the bowels of my desk for my DOW 10,000 baseball cap -- better dust that bad boy off.

used for the purpose of (i) avoiding U.S. tax related penalties or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

From: Mahoney, Patrick
Sent: Friday, June 25, 2004 10:14 AM
To: Mahoney, Patrick; Raiter, Frank; Parisi, Frank; Osterweil, Terry
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

In addition, we have to think about the old HPVI in 5.5 -- there is no OFHEO update in it. Those who were updating seasoned loans in 5.5 were using MRAC.

-----Original Message-----
From: Mahoney, Patrick
Sent: Thursday, June 24, 2004 5:27 PM
To: Raiter, Frank; Parisi, Frank; Osterweil, Terry
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

Yes, we can this if required. IT can resurrect 5.5 and send the banks a "key" to unlock them. The Help Desk can handle the calls, if any. All of the FHLB banks have the documentation associated with 5.5.

-----Original Message-----
From: Raiter, Frank
Sent: Thursday, June 24, 2004 5:21 PM
To: Parisi, Frank; Mahoney, Patrick; Osterweil, Terry
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

This is going to be resolved by their regulator. Patrick, is there any support for their old versions? We should discuss before we get back to Tony and the FHLB.
FR

-----Original Message-----
From: Parisi, Frank
Sent: Thursday, June 24, 2004 5:13 PM
To: Mahoney, Patrick; Osterweil, Terry; Raiter, Frank
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

They did allude to that when we met with them 2 meetings ago.

Francis Parisi, Ph.D.
Director
Structured Finance
Standard & Poor's
55 Water Street -- 40th floor
New York, NY 10041-0003
Phone: 212-438-2570
Fax: 212-438-2661
E-mail: francis_parisi@standardandpoors.com

-----Original Message-----

From: Mahoney, Patrick
Sent: Thursday, June 24, 2004 5:12 PM
To: Osterweil, Terry; Raiter, Frank
Cc: Parisi, Frank; Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

What happens when we migrate to 6.0? Will they want three versions in play, to facilitate pools structured across different time frames?

-----Original Message-----
From: Osterweil, Terry
Sent: Thursday, June 24, 2004 4:42 PM
To: Raiter, Frank
Cc: Parisi, Frank; Kennedy, Martin; Mahoney, Patrick; Barnes, Susan
Subject: FW: LEVELS

Frank,

Tony DiGiovanni from FHLB Indianapolis asked if they (and possibly the other FHLBs) can use LEVELS 5.5 to analyze the loans under a Master Commitment that was established when 5.5 was in effect. With the model changes from 5.5 to 5.6, some of their commitments which were structured to achieve a "0" loss coverage at "AA" when using 5.5 are now showing a loss coverage > 0 under 5.6.

I think their request seems reasonable since we do not require additional enhancement for an already rated transaction if a new model goes into effect and that new model would show an increase in enhancement required. The same methodology holds true if we rated a deal using a specific version of our model and subsequently implemented another version after which we received a prefunding pool for the rated deal. In this case, we would use the prior version since that was what was used when rating the transaction.

If you agree to their request, they would like something in writing (of course) for their friends at the Finance Board.

Terry

-----Original Message-----
From: Holt, Mark A. [mailto:MHolt@fhlbi.com]
Sent: Thursday, June 24, 2004 1:55 PM
To: Osterweil, Terry
Cc: DiGiovanni, Anthony J.
Subject: LEVELS

Mr. Osterweil,

This is a follow up e-mail to your previous discussion with Tony DiGiovanni regarding the differences in LEVELS v5.5 & v5.6 and the resulting data from each.

As Tony mentioned, we have written numerous master commitment contracts (9 months forward) based on our knowledge and experience with v5.5. We monitored the pools to ensure PFIs were fulfilling their commitments based on the statistics and data in that contract and in turn, expected similar LEVELS results at the expiration (end of the 9 months) or filling of the pools. As Tony indicated, we have been somewhat surprised by some of the results we have seen from v5.6 as compared with the sample file data run in v5.5.

We have been advised that v5.6 does have underlying differences in logic and does incorporate some changes (fixed disposition costs compared to %) and we do understand that change. However, we now face difficulty as pools are filled and final analysis is run under v5.6.

Based on this information, we are requesting access and approval to use LEVELS v5.5 to rate all master commitments written while v5.5 was in effect (any commitments written prior to 3-1-04) until the pools are filled or expire. This will allow us to rate the pools written based on v5.5 under the original guidelines. We would appreciate your response and assistance with providing us access to v5.5 as our version has expired as of 3-1-04.

We would also appreciate any additional information that might be available describing specific changes within v5.6. We acknowledge the importance of understanding the updated model and want to be fully prepared to structure future transactions that will yield acceptable results from LEVELS.

Also, Tony would like to discuss the Georgia loan situation separately. When you have had an opportunity to review, he would appreciate a contact to discuss that matter.

Thanks for your assistance and cooperation.

Mark Holt
Funding & Technical Operations Manager
Mortgage Purchase Program
Federal Home Loan Bank of Indianapolis
317-465-0557
mholt@fhlbi.com

From: Griep, Cliff
Sent: Tuesday, June 21, 2005 5:09 PM
To: Jordan, Pat
Cc: Gillis, Tom; D'Erchia, Peter; Inglis, Perry; Bryan, Andrea; Tesher, David
Subject: RE: new CDO criteria

Thanks Pat. Yes, I was referring to Evaluator 3.0 which I knew from the APB discussions was being tested, and I wanted to check in on the status. I had been in contact with Kai, who passed me the technical document to be released with 3.0, and I understand the supporting criteria article is being drafted.

The issue raised by the applicability of the revised criteria to outstanding issues is, I agree, a difficult one, but also extends to other areas in structured, and potentially C&G, where we depend upon models. It's complicated all the more by potential selective disclosure issues raised by client beta testing of models that potentially embed forthcoming criteria, or the actual release of models that embed new criteria which provides selective insight into future rating changes. It might be helpful to raise this issue with APB when you are nearing or have reached a recommendation to see if we can forge a consistent set of considerations/guidelines, or policy, for the firm in making these judgments. I agree it's the overarching issue.

Tom had mentioned at APB his interest, one that I share, in reviewing whether the new criteria would reduce ratings volatility for newly rated transactions relative to the 1997-1999 vintage of corporate bond transactions, an least when subjected to the same default levels that prevailed in the last downturn. I understand this may be tough to test in light of the other protections built into new transactions, some driven by our previous criteria changes and others by investor demand, but I understand some of the testing was yielding positive results in this regard. I can catch up with Tom on this.

-----Original Message-----
From: Jordan, Pat
Sent: Tuesday, June 21, 2005 2:26 PM
To: Griep, Cliff
Cc: Gillis, Tom; D'Erchia, Peter; Inglis, Perry; Bryan, Andrea; Tesher, David
Subject: RE: new CDO criteria

Cliff,

Assuming you're referring to our proposed (we have not definitely decided to release it) updated version of Evaluator (3.0), we have tested a number of deals but have more to test - both in NY and London. We also have some select clients currently reviewing the Beta version and providing us with feedback.

This has proven to be a complex update and review, and many issues have arisen and continue to arise. The overarching issue at this point is what to do

with currently rated transactions if we do release a new version of Evaluator. Some of believe for both logistical and market reasons that the existing

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deals should mainly be "grand fathered". Others believe that we should run all deals using the new Evaluator. The problem with running all deals using E3 is twofold: we don't have the model or resource capacity to do so, nor do we all believe that even if we did have the capability, it would be the responsible thing to do to the market.

Pat

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, June 21, 2005 12:14 PM
To: Jordan, Pat
Cc: Gillis, Tom; D'Erchia, Peter
Subject: new CDO criteria

Pat, Peter, have we had a chance to review the implications of the proposed new criteria on outstanding transactions. What is the status of this exercise and has it raised any policy issues?

Also, is it possible to see what the ratings impact would be on portfolios rated under the new criteria, and recently rated transactions under existing criteria, were we to see corporate default rates reach the same levels experienced in the last downturn?

From: Wong, Elwyn
Sent: Thursday, July 21, 2005 3:41 PM
To: Bryan, Andrea
Cc: Kambeseles, Peter
Subject: FW:
This has become such an intractable mess!! I don't believe we give it out. Deutsche and Lehman clamouring for it. We really look like amateurs.

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Thursday, July 21, 2005 3:37 PM
To: Wong, Elwyn
Subject: RE:

Understood. In which case we'd absolutely need the E3 whether it's in its final form or not. We're in comp on a trade where the other dealer has the E3 and is waving it at the investor where your analyst in Asia (no names for the time being) won't let my colleagues in Asia near it - she simply won't let him have it for some reason.

Not sure how things are run in Asia but I know we wouldn't even be talking about this in NY. I'd better not be losing trades out there because your analysts have selectively let certain dealers have access to the E3 and not us.

We will not be held to 2 different standards especially over this E3 model.

Elwyn, can you pls help out? Perhaps we should have a quick chat.

Thanks.

-----Original Message-----
From: Wong, Elwyn [mailto:Elwyn_Wong@standardandpoors.com]
Sent: Thursday, July 21, 2005 3:16 PM
To: Bae, Myles
Subject: RE:

My best guess is we will use E3 (not the current beta version, but the final version) to moniotr all deals..... maybe there is a transition point....just like we have from transitioning from Trading Model to E1.

The trick is of course to minimize impcat on deals

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Thursday, July 21, 2005 12:38 PM
To: Wong, Elwyn
Subject: RE:

thanks but no official stance on which version of the model is used to monitor deals that gets rated before the official v3 is released? have a customer particularily uncomfortable with this - no change in the credits in my deal but my notes may get downgraded?? would you live with v2.4.3 (the model used to rate the trade) being the model used for future monitoring purposes of trades by letting us explicitly add it to deal docs?

pls advise.

-----Original Message-----
From: Wong, Elwyn [mailto:Elwyn_Wong@standardandpoors.com]
Sent: Thursday, July 21, 2005 12:34 PM
To: Bae, Myles
Subject: RE:

E3 as is will HIGHLY UNLIKELY be the final rollout version.

My best guess is for exisiting rated deals, if E 2.4.3 does not differ from the final version of E3 by a couple of notches, no rating action will be taken. If more, we will have intensive scrutiny and depending in the circumstances upgrade or downgrade. Needless to say, we are minimalizing the number in the latter category.

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Thursday, July 21, 2005 10:40 AM
To: Wong, Elwyn
Cc: Wilcox, Christopher; Ng, Chui
Subject: RE:

Elwyn,
How about the monitoring of exiting trades? Will you use v2.4.3 of the Evaluator for all trades rated using the particular version? I've got a customer who has v3 and thinks his notes will be monitored by v3 when it gets rated by v2.4.3 today.

would appreciate your IMMEDIATE feedback on this.

Thx.

-----Original Message-----
From: Wong, Elwyn [mailto:Elwyn_Wong@standardandpoors.com]
Sent: Wednesday, July 20, 2005 12:52 PM
To: Bae, Myles; Drexler, Michael
Cc: Wilcox, Christopher; Ng, Chui
Subject: RE:

I think Mike now has a much bigger expense account

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Wednesday, July 20, 2005 9:47 AM
To: Drexler, Michael
Cc: Wilcox, Christopher; Ng, Chui; Wong, Elwyn
Subject: RE:

CONGRATULATIONS!!!! and of course, thanks for the info.

Pls let me know when you settle down at your new place. We'll do lunch - let's have Elwyn pay for it.

Thanks.

-----Original Message-----
From: Drexler, Michael [mailto:michael_drexler@standardandpoors.com]
Sent: Wednesday, July 20, 2005 9:45 AM
To: Bae, Myles
Cc: Wilcox, Christopher; Ng, Chui; Wong, Elwyn
Subject: RE:

2.4.3 is the official version, and all SCDOs are being rated with it. The only exception is for long-short SCDOs, for which it is our global policy to use E3.

There should be no confusion globally. If there is, please let Elwyn know.

By the way, I have resigned from S&P, so Elwyn or Chui will take care of your inquiries in the future.

Cheers,

Mike

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Wednesday, July 20, 2005 9:41 AM
To: Drexler, Michael
Cc: Wilcox, Christopher; Ng, Chui; Wong, Elwyn
Subject:

Michael,
What is S&P's official position on which version of CDO evaluator is to be used for rating Synthetic CDO transactions? I understand version 3 of the evaluator has been distributed to few market participants and we'd like to be held to consistent standards globally. I'm also hearing from my colleagues in Asia that they are running into issues regarding which version of the evaluator is the official one to use from both customers and your local offices.

FYI, we're currently using version 2.4.3.

Thanks in advance for your thoughts on this.

Regards,

Myles

From: Chun, Roy
Sent: Thursday, October 06, 2005 7:07 PM
To: Gillis, Tom; Albulescu, Henry; Anderberg, Stephen; Audino, Diane; Barnes, Susan; Binz, Michael (55 Water St.); Burbage, Ted; Chu, Nancy; Coyne, Patrick; De Mollein, Juan; Duka, Barbara; Fazio, Angelo; Fritz, Thomas; Griep, Cliff; Gutierrez, Michael; Hedman, Eric; Kelly, Paul; Kennedy, Martin; Khakee, Nik; Kharnak, Lina; Koch, Richard; Mason, Scott; Merriam, Michael; Olson, Nancy; Osterweil, Terry; Palmisano, James; Ryan, Mary; Scaperdas, Christine; Stock, Michael; Tillen, Bonnie-Lee; Trick, Frank; Warner, Ernestine; Woodell, Colleen; Bell, Ian; Buendia, Rosario; Carrier, Henry; D'Erchia, Peter; Hutchinson, Rose; Jehu, Carol; Jordan, Pat; Klein, David; Lannie, Pauline; Logan, Jacki; Michaux, Fabienne; Pevzner, Yelena; Rose, Joanne; Scott, Gale; Shaw, Brenda; Bryan, Andrea; Diamond, Kim; Hunt, Clayton; Sheridan, Joseph; Tesher, David; Welsher, Ellen
Cc: Griep, Cliff; Mcginnis, Peter; Warrack, Thomas; Kaur, Manjeet; Colwell, Dennis
Subject: RE: Tomorrow's AM Agenda

Regarding Interest deferral topic - not 100% sure what you expect: I can give people an update on the status of the GMAC issue - some good positive resolution but did generate a lot of heat on GMAC from the industry.

At the AM meeting where this came up we actually lumped this under <u>litigation risk.</u> Scott Mason, Eric Hedman and I were to meet and provide some follow up.

The other topic that I had on my plate was from the June AM meeting that we never discussed again at the subsequent AM meetings (I missed the last few AM meetings). It had to do with: <u>Recovery Assumptions/consistency</u>. Here is what I wrote to the group last time. I have to admit that I have not followed up since.

There are two levels of this questions:

1. <u>At the individual deal level.</u> In brief the transparency of the assumptions made on a particular deal are not always very clear.

2. <u>More global assumption changes</u>
   - *How is it disseminated to surveillance?*

     Based on feedback it seems to be mostly an informal process between the groups. AMs are aware of the issue and make an effort to notify and contact surveillance but there is no formal notification process or procedure in place (based on initial feedback).

     CDO has a standing criteria meeting (surveillance rep will attend) where major issues are vetted so there is a forum for topics of this nature to be raised.

     CMBS has established a method of benchmarking old deals to new deals which is updated periodically so that CMBS surveillance has the latest "assumptions" of the primary group.

     In various asset classes, the way surveillance is done is different from how a new deal is done because of the lack of models/methods (analytical and cash flow models) that can be used for both surveillance and new deal. Thus, changes in new deal assumptions are not necessarily pertinent to how surveillance is done. <u>In my opinion</u>, this creates a sense of disconnect and analysts (new deal and surveillance) do not feel a need to make sure there is a good process and procedure in place to identify basic global assumption changes.

   - *How do we handle existing deals especially if there are material changes that can cause existing ratings to change?*

     - I think the history has been to only re-review a deal under new assumptions/criteria

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EXHIBIT #62

when the deal is flagged for some performance reason. I do not know of a situation where there were wholesale changes to existing ratings when the primary group changed assumptions or even instituted new criteria. The two major reasons why we have taken the approach is (i) lack of sufficient personnel resources and (ii) not having the same models/information available for surveillance to relook at an existing deal with the new assumptions (i.e. no cash flow models for a number of assets). The third reason is concerns of how disruptive wholesale rating changes, based on a criteria changes, can be to the market.

- CDO is current debating the issue and appropriate approach as they change the methodology.
- CMBS is trying to go through the process of "updating" all the existing ratings to new rating levels but this could take up to three years based on current resources.

I'll be at the meeting tomorrow so any topic you want to discuss is okay with me.

Roy

-----Original Message-----
From: Gillis, Tom
Sent: Thursday, October 06, 2005 2:03 PM
To: Albulescu, Henry; Anderberg, Stephen; Audino, Diane; Barnes, Susan; Binz, Michael (55 Water St.); Burbage, Ted; Chu, Nancy; Chun, Roy; Coyne, Patrick; De Mollein, Juan; Duka, Barbara; Fazio, Angelo; Fritz, Thomas; Griep, Cliff; Gutierrez, Michael; Hedman, Eric; Kelly, Paul; Kennedy, Martin; Khakee, Nik; Kharnak, Lina; Koch, Richard; Mason, Scott; Merriam, Michael; Olson, Nancy; Osterweil, Terry; Palmisano, James; Ryan, Mary; Scaperdas, Christine; Stock, Michael; Tillen, Bonnie-Lee; Trick, Frank; Warner, Ernestine; Woodell, Colleen; Bell, Ian; Buendia, Rosario; Carrier, Henry; D'Erchia, Peter; Hutchinson, Rose; Jehu, Carol; Jordan, Pat; Klein, David; Lannie, Pauline; Logan, Jacki; Michaux, Fabienne; Pevzner, Yelena; Rose, Joanne; Scott, Gale; Shaw, Brenda; Bryan, Andrea; Diamond, Kim; Hunt, Clayton; Sheridan, Joseph; Tesher, David; Welsher, Ellen
Cc: Griep, Cliff; Mcginnis, Peter; Warrack, Thomas; Kaur, Manjeet; Colwell, Dennis
Subject: Tomorrow's AM Agenda

Analytical Manager Meeting Agenda
October 7, 2005

3:00 - 3:30 What's up?

3:30 - 4:00 Interest deferral paper & CMBS action - Roy Chun
Tom - Is RMBS part of this? You had it on last month's agenda

4:00 - 4:15 Criteria mailbox update - Paul Kelly

4:15 - 4:30 CVM update - Eric Hedman & Frank Trick

4:30 - 5:00 Economic update - David Wyss

<< File: GMAC Commercial Mortgage Litigation Fees Regarding Terrorism Insurance To Affect CMBS Deals.doc >> << File: SF Rating Definitions.doc >> << File: RMBS SASCO

Write down example.doc >>

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e-mail: tom_gillis@sandp.com

From: Griep, Cliff
Sent: Wednesday, October 19, 2005 11:02 AM
To: Jordan, Pat
Cc: Gillis, Tom; Gilkes, Kai; D'Erchia, Peter
Subject: CDO model

Pat, I'd like to arrange a discussion at APB of the CDO criteria/model changes, it's status and implications. I am individually familiar with the issue, but most on APB are not. It raises several franchise level issues which could be viewed as precedent setting from a policy perspective, including the implications of the application of the new interpretation of our ratings performance and the related transparency issues,(APB previously reviewed the default study proposed by Kai), the implications of our dependence on models with largely static assumptions, and the volatility of model results to changes in assumptions; the management of the outstanding base of ratings, and the decisions taken by the CDO group to apply the new criteria to certain kinds of transactions and the related consistency and transparency implications. Joanne has asked me to help the group on these issues, and

The APB meets pretty regularly on Thursday mornings from 9am to 11am. November 17th would work. Please let me know.

From my perspective the main issues are the ones above, but there are specific analytical issues which I also would like to cover.

What is the criteria that will be incorporated into the model, and how and why has that criteria ~~been changed, if it has, from what was originally proposed by the criteria team?~~

To the extent that the new default results are incorporated, what implications does this have for our default research generally, if any, and the reporting of our results. It seems at minimum we will need to explain the difference between using one versus the other, and likely need to work through consistency issues. Will we use the new default study results in all criteria applications? This is really an APB issue.

What is the rating implication of the criteria change and how will this be communicated/managed? Relatedly, to the extent that some types of CDO ratings performed poorly through the last downturn, to what extent will the criteria, coupled with other changes that have been made, prevent a reoccurrence?

What was the basis for applying the new criteria to new transactions before the group determined the implications of the new criteria for outstanding transactions? Are we sufficiently transparent about this? To the extent that the new criteria may have been changed/adapted since it was first applied to new transactions, will the changes have implications for the ratings on these recently rated transactions?

If the new criteria utilizes asset backed default rates for judging the future performance of CDO's incorporated into CDO's are these default rates appropriate given whatever differences exist between the historic ratings performance of the asst backed and CDO sectors? What are the other methodological challenges related to CDO's squared?

I'm hearing that Fitch's vector model is being well received by market participants, and that they are about to launch a cash flow analytical capability related to it. Is E3 competitive with vector?

Is there any competitive implication if competitors are able to provide expected loss given default assumptions, or expected loss distribution assumptions, on CDO's, and S&P is not? Is recovery or loss given default analysis on CDO traunches a critical competitive issue or not? How is it prioritized and what are your expectations for putting this analytical capability in place?

What are the impediments to incorporating the actual recovery assessment provided by the C&G group into our CDO analysis? What are the plans here and what implication for model and surveillance? To the extent they are going to be included, what is the implication of the contemplated upgrade of some two thirds of the existing recovery assessments?

Some of these we might want to go through in smaller group. Let me know.

From: Wong, Elwyn
Sent: Wednesday, November 23, 2005 10:34 AM
To: Ghetti, Belinda; Kambeseles, Peter
Subject: FW: Disclaimer - Help

Only gets better

-----Original Message-----
From: Bryan, Andrea
Sent: Wednesday, November 23, 2005 10:27 AM
To: Wong, Elwyn
Subject: Re: Disclaimer - Help

Yes. What happens when they hear that cash deals won't be using e3.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Wong, Elwyn <Elwyn_Wong@standardandpoors.com>
To: Bryan, Andrea <andrea_bryan@standardandpoors.com>
Sent: Wed Nov 23 10:21:32 2005
Subject: RE: Disclaimer - Help

Lord help our fucking scam ... this has to be the stupidest place I have worked at. Marc Steinberg is sending us a cash CDo of ABS portfolio to check as we speak

Your conference call on E3?

-----Original Message-----
From: Bryan, Andrea
Sent: Wednesday, November 23, 2005 10:14 AM
To: Wong, Elwyn
Subject: Re: Disclaimer - Help

No and I'm sure that we will not provide them any signoff.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Wong, Elwyn <Elwyn_Wong@standardandpoors.com>
To: Bryan, Andrea <andrea_bryan@standardandpoors.com>
Sent: Wed Nov 23 10:09:28 2005
Subject: FW: Disclaimer - Help

I guess we have not heard boo from J Ro

-----Original Message-----

From: Neer, Brian (FID) [mailto:Brian.Neer@morganstanley.com]
Sent: Wednesday, November 23, 2005 9:42 AM
To: elwyn_wong@sandp.com
Subject: Disclaimer - Help

Elwyn,

We are in a bit of a pickle here. My legal staff is not letting me send anything out to any investor on anything with an S&P rating right now. We are waiting for you to tell us you that you approve the disclaimer or are grandfathering our existing and pipeline deals. My business is on "pause" right now.

Help!

Thanks,

Brian

From: Tesher, David
Sent: Monday, November 28, 2005 9:46 AM
To: Kambeseles, Peter
Subject: Fw: E3 FAQ

Need to discuss later...

Sent from Blackberry Wireless Handheld

-----Original Message-----
From: Inglis, Perry <perry_inglis@standardandpoors.com>
To: Gilkes, Kai <kai_gilkes@standardandpoors.com>; Jordan, Pat <pat_jordan@standardandpoors.com>; Tesher, David <david_tesher@standardandpoors.com>; Bryan, Andrea <andrea_bryan@standardandpoors.com>; Khakee, Nik <nik_khakee@standardandpoors.com>; Gillis, Tom <tom_gillis@standardandpoors.com>
Sent: Mon Nov 28 07:02:36 2005
Subject: RE: E3 FAQ

Dear All - Here is our proposal for the transition process as discussed last Wednesday. This has been agreed by Kai, Simon Collingridge, Ian Bell and me:

1.Agreed on a 4 month transition period at the end of which all new deals will need to be rated and surveilled using E3. However for any deal rated on E2.4.3 (either before or during the transition period) this deal will continue to be surveilled on E2.4.3 for its life.

2. All new deals that are rated or considered for a rating during the transition period will be run on both E2.4.3 and E3. We will also run all deals through both E3/Low and E3/High to determine if the result on E2.4.3 is within the tolerance levels. The actual tolerance results will not be shared with arrangers (except where the results require more credit enhancement as outlined below). This will need to be carefully managed globally.

3. If the deal falls within the tolerance levels then it can be rated on E2.4.3 and also surveilled (inc SROC report) on E2.4.3 for its life.

4. If the deal falls outside of the tolerance levels then additional c/e will be required to bring the result on E2.4.3 up to a level at least the same as E3/Low. The deal can then be rated and surveilled on E2.4.3 but there will need to be a flag to surveillance to ensure the excess c/e under 2.4 doesn't feed into an upgrade. If the deal falls outside the E3/High then the arranger will be strongly advised to use E3.

5. For all deals surveilled on E2.4.3 where an upgrade (or downgrade) is being considered the E3 tolerances will be run and the upgrade (or downgrade) will only happen if the deal falls into the tolerance band.

6. Propose that to ensure consistency a global surveillance committee is established.

7. Propose that exactly the same process is followed for cash.

Regards

Perry

> -----Original Message-----
> From: Gilkes, Kai
> Sent: 28 November 2005 11:54
> To: Jordan, Pat; Tesher, David; Bryan, Andrea; Inglis, Perry; Khakee, Nik
> Subject: E3 FAQ
>
> Dear all,
> Please see the attached updated FAQ for today's call.
> Kai
>
> << File: FAQ for E3 Release KG 28-Nov-05.doc >>

Permanent Subcommittee on Investigations
EXHIBIT #65

PSI-SP-000201

From: Inglis, Perry
Sent: Thursday, December 01, 2005 7:50 AM
To: Gilkes, Kai; Gillis, Tom; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: RE: Transition and ongoing surveillance process for E2.4.3 versus E3

I'll have a go at answering your other issues/questions Tommy and we can always discuss on the call today:

1. Yes I think arrangers will be able to accept surveillance on E3.4 etc. This is no different to how we do things now - all deals surveilled on latest model and then a final check on rated model before action being taken. It is just that the changes are so fundamental in E3.0 that we haven't been able to continue this process moving from E2.4.3 but I would expect to reinstigate from E3.0 onwards.

2. Scripting - no problem and a good idea. I don't think your concerns on the tolerance point will be a particularly big issue for the market. My view is that arrangers will be quite happy to hear that their deal falls within our acceptable tolerance levels and just get on with their trade. Our experience is that really only the high yield deals are going to fall outside of the tolerance which will be very obvious to arrangers anyway when they look at E3.

3. There is no intention to change what is being surveilled

4. I understand your point but if we accept that we have a tolerance band for existing deals then surely we should be willing to have the same for new deals during the 4 months period? Isn't our concern with the deals that fall outside the tolerance that they are under enhanced for credit risk but if inside the tolerance they are not? So if the deal gets inside the tolerance by adding more enhancement but still uses E2.4.3 we shouldn't have a problem. My concern here is that for the HY deals that may fall outside the tolerance if we insisted they use E3 they would be having to put in substantially more c/e only some of which is to do with credit risk. The move from E3/Low to full E3 is purely model risk and is a standard that we are not holding other deals to.

Hope that helps!

Perry

-----Original Message-----
From: Gilkes, Kai
Sent: 01 December 2005 11:07
To: Gillis, Tom; Inglis, Perry; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: RE: Transition and ongoing surveillance process for E2.4.3 versus E3

Tom,
With regard to point 5 below, I don't think we will experience a situation where deals surveilled using E2.4.3 exhibit very different volatility to those surveilled using E3. The reason for this is that while the subordination levels of each model can clearly be different, the sensitivity of both models to rating changes in the underlying portfolio is not very different. For example, during the impact testing we notched several portfolios by 1 notch, and observed very similar rating changes in the two models. (In an extreme case, if

several names fell from IG to NIG, I would expect E3 to be more sensitive than E2.4.3, all else equal). I agree that we need to do more research on ratings volatility generally, but I would argue that most ratings volatility is actually structural (i.e. due to high leverage, etc.), and not related to modelling assumptions.

Also, I would not expect the tolerance bands to affect the relative impact of E2.4.3 and E3, apart from perhaps to bring the actions of E2.4.3 closer to E3 (i.e. slightly larger downgrades than E2.4.3 might suggest).

Kai

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, November 30, 2005 5:12 PM
To: Inglis, Perry; Gilkes, Kai; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: RE: Transition and ongoing surveillance process for E2.4.3 versus E3

Perry,
I apologize but I have done a little bit of brain dump below. Trying to deepen my understanding. I have included some suggestions and/or questions below in Blue. Thanks! Tom

-----Original Message-----
From: Inglis, Perry
Sent: Monday, November 28, 2005 12:20 PM
To: Gilkes, Kai; Gillis, Tom; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: Transition and ongoing surveillance process for E2.4.3 versus E3

Dear All

Following our call today I have changed no.5 below to reflect our conversation. I would be grateful to receive your approval or otherwise to this proposal so that it can be rolled out to the deal analysts and surveillance analysts globally:

1.Agreed on a 4 month transition period at the end of which all new deals will need to be rated and surveilled using E3. However for any deal rated on E2.4.3 (either before or during the transition period) this deal will continue to be surveilled on E2.4.3 for its life. Which we are assuming is 3 years. Will arrangers be able to accept an E3 rating but E3.4 surveillance?

2. All new deals that are rated or considered for a rating during the transition period will be run on both E2.4.3 and E3. We will also run all deals through both E3/Low and E3/High to determine if the result on E2.4.3 is within the tolerance levels. The actual tolerance results will not be shared with arrangers (except where the results require more credit enhancement as outlined below). This will need to be carefully managed globally. How will we respond? It may be helpful to script out a few examples for the staff. Do we think some firms will reverse engineer this?

3. If the deal falls within the tolerance levels then it can be rated on E2.4.3 and also surveilled (inc SROC report) on E2.4.3 for its life.
Will the surveillance be adjusted to the number of issues defaulted as opposed to the probability of default?

4. If the deal falls outside of the tolerance levels then additional c/e will be required to bring the result on E2.4.3 up to a level at least the same as E3/Low. The deal can then be rated and surveilled on E2.4.3 but there will need to be a flag to surveillance to ensure the excess c/e under 2.4 doesn't feed into an upgrade. If the deal falls outside the E3/High then the arranger will be strongly advised to use E3. This is for new deals. I think it will be difficult maintaining a consistent approach to these transactions by leaving it up to the adviser. If it is outside of the tolerances (high or low), these are transactions are higher risk that we are targeting by developing E3. Inside the tolerances are the transactions that we have determined are more model risk and not so much credit risk. I would think we would want any deal that is outside the tolerances to use E3.

5. For all deals surveilled on E2.4.3 where an upgrade is being considered the deal will only be upgraded if also passing on E3/Base. The level of upgrade will however be in accordance with E2.4.3 and the deal will continue to be surveilled on E2.4.3. For all deals surveilled on E2.4.3 where a downgrade is being considered the deal will also be run on E3/Low. If the deal falls within the E3/Low tolerance the downgrade will be in accordance with E2.4.3. If the deal falls outside of the tolerance this information will be taken to the surveillance committee for potential action beyond (i.e. more rating notches) than the output of E2.4.3 would suggest. The deal would continue to be surveilled on E2.4.3 I believe this is suggesting treating upgrades differently than downgrades. I agree with this, if I understand correctly, over time in a period of sustained upgrades more and more transactions would move closer to be being on an E3 base. I like the sentiment suggested that we should move toward E3 for all deals provided that it is not disruptive to the market.

I think we need to either be as explicit as possible with our underlying assumptions or be willing to reassess each year our agreement. I am concerned that in two years from now we may be faced with some big corporate downgrade (a la GM). I don't know if this could happen but assume there were 100 deals holding/referencing GM and half were under E2.4 and half E3. All of the E3 deals show a change but because of the tolerances, none of the E2.4 deals indicate a change. I think depending on the circumstances we should leave open our options on how we react to these types of events.

I think we need to understand better how transitions will change under E3. I have heard people state that E3 will make our ratings more volatile. Do we have any empirical evidence of this? Do we know how much more volatile? Do we know how much volatility is associated with the new default curves verses the application of defaults to referenced entities vs. our existing approach?

Arguments against moving to an E3 include concerns about volatility. We need to monitor and think about two groups of deals with the same ratings and portfolios, with different volatilities. Perhaps it would be useful to take and existing transaction and assume a few transition scenarios and see how they would perform under E2.4, E3, and the tolerances over there life. I think this would be great help for me to gain a better understanding of these issues.

Do we need to think about E2.4 and E3 when it comes to trades based on the same index. I would assume that they would need to be treated the same.

6. Propose that to ensure consistency a global surveillance committee is established which for the first few months should compile a group that includes both surveillance and deal analysts/managers.

7. Propose that exactly the same process is followed for cash.

From: Griep, Cliff
Sent: Wednesday, December 07, 2005 5:17 PM
To: Gillis, Tom; Jordan, Pat
Subject: RE: RE: FW: Call from Abby Moses, Derivatives Week re: status of CDO Evaluator 3

I know the plan. I've read the earlier version of the technical document, but not the latest revisions. I may have missed it, but I'm also looking for the related FAQ. My general comment on the technical document is that it may not adequately cover precisely what, and precisely why the analytical framework is changing. My sense is that it would be helpful to present an executive summary of what is changing, and why it's changing, and what the implications are. With regard to communication, and perhaps SFLT has already done this, I think it's helpful to reassess whether the manner in which we released the potential changes and the beta, is consistent with the transparency objectives implied by the code. As mentioned at APB, we need to make sure the practices are taking the public release and comment period seriously. In hindsight, this seems like a strong candidate for that. I agree that we may have achieved feedback from the right people with the existing process, but again in hindsight, given that we appear like we are going to end up with disgruntled customers one way or the other, it may have been better to put together a detailed piece which posed specific areas for feedback, inclusive of the criteria and policy issues, and set up a process to evaluate that. The feedback may be being assessed in a more systematic way than I'm aware, but it doesn't seem so. I don't disagree with how the recent inquiries have been handled, and I agree a global communication strategy is needed. On APB, and CMS EC, my sense, reinforced from the banker meetings, is that there is risk and potentially material business implications with any implementation plan. I was offering APB, and have been for awhile now, as a sounding board for the issue, and to support/reinforce/make decisions regarding the policy issues around grandfathering. As I said a few months ago, it would be helpful to have a policy framework communicated to the market on when S&P will apply new criteria in model derived ratings to outstanding transactions and when it won't. In the absence of such a stated position, and divergent historical precedents, we are not being as transparent as we need to be.

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, December 07, 2005 8:17 AM
To: Griep, Cliff; Jordan, Pat
Subject: RE: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Cliff,
I seem to recall that we indicated that we announced the new model being developed and the potential changes being considered in it at a conference in London last Feb. I think this was in response to your concern over the limited beta in the market. We indicated that beta was not the only disclosure but that we announced it at a conference. That being said, we are rating certain transactions (shorts and first to default) with the new model which as you know is different from the existing model. I thought that you understood our approach to outstanding issues. We were not grandfathering. However, we were applying tolerance bands around the model to prevent unnecessary rating volatility. It was precisely because of our diligence to applying our criteria to all transactions, albeit in a responsible way, that resulted in the Lehman Brothers meeting you attended. So we are not planning to take the issue APB. As I thought we agreed, we are working diligently to release the new model as soon as humanly possible. I believed I had told you that we were hoping for this Friday. I have understood your silence as agreement. If our release of the model is problem, please let me know. We do not wish for the release to be scooped by anyone in the media. In fact, we were just discussing setting up meetings with Adam to propose a media plan. Our Communications people in Europe have been fully briefed. You have our technical document and FAQ that will be published. As you might imagine by the Lehman response, we believe that the release and move to this model is a high priority and urgent. However, your concerns are equally concerning to us and would like to address any you may have.
Thanks! Tom

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, December 06, 2005 5:46 PM
To: Jordan, Pat
Cc: Gillis, Tom
Subject: FW: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Permanent Subcommittee on Investigations
EXHIBIT #67

Pat, I thought you guys said that we had publicly introduced the proposed criteria through a series of conferences. Did we share the proposed changes just with select market participants? Are we rating transactions today based on criteria that has not been publicly released? Do you want apb to consider the grandfathering issue and provide an explicit decision? Do you want to use a formal comment period as was requested by apb back in april for all major criteria issues?

-----Original Message-----
From: Tempkin, Adam
Sent: Tue Dec 06 17:36:01 2005
To: Griep, Cliff; Barker, Mimi
Cc: Carlson, Gus; Winn, Martin
Subject: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

To my best knowledge, we have not yet issued a public commentary on the proposed changes to criteria.

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, December 06, 2005 5:22 PM
To: Barker, Mimi
Cc: Carlson, Gus; Winn, Martin; Tempkin, Adam
Subject: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

The structured group said the other day that they have already made the proposed new criteria public several months ago. Do we have a publicly released article on this.

-----Original Message-----
From: Barker, Mimi
Sent: Tue Dec 06 17:04:23 2005
To: Griep, Cliff
Cc: Carlson, Gus; Winn, Martin; Tempkin, Adam
Subject: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Hi Cliff -- Wanted you to be aware of the media interest on this issue, and to forward a copy of the Lehman report, in the event you haven't seen it. Thanks. Mimi

-----Original Message-----
From: Tempkin, Adam
Sent: Tuesday, December 06, 2005 4:58 PM
To: Barker, Mimi
Cc: Carlson, Gus
Subject: RE: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Hi Mimi,

I spoke briefly to Pat Jordan about this yesterday, and the only thing she wants us to say externally at this point is that we are still doing internal testing of CDO Evaluator 3 (E3), getting market feedback, etc. Beyond that, she does not want to give any more details. FYI -- This delay in updating our assumptions and our model has been a huge issue in the market for awhile now, and in fact, Lehman Brothers recently wrote a pretty harsh article about our delay. I have attached the Lehman article below.

I spoke to the reporter and told her the comment Pat suggested -- more internal feedback and testing, etc. -- and given how this is already out in the market, it's just not enough detail for the Derivatives Week reporter, Abby Moses. I suspect Abby will use my quote but then write, "declined to comment further...", etc. She wants to know more details about this overhaul of our methodology -- is it a serious overhaul? Are we changing our assumptions? What's the timing? Will it be retroactive for recent deals, and if so, how far back?, etc.

Given that Lehman already wrote about this, my feeling is that we should be providing more detail to the market -- at least regarding which assumptions we are changing and to what extent, etc.

Thanks,

Adam

-----Original Message-----
From: Barker, Mimi
Sent: Monday, December 05, 2005 4:52 PM
To: Tempkin, Adam
Cc: Wargin, David
Subject: Call from Abby Moses, Deriviatives Week

Hi Adam -- David transferred a call from Abigal Moses at Deriviatives Week (212 224 3640) -- we thought she was calling on the press release pub fi just put out on Debt Deriviative Profiles (DDP) criteria revisions.

Turns out she was callling about whether we were changing criteria on CDO evaluators -- she'd heard we were beta testing a new edition. I told her I'd call you, and in the meantime I sent her the DDP piece (amoses@iinews.com) as she had written on pub fi and deriviatives last week.

Over to you.

Thanks.

Mimi

From: Tesher, David
Sent: Wednesday, December 21, 2005 10:40 AM
To: Kambeseles, Peter
Subject: FW: RE: E3 docs

Things change while we were out?

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, December 21, 2005 8:35 AM
To: Tesher, David; Bryan, Andrea; Inglis, Perry; Gilkes, Kai
Subject: RE: RE: E3 docs

David,
You missed our meeting yesterday. We will be distributing the notes on that meeting shortly and will be reconvening for a final decision. Thanks! Tom

-----Original Message-----
From: Tesher, David
Sent: Wednesday, December 21, 2005 8:23 AM
To: Bryan, Andrea; Inglis, Perry; Gillis, Tom; Gilkes, Kai
Subject: Re: RE: E3 docs

It is my belief that we have now all agreed to publically dissiminate the "tolerance" bands (given the numerous conversations that have taken place regarding this subject over the last several days.....which have included Joanne, Cliff, Tommy, and now all the PL's) ......

As such ......let's now move forward.....

In turn, as was suggested yesterday in our pre-TCON call ......I suggest we work in parallel to: a) craft the message around why we implemented the tolerance bands (ie ...as a "transistional PD proxy" for vintage trades and transactions that are in the dealer pipelines that have been structured around 2.4.3), b) to work with publishing, Laura, and Adam in generating the press release around this issue ....and, c)work with Ram and Bob Watson to logistically incorporate onto our Web Site ......

Unfortunately I do not see any simple logistical solution regarding how to dissiminate this to all market participants ... I would recommend we incorporate them into E3.0 ....and then phase them out publically ......at some time in the future.....

The important thing is to begin to "craft" the "politically correct" external tolerance band message....Who would like to take the lead on this?

David

.

Sent from Blackberry Wireless Handheld

-----Original Message-----
From: Bryan, Andrea <andrea_bryan@standardandpoors.com>
To: Inglis, Perry <perry_inglis@standardandpoors.com>; Gillis, Tom <tom_gillis@standardandpoors.com>; Gilkes, Kai <kai_gilkes@standardandpoors.com>; Tesher, David <david_tesher@standardandpoors.com>

Sent: Wed Dec 21 07:48:52 2005

Permanent Subcommittee on Investigations
EXHIBIT #68

PSI-SP-000197

Subject: Re: RE: E3 docs

yes, we need to think of the best delivery to clients.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Inglis, Perry <perry_inglis@standardandpoors.com>
To: Gillis, Tom <tom_gillis@standardandpoors.com>; Bryan, Andrea <andrea_bryan@standardandpoors.com>; Gilkes, Kai <kai_gilkes@standardandpoors.com>; Tesher, David <david_tesher@standardandpoors.com>

Sent: Wed Dec 21 05:27:25 2005
Subject: RE: RE: E3 docs

I agree that we need to make the tolerances public. Really what we mean is giving everyone E3/Low and E3/High. Please let me know how you intend to do this - put it up on the website alongside E3/Base? Just send the relevant tables to the arrangers? Press releases?

-----Original Message-----
From: Gillis, Tom
Sent: 16 December 2005 20:04
To: Inglis, Perry; Bryan, Andrea; Gilkes, Kai; Tesher, David
Subject: FW: RE: E3 docs

We should discuss later or monday.

-----Original Message-----
From: Rose, Joanne
Sent: Fri Dec 16 13:39:41 2005
To: Griep, Cliff; Gillis, Tom
Subject: RE: E3 docs

I think we should make the tolerance levels public,.

Joanne

-----Original Message-----
From: Griep, Cliff
Sent: Friday, December 16, 2005 9:53 AM
To: Gillis, Tom
Cc: Rose, Joanne
Subject: RE: E3 docs

Should we be going out with request for feedback on the cash flow criteria issues at the same time we are releasing E3. Are we ready to? It seems like E3 will raise questions about cash flow deals and we may want to address these at the same time.

I would take out the reference to "last three to five years", and just say upfront that "the model incorporates changes in default, correlation, and recovery criteria reflecting additional data and research related to each, as well as expanded capabilities to incorporates additional structural features including......" The updated research is detailed in the supporting technical document.

It would be helpful to see the rationales for the individual ratings that are being changed,

It's not clear to me how, or even why we would keep the tolerance levels confidential, as they are going to be the primary determinant of the ratings for outstanding transactions.

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, December 14, 2005 5:29 PM
To: Griep, Cliff
Subject: FW: E3 docs

fyi

-----Original Message-----
From: Inglis, Perry
Sent: Tuesday, December 13, 2005 9:58 AM
To: Bryan, Andrea; Michaux, Fabienne; Tesher, David; Jordan, Pat; Gillis, Tom; Rose, Joanne; Gilkes, Kai; Bell, Ian

Subject: FW: E3 docs

Dear All

Here are what I hope are the final drafts of the Press Release, Internal FAQ document, Internal Transition and Process document, and suggested wording for rating action press release. I believe these all encompass your comments on previous drafts. I know there is some doubt as to whether the release will take place tomorrow or next week but please can you let me know if you have any comments asap.

Thanks

Perry

-----Original Message-----
From: Rodney, Gavin
Sent: 13 December 2005 14:51
To: Inglis, Perry; Gilkes, Kai
Subject: E3 docs

Hi
Here are the latest docs. I will be in a meeting till 4pm so can discuss any changes after that.

cheers
Gavin

<< File: Global MR paragraph draft Dec 13.pdf >> << File: CDO Evaluator media release draft Dec 13.pdf >> << File: FAQ draft Dec 13.pdf >> << File: Transition Process Doc Draft Dec 13.pdf >>

Gavin Rodney

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---

From: Scott, Gale
Sent: Tuesday, January 31, 2006 6:26 PM
To: Diamond, Kim
Subject: RE:

Importance: High

I don't blame him. See you then.

Gale

-----Original Message-----
From: Diamond, Kim
Sent: Tuesday, January 31, 2006 6:22 PM
To: Scott, Gale
Subject: Re:

I talked ghallagher off the ledge for now. He is pretty pissed though and is likely going to send an email to you and maybe even joanne. I will see you tomorrow

----
Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Scott, Gale <gale_scott@standardandpoors.com>
To: Diamond, Kim <kim_diamond@standardandpoors.com>
Sent: Tue Jan 31 18:15:52 2006
Subject: RE:

I sent to Joanne and Tommy.

Gale

-----Original Message-----
From: Diamond, Kim
Sent: Tuesday, January 31, 2006 6:00 PM
To: Scott, Gale
Subject: Fw:

Fyi

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Gallagher, Timothy <timothy.gallagher@gs.com>
To: Diamond, Kim <kim_diamond@standardandpoors.com>
Sent: Tue Jan 31 17:05:48 2006

Permanent Subcommittee on Investigations
EXHIBIT #69

Subject:

Kim - lets speak asap on my voice mail. I think the investor spoke to someone else. Below is the direct feedback:

"Rabo Tango are withdrawing any interest from LNR because they had a call with S&P who confirmed that this was being rated off the old methodology. Rabo's conclusion was that they felt this deal was a prime candidate for a downgrade when the new methodology kicked in."

I apologize if my voice mail seemed curt but this is a huge issue for us and the investor came to this conclusion immediately after the call with the S&P person.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-7144 | Fax: 212-493-0687
e-mail: timothy.gallagher@gs.com
Goldman
Sachs
Timothy Gallagher
Fixed Income, Currency & Commodities

From: Tesher, David
Sent: Tuesday, February 14, 2006 7:10 PM
To: Anderberg, Stephen
Cc: Kambeseles, Peter
Subject: Fixed Income Activity Report:

Steve,

I am currently heading back to NY via Philly .....In turn, would you please incorporate the following into this months Activity Report from me:

1) Would you take what I submitted to Henry outlining the cash flow assumption teams that were established......and again reflect all of them:

Then......

2) Take the Cash Flow Beta Assumptions that we sent all the dealers.....and attach them to the same section .....Would you also highlight that these are Phase 1 of our rollout ......Then touch base with Peter -- and ask him to provide you with dialog highlighting our planned Phase II broader roll-out......
and then conclude with that.....

Also .....please add the following paragraph's where appropriate:

The Cash Flow CDO market continues to experience primary and secondary "overhang" given the rollout of CDO Evaluator 3.0 and the corresponding anxiety\anticipation surrounding our revised cash flow assumptions. The uncertainty and anxiety surrounding our revised cash flow changes has been pronounced (as was anticipated) given S&P's decision not to "grandfather" vintage CDO transactions.

Market feedback has been varied regarding our methodology changes.
Though market participants understand that S&P reserves the right to refine and adjust it's credit opinion at any time (based on the availability of additional\new data), Investors have generally conveyed their preference to have the market re-price risk -- as opposed ~~to also being exposed to S&P "marking to market" its credit opinion as a result of additional data which translates into a methodology~~ change.

Though the tolerance bands have provided some "cushion" as it pertains to mitigating a rating action based soley on a model based change ....they have also created confusion given their lack of transparancy. Further complicating this E3 Low tolerance band dissimination\transparancy issue is the fact that internal dialog\debate is still taking place around the CDO of ABS default tables and underlying assumptions (ie WAL, Correlation, Industry Concentrations).

Though market participants appreciate the complexities surrounding rolling-out a material change to our CDO methodology .....they have generally been united in their sentiment of requesting a longer lead time in order to help "manage expectations" and enable Dealers, Issuers and Investors to modify and transistion vintage and contemplated structures to our "new" standards .....

Several market veterans used the BASIL 2 accord as an analogy for "managing expectations" with greater lead time (ie the BASIL 2 discussions have been in the broad marketplace for a couple of years now).......

Steve --

Andrew Pedvis should have a follow-up regarding internal progress we have made rwegarding the credit estimate process.....

Sent from my BlackBerry Wireless Handheld

From: Bell, Ian
Sent: Tuesday, March 21, 2006 6:30 AM
To: Gillis, Tom
Cc: Inglis, Perry; Jordan, Pat
Subject: Moody's

Tom

FYI. Just sat on a panel with Frderic Drevon, my opposite number at Moody's who fielded a question on what happens to old transactions when there is a change to rating methodologie. The official Moody's line is that there is no "grandfathering" and that old transactions are reviewed using the new criteria. However, "the truth is that we do not have the resources to review thousands of transactions, so we focus on those that we feel are more at risk.". Interestingly, Olivier Dufour from Fitch said they "grandfathered" as it would otherwise be "unfair".

Regards

Ian

Sent from my BlackBerry Wireless Handheld

From: Coyne, Patrick
Sent: Tuesday, June 27, 2006 2:20 PM
To: Anderberg, Stephen
Subject: FW: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

different from cdo

-----Original Message-----
From: D'Erchia, Peter
Sent: Tuesday, June 27, 2006 12:07 PM
To: Coyne, Patrick
Subject: FW: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

-----Original Message-----
From: Warner, Ernestine
Sent: Tuesday, June 27, 2006 10:55 AM
To: Warrack, Thomas; Jordan, Pat; Buendia, Rosario
Cc: Wong, Elwyn; Kambeseles, Peter; Pollsen, Robert; D'Erchia, Peter; Tesher, David; Bryan, Andrea; Gillis, Tom; Albergo, Leslie; Arne, Errol; Barnes, Susan; Glehan, David; Goldenberg, Mark; Grow , Brian (S&P); Kennedy, Martin; Kostiw, Karen; Lukacsko, Erik; Mason, Scott; Mcdermott, Gail; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Shaikh, Waqas; Solar, Mona; Stock, Michael; Tencer, Steve; Vonderhorst, Brian
Subject: RE: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

Thanks Tom. The implications for existing deals following changes in rating criteria or models is accurately described below. Actual deal performance continues to drive rating affirmations and changes, even when loan level information has been made available. I would add that in light of information sharing around changes to the model we would often revisit our surveillance criteria making any necessary adjustments to ensure more precise ratings.

Examples of this includes more frequent reviews as delinquencies ramp up (again, performance driven) and movement toward higher support multiples or prolonged seasoning prior to upgrade especially at the lower rating levels.

Ernestine

-----Original Message-----
From: Warrack, Thomas
Sent: Friday, June 23, 2006 4:04 PM
To: Jordan, Pat; Buendia, Rosario
Cc: Wong, Elwyn; Kambeseles, Peter; Warner, Ernestine; Pollsen, Robert; D'Erchia, Peter; Tesher, David; Bryan, Andrea; Gillis, Tom; Warrack, Thomas; Albergo, Leslie; Arne, Errol; Barnes, Susan; Glehan, David; Goldenberg, Mark; Grow , Brian (S&P); Kennedy, Martin; Kostiw, Karen; Lukacsko, Erik; Mason, Scott; Mcdermott, Gail; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Shaikh, Waqas; Solar, Mona; Stock, Michael; Tencer, Steve; Vonderhorst, Brian
Subject: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

All,

As a result of the increase in credit support requirements as the RMBS Group moves from LEVELS 5.6 to 5.7 for July transactions, SF has had an increase number of queries from the marketplace (mostly from Wall Streets researchers and investors/CDO managers) on the impact this change will make on outstanding deals rated under the 'old criteria' or LEVELS 5.6. Given the significant inter-relationship between the RMBS and CDO markets, and to ensure consistent and systemic responses to this question across SF, Pat and Rosario have asked me to attempt to articulate our position and response to this question for all potentially impacted. (Incidentally this position was shared and discussed at the SF Investor Forum last month.)

(Also note: this position is taken in full consultation with Ernestine Warner and the Surveillance group.)

Simply put - although the RMBS Group does not "grandfather' existing deals, there is not an absolute and direct link between changes to our new ratings models and subsequent rating actions taken by the RMBS Surveillance Group. As a result, there will not be wholesale rating actions taken in July or shortly thereafter on outstanding RMBS transactions, absent a deterioration in performance and projected credit support on any individual transaction.

(We have taken the position that 'grandfathering' means to completely ignore or be ignorant of new rating changes. See further comment below.)

Reasoning behind this position:

- The RMBS New Ratings Group uses primarily a loan level, statistically driven approach to predict future default and loss. This statistical approach attempts to predict future performance based upon correlation analysis conducted on loans with similar collateral traits.
- The RMBS Surveillance Group (partially as a result of a lack of available updated level loan data and updated FICO scores as well as having the advantage of observing actual performance over time) has historically relied on a pool level analytical approach based upon the ability to observe the actual behavior of individual loans and pools vs. their projected credit support. This includes an analysis of the specific delinquency pipeline and the actual loss severities exhibited by the loans in the pool.)

This process results in the actual observed performance of individual transactions driving ratings actions post closing, rather than a statistically based forecast.

One can think about this in the following terms:
The New Ratings Group may determine that historically- Investor owned properties generally cause an increase in default probability, but that does not mean that every deal concentrated with investor properties will perform poorly. They Surveillance approach described above allows for this consideration.

How then can we claim not to "Grandfather" existing deals?

The New Ratings group develops its criteria in full cooperation with Surveillance, in fact often new rating criteria changes are implemented based upon feedback from the Surveillance Group on the positive or negative performance of outstanding transactions. As a result, Surveillance is fully aware of the specific collateral variables that New Ratings may deem to be of increased risk and therefore will monitor these deals with a heightened sense of focus and priority. We believe that this coordination and the resulting increased scrutiny that these loans and deals will experience remove any sense of "Grandfathering" existing deals.

We continue to be interested in your feedback as we discuss these critical concepts and distinctions with an ever evolving and inter-connected marketplace.

Thanks, Tom

From: Warner, Ernestine
Sent: Thursday, November 09, 2006 8:27 PM
To: Anderberg, Stephen; Thompson, Eric; Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael
Subject: RE: Hot Topics Polling Questions

Steve, I think these are good. Nice job.

Ernestine

-----Original Message-----
From: Anderberg, Stephen
Sent: Thu Nov 09 18:10:11 2006
To: Thompson, Eric; Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Warner, Ernestine
Subject: RE: Hot Topics Polling Questions

Good point - I will change

From: Thompson, Eric
Sent: Thursday, November 09, 2006 5:10 PM
To: Anderberg, Stephen; Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Warner, Ernestine
Subject: RE: Hot Topics Polling Questions

You may want to change number four to say that otherwise, holders might be forced to sell.....given the audience is mixed.

Eric B. Thompson
Director
Structured Finance CMBS Surveillance
Standard & Poor's
55 Water Street, 42nd Floor
New York, New York 10041
Phone: (212) 438-2620 / Fax: (212) 438-2662
eric_thompson@standardandpoors.com

-----Original Message-----
From: Anderberg, Stephen
Sent: Thursday, November 09, 2006 1:16 PM
To: Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Thompson, Eric; Warner, Ernestine
Subject: Hot Topics Polling Questions

Hi all,

The polling questions for the closing of next week's Ht Topics session are below. Please let me know TODAY if you have any comments.

Thanks,

Steve

1. What is your primary role in the Structured Finance market?
    a. Investor
    b. Issuer
    c. Trustee
    d. Servicer
    e. Other
2. Which asset class is your primary focus?
    a. ABS
    b. CDO
    c. CMBS
    d. RMBS
3. The past several years have seen record growth in RMBS and CMBS issuance. In your experience, how have servicers done in fulfilling their obligations under the transaction documents?

Enter two responses: the first for RMBS servicers, the second for CMBS.
    a. Strong
    b. Above Average
    c. Average
    d. Below Average
    e. Weak

4. Should S&P consider "grandfathering" existing ratings when implementing criteria changes?

    a. Yes. Otherwise, I may be forced to sell if there are downgrades. It's not fair to change the rules.

    b. No. I expect all ratings to be analyzed using the same approach and assumptions.

    c. Maybe. It depends on what the change is. What's most important is that all ratings are an accurate & current assessment of credit risk.

5. In which Structured Finance category do you think the most product innovation will occur during 2007?

a. ABS
b. CDO
c. CMBS
d. RMBS

6. Which Structured Finance segment are you most concerned about the rating performance of over the next year?

    a. ABS
    b. CDO
    c. CMBS
    d. RMBS

Thanks,

Steve

Stephen Anderberg
Standard & Poor's CDO Surveillance
55 Water Street, 42nd floor
New York, NY 10041
(212) 438-8991 phone
(212) 438-2662 fax
stephen_anderberg@sandp.com

From: Gillis, Tom
Sent: Sunday, July 15, 2007 6:20 PM
To: Griep, Cliff; Buendia, Rosario; Daniels, Valencia
Cc: Daicoff, Cathy; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: RE: Special APB meeting

Thanks - we will cover each one. Tom

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Griep, Cliff
Sent: Sunday, July 15, 2007 06:18 PM Eastern Standard Time
To: Buendia, Rosario; Gillis, Tom; Daniels, Valencia
Cc: Daicoff, Cathy; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: RE: Special APB meeting

The issues that came up when I briefed the group were 1. Alignment of surveillance methodology and new criteria. 2. What is changing regarding criteria 3. How do we handle the grandfathering issue in the context of consistent application of criteria 4. Alignment of surveillance methodology and ratings actions with ratings definitions. 5. Implications for rated subprime book overall. 6. Communication within s&p.

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Buendia, Rosario
Sent: Sunday, July 15, 2007 02:41 PM Eastern Standard Time
To: Gillis, Tom; Daniels, Valencia
Cc: Griep, Cliff; Daicoff, Cathy; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: RE: Special APB meeting

Tommy,
Based on the timeline update you, susan, Joanne and I had this past friday, I think wednesday afternoon not sooner than 2 pm looks much more feasible right now and therefore less likely that we'll have to reschedule.

Regards
Rosario

Ms. Rosario Buendia
Standard and Poor's
Managing Director
Global Practice Leader RMBS and ABS
Latin American SF REgional Practice Leader
Structured Finance Department.
Tel: 1-212-438-2410
Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----

From: Gillis, Tom
Sent: Sunday, July 15, 2007 02:27 PM Eastern Standard Time
To: Daniels, Valencia
Cc: Griep, Cliff; Daicoff, Cathy; Buendia, Rosario; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: Special APB meeting

Valencia,
Could you schedule a special APB meeting for either Tuesday or Wednesday afternoon. It would be best if you could schedule it for either 2 or 3 pm and for a conference room on the 40th floor. The meeting will be a brief update of the current RMBS activities. It will be between 30 and 60 minutes. Thanks! Tom

P.s. Please forward an invitation to all of the cc's. Only 1 or 2 of them will be available or their designee. Thanks! Tom

From: Chun, Roy
Sent: Monday, October 01, 2007 3:55 PM
To: Warner, Ernestine
Subject: RE: Here are thoughts around RMBS

Thanks. I will include thoughts. I think I got some of the concepts already under the surveillance needs but will make it more explicit to the things you recommend.

Roy

-----Original Message-----
From: Warner, Ernestine
Sent: Monday, October 01, 2007 3:50 PM
To: Chun, Roy
Subject: RE: Here are thoughts around RMBS

Roy, here is a few recommendations that you can add:

Why RMBS?
- Ratings no longer grandfather - need batch processing for all deals rated within 12 months of critera or model changes

- Automate rating to maturity processes

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Monday, October 01, 2007 2:18 PM
To: Warner, Ernestine
Subject: FW: Here are thoughts around RMBS

FYI - trying to make a case for focusing the SF surv Initiative on Global RMBS efforts so we can get funding and resources. See attached.

Will need your support going forward.

Roy

-----Original Message-----
From: Chun, Roy
Sent: Friday, September 28, 2007 12:52 PM
To: Carrier, Henry; D'Erchia, Peter; Gillis, Tom; Chamberlain, Tim; Chen, John; Chun, Roy; Collingridge, Simon; Coyne, Patrick; Dunne, Beverley; Forbes, Pat; Kochubka, Gary; Kostiw, Jeff; Patel, Honey; Serrano, Julio; Smith, Belinda; Walker, Ed-s&p

Subject: Here are thoughts around RMBS

Hello all, This is related to the RMBS Global project as discussed at the offsite.

Instead of writing out a business case I put down points that will go in a powerpoint presentation.

Ed - If all approved by SFLT to move forward then as part of the project life cycle we will write up a business case and will work with Jeff and Joe P. to put together a funding request memo for inception.

Henry, you can pull some of the info off of this to help with the SFLT deck you are putting together. I will put this on a powerpoint presentation and have ready if needed to present to SFLT on Wednesday. I will also give you some points around CRE CDO.

Let me know if you have any comments.

Roy

<< File: RMBS Global Project.doc >>

Roy L. Chun
Managing Director
Standard & Poor's
55 Water Street
New York, NY 10041
tel: 212-438-2430
fax: 212-438-2662
e-mail: roy_chun@sandp.com

DATE: Wed, 2 May 2007
TIME: 10:51:57
AUTHOR: Froeba, Mark
RECEIPIENT: Buchwald, Zach (FID); May, William;
CC: Hart, Briana (FID)
SUBJECT: RE: Upcoming CLOs / grandfathering list

Zach,

Even for deals that are grandfathered (ie, analyzed under Moody's current methodology), we will begin asking them to REPORT (i) PDRs and (ii) PEs of LGD for each credit and for the pool. In addition, we will ask that every CDO include the "D" and "LD" ratings as a basis for default in the "Defaulted Security" definition.

Please call me if you want to discuss these points. Thanks.

Mark

-----Original Message-----
From: Buchwald, Zach (FID) [mailto:Zach.Buchwald@morganstanley.com]
Sent: Wednesday, May 02, 2007 9:00 AM
To: May, William
Cc: Froeba, Mark; Hart, Briana (FID)
Subject: Upcoming CLOs / grandfathering list

Bill:

Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions w/r/t Moody's old methodology. Please know that we are working hard to get these deals priced as quickly as possible, but bear in mind that market movements or slower-than-expected ramp-ups can sometimes slow down any individual deal.

Ellington - Sound Beach CLO
NYLIM - Flatiron 2007-1 CLO
Allstate - AIMCO CLO 2007-A
MJX - Venture IX CLO
Deerfield - Deer Park CLO
Blackstone - Essex Park CDO 2007
MS Prop - South Shore CLO
Halycon - Halcyon Loan Investors Hybrid CLO
Fore Advisors - Fore CLO I
BlueMountain - BlueMountain CLO V
BSIS - BSIS V
[Gilles Marchand] - Sound View CLO
Highland - [Pharma CLO 1]
Apidos - Apidos CLO VII
RiverSource - [summer CLO]
Symphony - [summer CLO]
Avenue Capital - Avenue CLO VII
Mountain Capital - Moutain CLO VII

Zach Buchwald
Executive Director
Morgan Stanley & Co.
1585 Broadway
New York, NY 10036
Telephone: 212-761-1975
Facsimile: 212-507-8275

DATE: 05/15/2007
TIME: 17:16:08
AUTHOR: Dronov, Alexey
RECEIPIENT: May, William
CC:
SUBJECT: RE: Stratford CLO

Bill - the timing for Stratford has been pushed back one month, so we will be pricing the deal in june. Should we still use the old methodology?

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas
New York, NY 10019
212-261-7497 (Office)
617-[redacted](Mobile)
alexey.dronov@us.calyon.com

From: May, William [mailto:William.May@moodys.com]
Sent: Wednesday, April 11, 2007 6:45 PM
To: Dronov, Alexey (CALYON)
Subject: RE: Stratford CLO

Alex,
Go ahead and use the old methodology.
Regards,
Bill

-----Original Message-----
From: Dronov, Alexey (CALYON) [mailto:Alexey.Dronov@us.calyon.com]
Sent: Wednesday, April 11, 2007 4:14 PM
To: May, William
Subject: RE: Stratford CLO

Bill,

We intend to price the Stratford deal in May but closing will be in June. Should we use the old methodology or the new one? I talked to Danielle Nazarian and Rudy Bunja about some of the LCDS features of the deal and they thought it would make sense to use the old methodology, but suggested that I double check with you. Thanks.

Alexey Dronov - VP
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1301 Avenue of the Americas

New York, NY 10019
212-261-7497 (Phone)
617-[redacted] (Mobile)
alexey.dronov@us.calyon.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: May, William [mailto:William.May@moodys.com]
Sent: Thursday, April 05, 2007 3:15 PM
To: Dronov, Alexey (CALYON)
Cc: Dupont-Madinier, Cyprien (CALYON)
Subject: RE: Stratford CLO

Alexey,
Your analysts are:
Quant: Elina.kolmanovskaya@moodys....com <mailto:Elina.kolmanovskaya@moodys.com>. # is 553-7852.
Legal: mark.froeba@moodys.com <mailto:mark.froeba@moodys.com>. # is 553-4149.
Regards,
Bill

-----Original Message-----
From: Dronov, Alexey (CALYON) [mailto:Alexey.Dronov@us.calyon.com]
Sent: Monday, April 02, 2007 7:15 PM
To: May, William
Cc: Dupont-Madinier, Cyprien (CALYON)
Subject: Stratford CLO

Bill,

We are working on a 700M-1B CLO for Highland Asset Management. The deal is a standard CLO except that potentially the entire collateral pool can consist of LCDS. The AAA tranche will be a revolver like the A-2 tranche in the duane street deals I structured at Morgan Stanley. The manager will have the ability to block portions of the revolver to invest in LCDS on an unfunded basis, also like in the duane street deals. The timing for the deal is as follows:

pricing - beg of may
closing - end of may

Please let us know who will be working on the deal on your end.

Alexey Dronov - VP
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212-261-7497 (Phone)
617-[redacted] (Mobile)
alexey.dronov@us.calyon.com

DATE: 06/12/2007
TIME: 17:26:43 GMT
AUTHOR: Nazarian, Danielle
RECEIPIENT: May, William
CC:
SUBJECT: RE: PDR/LGD methodology

Bill,

I didn't receive the file from them. Could you forward to me what they sent to you?

Thanks

-----Original Message-----
From: May, William
Sent: Tuesday, June 12, 2007 12:08 PM
To: Jourdan, Laurent
Cc: Nazarian, Danielle
Subject: RE: PDR/LGD methodology

Laurent,
BofA did call. Our official position is that we have only one methodology that can be used now. Danielle is looking into the portfolio that they sent over.

-----Original Message-----
From: Jourdan, Laurent
Sent: Tuesday, June 12, 2007 12:05 PM
To: May, William
Cc: Nazarian, Danielle
Subject: RE: PDR/LGD methodology

Hi Bill,

Did you get a call from BofA yesterday? If so, may I know what was decided? It might be useful to know what our official position is on this issue in case it arises again.

Thanks.

Laurent

-----Original Message-----
From: Jourdan, Laurent
Sent: Monday, June 11, 2007 6:10 PM
To: May, William
Cc: Nazarian, Danielle
Subject: FW: PDR/LGD methodology

Bill,

In response to my email below, Danielle asked me to direct BofA to you regarding their request. You should expect a call soon from Sunil Rohra.

Laurent

-----Original Message-----
From: Jourdan, Laurent
Sent: Monday, June 11, 2007 5:59 PM

To: Nazarian, Danielle
Cc: Torres, Ramon O.
Subject: PDR/LGD methodology

Danielle,

BofA (Sunil Rohra and Albert Huntington 212-933-2295) have asked me whether they could have an upcoming deal rated under the new methodology even before the new implementation date, which we anticipate to be by the end of summer. They initially told me their structure was passing under the new meth, but not under the old one. Now they're adding that they'd started marketing the structure under the new methodology and therefore would like to be able to keep doing so.

Your guidance would be appreciated. I am available if you need anything.

Laurent Jourdan
Associate Analyst
Credit Derivatives
Moody's Investors Service
99 Church St - New York, NY 10007
tel: +1 212-553-1086
fax: +1 212-298-6125
e-mail: laurent.jourdan@moodys.com

DATE: 07/16/2007
TIME: 18:02:02
AUTHOR: Snailer, Joseph
RECEIPIENT: Liu, Qingyu; Wang, Jinyang; Arora, Rakesh;
CC: Agarwal, Navneet
SUBJECT: RE: Notching Status

Thanks for asking - wouldn't want you all to do a bunch of work and have to re-do it.

-----Original Message-----
From: Liu, Qingyu (Maggie)
Sent: Monday, July 16, 2007 6:02 PM
To: Snailer, Joseph; Wang, Jinyang; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

I see. Thanks for the clarification.

-----Original Message-----
From: Snailer, Joseph
Sent: Monday, July 16, 2007 6:00 PM
To: Liu, Qingyu (Maggie); Wang, Jinyang; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

The ratings you are generating should reflect what we would have rated the deals when they were issued knowing what we knew then and using the methology in effect then (ie, using the OC model we built then). Let me know if you have any questions.

-----Original Message-----
From: Liu, Qingyu (Maggie)
Sent: Monday, July 16, 2007 5:18 PM
To: Wang, Jinyang; Snailer, Joseph; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

All,

I have a question when I am running the OC model especially models from the first half of 2006. Some deals in the first half of 2006 we already downgraded within last week or last month. If we were to rate the bonds using the OC model we built then, the bond probably would be a Ba level. However, given today's market condition, the bond we rated Ba then we already downgraded to B or Caa last week. Shall we still provide rating for those bond we did not rate then using the old methodology and the old loss coverage number?

Thanks,
Maggie

-----Original Message-----
From: Wang, Jinyang
Sent: Monday, July 16, 2007 10:18 AM
To: Snailer, Joseph; Arora, Rakesh
Cc: Liu, Qingyu (Maggie)
Subject: RE: Notching Status

Joe:

Maggie and her team have completed 21 deals from second half of 2006.

There are 47 deals from the first half of 2006 which they will complete by next Wednesday. 5 deals from Jan 2006 was completed during the previous study.

-Zoë

-----Original Message-----
From: Snailer, Joseph
Sent: Monday, July 16, 2007 9:30 AM
To: Wang, Jinyang; Arora, Rakesh
Subject: Notching Status

Could you let me know where we stand on the OC model runs? The weekly task force meeting is tomorrow and I would like to update them.

Thanks.

Structured Finance Credit Committee
March 31, 2008
Meeting Notes

1) Rating Definitions (David Rosa)

- We currently define our structured finance ratings as measurements of expected loss as of the legal final maturity date. Payments are sometimes made after this date, though. Most believe that payments made after legal final maturity should be considered in the calculation of expected lost. At the same time, however, most also agree that ratings should contain some information on the timeliness of payment.
- This issue sparked strong debate. Some preferred a pure expected loss approach. Others thought timeliness should be explicitly considered, but weren't quite sure how to do so.
- One member suggested a rule of thumb: follow the market. That is, if the market considers certain risks in bond pricing, those risks shout be what Moody's ratings measure, or speak to.
- **Follow-up**: The committee was unable to reach consensus on how to handle this issue. Members suggested a decision on the topic follow further analysis and discussion. Members specifically asked for a draft Special Comment on the topic.

2) Rating changes when methodologies change (David Rosa)

- Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating. Instead, it reviews only those obligations that it considers most prone to multi-notch rating changes, in light of the revised rating approach. This decision to selectively review certain ratings is made due to resource constraints. The result of this approach is that potential one-notch changes are not reviewed, and those ratings usually stay as is.
- Some suggested making this practice known to Moody's regulators, who seem most interested in making sure that multi-notch rating changes are made promptly and are not concerned with one-notch changes.
- Others asked why, if we can subjectively determine which obligations might be subject to multi-notch rating changes, we can't do the same for potential single-notch changes.
- **Follow-up**: No conclusion was reached on this topic. Members suggested reviewing the recent CMBS methodology change and the subsequent rating changes to see what the market thought of Moody's practices in this regard.

3) CPDO (Paul Mazataud, Olivier Toutain)

- As the recent market turmoil has exposed the credit risk in CPDOs, the CPDO team is proposing a completely new rating approach.
- The new approach is significantly simpler than the outstanding methodology and measures CPDO creditworthiness by only two metrics – short-term and long-term risk.
- Short-term credit risk for CPDOs is related to the spreads on an index. If those spreads rise to a certain level, the CPDO will unwind and leave investors with a

loss of over 90%. The spread at which the CPDO unwinds is called the "cash out" spread.

  - The proposed approach will measure the distance between the current spread and the cash out spread, and assign higher ratings where the difference between the two spreads is larger.

- Long-term risk for CPDOS is related to the ability of the facility to meet future payment obligations. A CPDO's ability to make good on its obligations is also related to the current spread on an index. Unlike for assessing short-term risk, however, in measuring long-term risk the concern is that the spread will *decrease* such that the CPDO will not have enough cash to cover its obligations.
  - The proposed approach will measure long-term risk by estimating the CPDO's final NAV and ranking the structure on that basis, with higher NAVs indicating a higher level of creditworthiness.
- The proposal would result in a downgrade for most CPDOs to the Baa level.
- Members suggested that the proposal, while good, is too simplistic for sophisticated CPDO market participants. Members noted that Moody's should try to avoid an appearance of being simple-minded. Members disagreed with a recent move by Fitch to put out a methodology that was so conservative that they could never be accused of over-rating an instrument, but at the same time made issuance almost prohibitively expensive.
- Other members added that the approach probably shouldn't be called a rating methodology, in order to avoid accusations of simple-mindedness. A better statement would be to say that a rating can't go any higher than the level suggested by this new approach, but at the same time, under that cap, more sophisticated analysis may be required.
- **Follow-up**: Members agreed with the proposed approach and suggested its quick implementation. Members also asked for a Special Comment on the topic.

FRAMEWORK FOR ANALYTICS POLICY BOARD REVIEW OF RATING SURVEILLANCE STANDARDS
January 27, 2006

Each practice currently has standards for rating surveillance and the business units actively monitor compliance with them. APB has been asked to reassess existing standards and historical performance relative to them for further review by the Credit Market Services Executive Committee.

Results

The attached charts display our rating surveillance standards, compliance as of October 31, 2005, and a recommended assessment of that performance for the vast majority of Ratings Services.

The U.S. Public Finance group was at 93% compliance, as were U.S. Corporates, Financial Institutions and Insurance. Global C&G, excluding Funds, U.S. Public Finance and U.S. Public Power, was at 79%. C&G performance outside the U.S. is understated by incomplete/inaccurate CORE data. The Funds group was at 90% globally. It should be noted that many groups demonstrated improvement from July to October (compliance figures for July 31, 2005 are shown in parentheses in the charts), in part, reflecting CORE data cleansing.

For Structured Finance, performance was more difficult to measure, reflecting the absence of a centralized management information system on surveillance related workflow, and the consequent reliance on different spreadsheets from multiple tracking systems. Overall, reviews stemming from interim or exception reporting exceed or are consistent with stated standards. These monthly, quarterly or semi-annual reviews are the most valuable for addressing changing credit quality. However, there is no documented standard for follow-up in the U.S. The majority of sectors (ABS, CDO & CMBS) within Structured Finance primarily utilize an exception-based monitoring process, which generates candidates for full reviews. For European Structured Finance, interim review compliance is an admirable 100% with full review follow-up within two weeks. In the U.S., compliance ranges from 79% for RMBS to 93% for CMBS. For the volatile CDO asset class, interim review compliance is 87%.

During the past year, most groups fell short of standards, typically by a small degree. A few areas (Asian Corporates, U.S. public power, student loans and less active RMBS issuers in the U.S.) are substantially below par. Spurts in new issuance and staff turnover often hinder achievement of surveillance goals. Greater investment in exception reporting systems would also be beneficial in some areas.

Recommendations

The presentations to APB demonstrated the diversity of our rating activities and the ways in which we ensure ratings are up-to-date. For example, in Structured

Finance, we closely watch metrics for loading periodic data into our surveillance tools. Recognizing the diversity and complexity of rating surveillance, APB should not and could not micromanage all of these processes. It is recommended that APB exercise its oversight in the following ways:

- Establish broad principles for rating surveillance standards.
- The business units should continue to monitor performance relative to standards on a monthly basis. The full APB should review performance annually and surveillance standards biannually. The latter review should include an assessment of whether standards are reasonable and how they compare to "best practices".
- Share "best practices" and suggest improvements.
- Identify vulnerabilities or weaknesses.

Rating surveillance principles

- Rating surveillance standards should be risk-based. High-risk ratings should be reviewed more frequently and intensely than low-risk ratings. This is the smartest way to employ our limited resources. Structured Finance, U.S. Public Finance, and Funds currently utilize risk-based surveillance systems. That is, they employ some type of risk-based exception reporting and/or have risk-based review frequency standards. Risk determinations could be based on rating level (e.g., emphasis on 'BBB' C&G issuers), outlooks, sector stress, historical rating volatility, market data (e.g., bond spreads) or other expectations regarding risk factors.
- Rating surveillance standards should continue to be established on a global basis for each practice, allowing for differences in public reporting and risk.
- Minimum standards should be achievable. We will measure and be expected to demonstrate compliance with minimum standards.
- Automated data collection and screening are highly effective elements of rating surveillance for certain types of ratings.
- Investors' perception of our rating surveillance is important. Publishing standards should be market-driven and each of the practices should have documented publishing standards. For example, if the market prefers quarterly report cards, peer comparisons and sector commentaries, these should be emphasized at the expense of full analyses for tier 2 firms for which there is little market interest. In some markets, such as Japan, we may choose to serve market demands by publishing more extensively than the minimum global standard.

Specific suggestions

The suggestions below reflect weaknesses to be remedied and best practices worth emulating.

- Complete and accurate CORE data must be maintained. For C&G, rating reviews, issuer tiers and other data must be routinely entered into CORE. A review is not complete until it is recorded in our database. Given the evolution of CORE and the development of work in process systems, all surveillance projects should be required to include documented business rules on surveillance event documentation and related management reporting.

- Each practice/region should formalize the process of forecasting expectations for credit performance in each sector, asset class or other class of issuer/issue to drive the process of identifying surveillance priorities; some groups have already done this. For ratings deemed risky, more frequent and/or detailed information should be requested and we should establish more frequent and/or intense reviews. Risk identification must be forward-looking.
- Publishing goals, such as annual publication of a full analysis for tier 2 financial services firms, should be pared back to reflect more limited market interest, freeing resources for more valuable activities.
- The rating surveillance process in Structured Finance is strengthened by the second-level reviews conducted by the U.S. Quality Review Board. Similar boards should be established in other regions.

[redacted]

- "Report Chase Procedures", now used in Structured Finance and Funds, could be adopted by other groups.

[redacted]

- For Structured Finance, we must clarify policies for placing issues on CreditWatch. Current practices are inconsistent.
- For some Structured Finance sectors, we should begin to publish "report cards" (e.g., major issuer auto loan transactions' recent and prospective performance). This would be of interest to investors and would provide an internal rating surveillance discipline.

[redacted]

- Meeting (or exceeding) rating surveillance standards should be a PMP goal for analytical staff.
- When reviews are overdue, managers should prioritize the backlog, as they have for certain Structured Finance ratings. For C&G ratings, an overdue review may be a sign of credit stress.

- The interdisciplinary MarketWatch Committee, established by managers for Australia and New Zealand, seems to be successful and could be employed in other small regions.
- In addition to the basic rating review standards, special attention should be given to issuers with the same rating and a positive or negative outlook for more than two years. Recent focus on this by the U.S. Corporate Quality Review Board has been beneficial.

Other observations

- Surveillance systems in Structured Finance have generally not kept pace with analytic process requirements - both control requirements and analytic requirements. Of particular note is the need for enhanced cash flow analytics throughout Structured Finance, reflecting growth and the increased complexity of issues (e.g., CDOs of ABS). The initiatives in place or in the process of definition appear to address these vulnerabilities.
- In Structured Finance, potential challenges/inconsistencies arise when we change model assumptions and/or release new model versions. We must understand the impact on the existing portfolio of ratings and skillfully manage the transition.
- The review of Structured Finance surveillance identified the following vulnerabilities:

[redacted]

  - CDO -The dependency on credit estimates and shadow ratings for CDO collateral has increased rapidly. Control weaknesses exist in the surveillance processes and there seems to be a substantial surveillance lapse for shadow ratings on real estate collateral and credit estimates of North American obligors backing cash flow and synthetic CDOs.
  - RMBS - Weaknesses exist in the surveillance infrastructure, particularly staffing, data quality, data links, and analytical systems. The significant deferral of RMBS surveillance beyond minimum review standards is inconsistent with policy and should be addressed.

[redacted]

[redacted]

- Could our Structured Finance surveillance incorporate a dynamic element? For example, if heightened credit stress is expected in the near-term, could issues be stress-tested more severely, in addition to applying existing criteria? Would a forecasting model be helpful?

[redacted]

- Critical dependencies now exist for structured surveillance, including reliance on CRISIL and outside providers of data or analytic capability. Those dependencies should be monitored.
- The C&G group has a modest but growing dependency on CRISIL. The EC should review the implication of outsourcing a primary analytical function such as the review of annual reports, regulatory filings, and drafting of credit reports.

Performance assessment

The charts below show surveillance standards and performance relative to them for each major sector. The performance assessment, in the last column, is based on the following performance relative to the stated standards:

Excellent - 95% or better

Very good - 85-95%

Good - 80-85%

Fair - 75-80%

Unacceptable - less than 75%

RATING SURVEILLANCE STANDARDS

U.S. Structured Finance	Full Review	Interim Review or Exception Report	Compliance	Performance Assessment
RMBS	1. Full review annually for top 10 issuers (60%+ of outstanding deals) 2. Full review annually for other major issuers 3. Full review every 18 months for remaining issuers	Monthly review for transactions on "internal watch"	Full review – annual review cycle (top ten issuers, which represent 44% of total RMBS) – **100%** Full review – annual review cycle (other major issuers, which represent 33% of total RMBS) – **92%** Full review – 18 month review cycle (which represent 23% of total RMBS – **19%** Full review (all of RMBS) – 79% Interim – NA	Excellent Very Good Unacceptable Fair
CDOs	When identified by interim review	Monthly or quarterly review of trustee reports on cash flow transactions' ROC report.	**87%**	Very Good

		Monthly for CF CDO of ABS, CDO. For synthetic transactions – SROC run 2X/month.		

RATING SURVEILLANCE STANDARDS

Europe Structured Finance	Full Review	Interim Review or Exception Report	Compliance	Performance Assessment
RMBS	Upon identification of a trigger breach, rating committee within two weeks.	Data loaded monthly or quarterly depending upon availability reviewed for breach of trigger.	Interim – **100%** Full – **No**	Excellent NA
CDO	For cash flow – upon identification by interim process. For Synthetics – if identified by interim review process. Triggers for exception to be reviewed at least annually. Committees within two weeks.	For cash flow transactions, run monthly ROC. Key tests reported monthly. For synthetic transactions – exception reporting, monthly SROC run.	Interim – **100%** Full – **No**	Excellent NA

From: Warner, Ernestine
Sent: Friday, April 28, 2006 2:11 PM
To: Chun, Roy
Subject: RE: Discussion with Lal

I think this may be a very good solution. Lal is a fantastic analyst. As you say, we will have to see what he thinks about this offer. Unfortunately, the timing could not be worse. RMBS has an all time high of 5900 transactions. Each time I consider what my group is faced with, I become more and more anxious. The situation with Lal, being off line or out of the group, is having a huge impact.

When we get together to discuss this, I would also like to talk about how we are going to address the current state in current terms.

On a positive note, my team interviewed the young lady you recommended (Diane Chuo) and found her back ground to be highly suited for a role in our group. I am going to meet with her when I am back from London and then hopefully be in a position to make a recommendation to Peter. In addition, the interviews with Kristie Joyce and Steve Young went well so we will see what results there.

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Friday, April 28, 2006 2:00 PM
To: Warner, Ernestine
Subject: RE: Discussion with Lal

After we discussed his present situation, I offered up to him to consider moving to another group or to work with me on this project if he is so unhappy in RMBS. Based on comments you have made regarding the quality of his work he sounded worth working with to see what could be done. I was very upfront with him. I said I do not see how he will stay in RMBS given the present situation.

No promises offered to him but I told him to think about it and let me and Peter know his intentions and we can see if there is a fit. He set up a meeting to talk to me on Monday.

I'll let you know how it goes.

-----Original Message-----
From: Warner, Ernestine
Sent: Friday, April 28, 2006 1:49 PM
To: Chun, Roy
Subject: RE: Discussion with Lal

OK. Roy, what position are you taking in this? Are you trying to influence the outcome one way or the other?

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Friday, April 28, 2006 1:47 PM
To: Warner, Ernestine
Subject: RE: Discussion with IAL

Yes, we had a meeting. He was not definitive but did not deny it. I assume he is looking to leave given the present situation.

I have another meeting with him on Monday to discuss further. I'll let you know what comes out of Monday's meeting.

Roy

-----Original Message-----
From: Warner, Ernestine
Sent: Friday, April 28, 2006 1:35 PM
To: Chun, Roy
Subject: Discussion with IAL

Roy, did you speak to Lal about whether he is looking for another job?

Ernestine Warner, Director
Standard and Poor's
Structured Finance Surveillance
55 Water Street
New York, New York 10041-0003
Phone - 212-438-2633
Fax - 212-438-2664

From: Warner, Ernestine
Sent: Thursday, June 01, 2006 11:46 AM
To: Chun, Roy
Subject: RE: Temp

Roy, thanks for taking the time to write the e-mail. It really feels like I am repeating myself when it comes to completing a very simple project and addressing some of the other surveillance needs. We have talked about this project several times and the proposal has been put in writing. The inability to make a decision about how the project is going to be resourced is causing undue stress.

I have talked to you and Peter about each of the issues below and at this point I am not sure what else you need from me. It may be helpful if you would share a copy of documentation you or the other surveillance managers have used in the past to secure reqs. or temps.

To rehash the points below:

In addition to the project above that involves some 863 deals, I have a back log of deals that are out of date with regard to ratings. When Steve and Kristie join the group as research assistants, they will take on the responsibilities of Jessica Rivera and some from Ash Rao so that Jessica can review the deals full time and Ash can review them maybe 50% of the time. This will help cover the void Lal left when he became the business analysts for the initiative, but again, does not move us any closer to FTS in the short term. We recognize that I am still understaffed with these two additional bodies. Lal being offline clearly exacerbates this problem and we may be falling further behind at the rate the deals are closing. If we no not agree on the actual number, certainly we can agree that I need more recourse if I am ever going to be near compliance.

There is only one college intern, Christina Lopez. I have a call into Nancy Farrelly to determine what happened to Elizabeth Clemens (?) and Darwin Recentes. They did not start on Tuesday as we originally thought.

Two of the four summer associates Gail referred to started with my group on Tuesday. According to the rules for summer associates, they must do the surveillance reviews and a project. They will review around 100 transactions (hopefully) and test our exception reports.

The other two summer associates went to CMBS surveillance.

I hope this helps but again you should give me a copy of the "template" other managers are using to secure the resources they need.

Thanks

Ernestine

-----Original Message-----
From: Chun, Roy

Sent: Wednesday, May 31, 2006 7:00 PM
To: Warner, Ernestine
Subject: Temp
Importance: High

Hi Ernestine, sorry I was not able to catch up with you today. I will be out at the planning session tomorrow and Friday so I thought better for me to send you this mail. I will try to call you tomorrow during any breaks so we can firm up decision on Temp. Please read following and think about it. I assume I will have a break somewhere around 11:00, around lunch (1:00), and about 3:00 to try to call you.

After speaking with Peter we decided that the Temp on this project should be funded out of the normal operating budget. The surveillance Initiative should be focused on new products and services or enhanced service levels over and above what we currently should be doing. That said it probably doesn't matter to you where it gets funded from. But the initiative spending is a different process - fairly bureaucratic - so relieved if I don't have to go through it for a small spend like this.

Anyway, Peter raised a few good point and questions that I want to run by you.
-Would it be better to have your new RSAs (Peter said he got the approval of the two - forget their names - Stephen & ..?) to develop the models as they would potentially have to do this going forward anyway for ongoing deals that Intex does not have?

-Between the interns and the new RSAs is it something that can be effectively done in a short time frame that won't set you back anymore than you are now? If they can do it, do we need to spend the $10,000 or so on a temp?

-If the prime deals are easy can Lal work with the interns to put those templates together and have the RSA only do the more difficult ones?

-From a cost management stand point - with three college interns and two new RSAs why do we need to hire a temp for two or three months? Does the Temp bring in that much more that can't be done by any of these people?

Also hopefully good news for you - in passing Gail McDermott mentioned we should be getting four or five of the associates coming in allocated to surveillance (I assume split among ABS/RMBS as has been done in the past but not sure - did not have a chance to get into any detail with her). Have you heard anything about this?

Roy L. Chun
Managing Director
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tel: 212-438-2430
fax: 212-438-2662
e-mail: roy_chun@sandp.com

From: Houston, Gail E
Sent: Tuesday, December 26, 2006 3:10 PM
To: Mahabir, Lal; Thornton, James
Cc: Warner, Ernestine
Subject: RE: Please continue temps

Lal / James,

Are you in tomorrow to meet about this?

Gail

From: Mahabir, Lal
Sent: Wednesday, December 20, 2006 4:07 PM
To: Thornton, James; Houston, Gail E
Cc: Warner, Ernestine
Subject: RE: Please continue temps

I think Gail, James and myself need to meet to figure out the details. Let me know what you all think. Thanks.

Lal Mahabir
Associate Director
Standard & Poor's
Structured Finance Surveillance
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Fax: (212)438-2664
< <mailto:lal_mahabir@sandp.com>>

-----Original Message-----
From: Thornton, James
Sent: Wednesday, December 20, 2006 4:06 PM
To: Warner, Ernestine; Chun, Roy; Houston, Gail E; Mahabir, Lal
Subject: RE: Please continue temps

Hi,

The attached should help. These are the latest numbers as of 4pm today.

In the first table the "Latest CDU" (col E) is currently taken as Nov 2006. The "CDU in last 3 months" is deals with a latest CDU of Aug - Sept.

As you can see in the second table, the number of "Successful - but not up to date" deals has dropped by 400 due to the report being run a week later the numbers used on Monday's meeitng.

In addition to the work Lal and Gail have the temps working on, some of the temp work can be defined as reducing the number of errors in the second table (esp Class Name errors) to a specified target - say 10 - 20? This might be a realistic rolling target for number of deals we would expect with this error (allowing for new deals being loaded as old errors are fixed).

<< File: Status Dec 20th.xls >>

James

From: Warner, Ernestine
Sent: Wednesday, December 20, 2006 3:56 PM
To: Chun, Roy; Houston, Gail E; Mahabir, Lal; Thornton, James
Subject: RE: Please continue temps

Gail and Lal, would you please add the details?

Ernestine

> -----Original Message-----
> **From:** Chun, Roy
> **Sent:** Wednesday, December 20, 2006 3:18 PM
> **To:** Warner, Ernestine; Houston, Gail E; Mahabir, Lal; Thornton, James
> **Subject:** RE: Please continue temps
>
> I think we are going to get the approval for the full time (keep fingers crossed). With that in mind can we put a little more scope for keeping the temps.
>
> I don't think we will be able to support more than a couple of temps but let's make the case. Also given that they have reached the three month window we are going to have to define a very specific project with time period for each.
>
> The best is to have by temp what they will do and when they will be complete. This way we can be definitive about work and what gets done if we keep one temp or two or three...
>
>> -----Original Message-----
>> **From:** Warner, Ernestine
>> **Sent:** Wednesday, December 20, 2006 12:21 PM
>> **To:** Houston, Gail E; Chun, Roy; Mahabir, Lal; Thornton, James
>> **Subject:** Please continue temps

Good afternoon. In light of the current state of residential mortgage performance, especially sub-prime, I think it would be very beneficial for the RMBS surveillance team to have the work being done by the temps to continue. It is still very important that performance data is loaded on a timely basis as this has an impact on our exception reports. Currently, there are nearly 1,000 deals with data loads aged beyond one month. It is also important that the temps continue to resolve the 429 transactions that seem not to be supported by Intex. It is possible that models should be build for these transactions. Since the number is so significant, eliminating this backlog would be significantly impact full to the review process. In addition, the 203 deals that have failed to match classes would represent a quick win that the temps should be able to accomplish.

Please let me know if I should add more.

Ernestine

From: Warner, Ernestine
Sent: Friday, January 05, 2007 1:05 PM
To: Coyne, Patrick
Subject: RE: Data COE Resources Available for US ABS

Patrick. Well said. Thanks for including RMBS in the e-mail. I have raised the same concerns in the last few meeting with Julio and Gail.

Ernestine+-

-----Original Message-----
From: Coyne, Patrick
Sent: Friday, January 05, 2007 12:51 PM
To: Warner, Ernestine
Subject: FW: Data COE Resources Available for US ABS

FYI, Patrick

-----Original Message-----
From: Coyne, Patrick
Sent: Friday, January 05, 2007 10:41 AM
To: Serrano, Julio
Subject: Data COE Resources Available for US ABS

Julio,

Hope you had a great holiday!

Now that we are into 2007, I want to take a moment to reiterate my concerns regarding the significant deficit in terms of the # of analysts currently assigned to work on US ABS and RMBS data needs. Additionally, the caliber of the few resources currently assigned to work on these deals, which by the way number more than 8,000, is not at all sufficient. Furthermore, it's not clear to me what the rationale for the current distribution of Data COE resources is on a global level (e.g. why are there 10+ resources working on a couple of hundred UK ABS deals and only 1 to 2 FTE's assigned to the 2,000 US ABS deals?).

I apologize for being blunt, however, the value proposition offered by Surveillance is significantly dependent on having timely access to quality data. This is even more true in the future. While I've mentioned these concerns to you in passing during last year, I thought it would be helpful to summarize them in a single e-mail. I'm hoping to gain better insight into what the next steps are to address these concerns.

By the way, Gail Houston has done an excellent job and I am very happy with her enthusiasm and drive, however, given her significant task of managing data needs for ABS and RMBS, I am concerned that she will burnout or move on unless these issues are addressed in the near future, not to mention the impact on the business.

Regards,

Permanent Subcommittee on Investigations
EXHIBIT #85

Patrick

Patrick Coyne
Managing Director
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Fax: (212) 438-2664
patrick_coyne@standardandpoors.com

From: Warner, Ernestine
Sent: Saturday, February 03, 2007 12:02 PM
To: D'Erchia, Peter
Subject: RE: Headcount for RMBS Surveillance?/

That right. They will be a great help but they will not start until August, right? Let's talk about anything that we might be able to do in the interim. I talked to Tommy yesterday and he thinks that the ratings are not going to hold through 2007. He asked me to begin discussing taking rating actions earlier on the poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now. A new process, without the right support, would be overwhelming.

E

-----Original Message-----
From: D'Erchia, Peter
Sent: Saturday, February 03, 2007 11:56 AM
To: Warner, Ernestine
Subject: FW: Headcount for RMBS Surveillance?/

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: D'Erchia, Peter
Sent: Saturday, February 03, 2007 11:55 AM Eastern Standard Time
To: D'Erchia, Peter
Subject: RE: Headcount for RMBS Surveillance?/

Also you should be getting 4 or 5 new Associates from the 2007 Associate class for 12 and continuing ti get them going forward. That might help

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: D'Erchia, Peter
Sent: Saturday, February 03, 2007 11:50 AM Eastern Standard Time
To: Warner, Ernestine
Subject: RE: Headcount for RMBS Surveillance?/

Write a one paragraph need for the title upgrade and send it to Nancy Farrelly. I think it will be approved. Thanks. Peter

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

Permanent Subcommittee on Investigations
EXHIBIT #86

-----Original Message-----
From: Warner, Ernestine
Sent: Saturday, February 03, 2007 11:45 AM Eastern Standard Time
To: D'Erchia, Peter
Subject: RE: Headcount for RMBS Surveillance?/

Peter, what can we do now? My group is under serious pressure to respond to the burgeoning poor performance of sub-prime deals. After losing Taoheed, we are really falling behind.

We need to talk about getting more resources in general. I am seeing evidence that I really need to add to staff to keep up with what is going on with sub prime and mortgage performance in general, NOW. We talked about adding three people several months ago. We need to reopen that discussion.

In addition to Taoheeds replacement and Darwin starting next week, I still need two RAs and an Associate. And that's just a start.

Are you in VCD training next week? Maybe we can talk at the end of one of the sessions?

Ernestine

-----Original Message-----
From: Allegretta, Angela
Sent: Friday, February 02, 2007 4:42 PM
To: D'Erchia, Peter
Cc: Warner, Ernestine
Subject: Headcount for RMBS Surveillance?/

Peter & Ernestine,

I just returned from a meeting with the Finance Team and no approval is in place for upgrade or replacement for Associate-

Headcount Open-

* RA - Taoheed Agbabiaka

Pls let me know -

Angela C. Allegretta
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For Career Opportunities, please visit our website at:
http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/careers/4,7,7,0,0,0,0,0,0,0,0,0,0,0,0,0.html

-----Original Message-----
From: D'Erchia, Peter
Sent: Friday, February 02, 2007 3:43 PM
To: Allegretta, Angela
Subject: RE: Interview

Thank you. Sorry for this.

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: Allegretta, Angela
Sent: Friday, February 02, 2007 03:33 PM Eastern Standard Time
To: D'Erchia, Peter; Warner, Ernestine
Subject: RE: Interview

Peter,

I will see if he is available on Tuesday, 2/6 vs. Wednesday 2/7

Angela
Angela C. Allegretta
Senior Staffing Consultant
Human Resources Talent Acquisition
Standard & Poor's
55 Water Street, 37th Floor
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For Career Opportunities, please visit our website at:
http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/careers/4,7,7,0,0,0,0,0,0,0,0,0,0,0,0,0.html

-----Original Message-----
From: D'Erchia, Peter
Sent: Friday, February 02, 2007 2:59 PM
To: Allegretta, Angela; Warner, Ernestine
Subject: Interview

Angela. I am sorry for the late notice but I will be unable to conduct an interview with Phillip Wong on Monday at 8:30 a m. Eric Thompson's. Mom passed away unexpectedly and I will be attending the funeral. Eric manages the CMBS surveillance group. I think Phil said he could come in the morning of Tuesday or Wednesday I would be willing to do either of those days at 8:30. Sorry again for late notice but it was unavoidable. Peter

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

From: Warner, Ernestine
Sent: Tuesday, February 13, 2007 3:09 PM
To: D'Erchia, Peter
Subject: RE: What's the problem now???

Hi Peter. I called them back and we talked about the A to D. I actually resulted from one huge loss. We had the deal on creditwatch. We also asked the servicer to give us loss estimates on the REO but we did not receive this information. I guess they did not care because only 3% of the deals is left. Tommy understands that we were on top of this rating and there was nothing more that we could have done (short of withdrawing the rating).

We really need help. Sub prime is going down hill. The 20% not covered in our system is also of great concern. I am going ahead with interviewing for the open positions.

-----Original Message-----
From: D'Erchia, Peter
Sent: Tuesday, February 13, 2007 2:23 PM
To: Warner, Ernestine
Subject: RE: What's the problem now???

I will talk to you tomorrow. We need to come up with needed headcount. I am going to ask Roy to work with us.

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: Warner, Ernestine
Sent: Tuesday, February 13, 2007 02:05 PM Eastern Standard Time
To: D'Erchia, Peter
Subject: What's the problem now???

Do you know why I am being asked to Join Pat, Tommy and Rosario in conference room 6 on 41?

Permanent Subcommittee on Investigations
EXHIBIT #87

From: Losice, Abe
Sent: Tuesday, April 24, 2007 8:03 PM
To: Barnes, Susan
Subject: Staffing for RMBS Surveillance

Attachments: Microsoft Excel Worksheet; Microsoft Word Document

Susan,

Here is a review regarding staffing for RMBS Surveillance.

We have worked together with Ernestine Warner (EW) to produce a staffing model for RMBS Surveillance (R-Surv). It is intended to measure the staffing needed for detailed surveillance of the 2006 vintage and also everything issued prior to that. This model shows that the R-Surv staff is short by 7 FTE- about 3 Directors, 2 AD's, and 2 Associates. The model suggests that the current staff may have been right sized if we excluded coverage of the 2006 vintage, but was under titled lacking sufficient seniority, skill, and experience.

Untitled Attachment

We worked together with EW to craft a rationale for 4 adds to staff- 2 Associates and 2 AD's. The adds will be conduct monthly review of the 2006 vintage and to maintain surveillance on the all other transactions, with the possibility of increasing review frequency. It will also be to provide thought leadership, add communication skills and strong technical skills. We need people who have industry experience who can change our functionality.

Untitled Attachment

We met with EW on and received the following update:

1. The add-to-staff reqs were approved. At least 2 offers have already been made. We had indicated in the earlier rationale that additional senior hires would be requested. The need to manage the changes and the need to communicate more frequently with the market highlight this need. It is easy to imagine the need for 2 Directors to do CVM work and to manage all this change (without being overwhelmed).

2. There is work being done to arrange for support from 4 people from Crisal to gather/ organize data.
3. Brian Grow and Sai Uppuluri are working to design the change to the functionality. More support from IT is needed to see these changes achieved. EW estimates that the time saved would only equal 1 FTE. It is expected that these changes would identify a better targeted group of deals for review for ratings change.

4. These changes would give us more deals for review. It is recognized that with the current emphasis on reviewing deals for CW negative or downgrade that there is insufficient attention on reviewing deals that could be subject to upgrade.

Permanent Subcommittee on Investigations
EXHIBIT #88

5. EW estimated that that R-Surv could use temporary support from 4-5 analysts. This could include Rating Analysts and Senior Research Assistants.

6. This effort should be focused on analytics and deal reviews. Assignments on smoothing data will be discouraging.

7. We may need to craft a positive message to attract staff to want to be part of this solution.

Checked with John Sang on his project with R-Surv. He has been trained He is reviewing a shelf with about 30 deals. He has not yet completed the review since he has not yet gone to committee or equivalent, but he expects to tomorrow. He does not expect rating changes on the deals reviewed so far. As he completes the reviews, John will report the time expended. We can compare it to the time indicated in the staffing model.

John Sang has been able to do this work part time while he handles other RMBS new deal activity. He thinks that others within our group of SRA's could do this work. As he works with Brian and Sai he thought that when their work is completed that R-Surv would be capable of handling the work with far less assistance from our group of SRA's. As we go down this road we could assign analysts to work part time on R-Surv to blend with other work or full time for a period of time. With somewhat declining volume and an RSA staff that is rising in skill, we should be able to try this temporary assignment to R-Surv.

Susan, I will check in with you about this.

Abe

Abe Losice
Managing Director
Structured Finance
Standard & Poor's
55 Water Street, 40th Floor
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Phone: (212) 438-7326
Fax: (212) 438-2649
abe_losice@sandp.com

From: Davey, Scott
Sent: Monday, October 08, 2007 4:17 PM
To: Graffeo, Michael; Rozek, Aleksandra
Cc: Keenen, Matt; Warner, Ernestine
Subject: RE: Alt. A Aged List

If you come across any deals on your age list that closed between the Q4 2005 and Q4 2006, please skip over them. Matt Keenan and I are currently reviewing the Alt A deals that closed during this time frame. Once we are done, we will take the appropriate rating action on any of the deals that we reviewed that are on the aged list.

Thanks.

Scott

-----Original Message-----
From: Davey, Scott
Sent: Sunday, October 07, 2007 10:15 PM
To: Keenen, Matt; Graffeo, Michael; Rozek, Aleksandra
Subject: Alt. A Aged List

Hi Everyone,

I have been looking over the Alt. A aged rating report. We are only 257 deals away from being 100% compliant. I would like to focus on getting the back log up to date by the end of October. Please review these deals, even if the shelf is not yet due for a review. You do not have to do the whole shelf, only the deals that are aged. Also, there are 64 deals that are due for review in October. They will be on the aged list next month. Please check your assignment sheet to see if any of these deals belong to the same shelf. This would save you from doing another press release for the same shelf next month.

Attached is the back log list. Please fill out the "Analyst" tab and send it to me at the end of each week. This will help me to track our progress and reassign deals if necessary.

Please let me know if you have any questions.

Thanks.

Scott

<< File: Alt A Aged List.xls >>

DATE: 01/18/2006
TIME: 20:08:52 GMT
AUTHOR: DiRienz, Mark
RECEIPIENT: Siegel, Jay; Kornfeld, Warren
CC:
SUBJECT: RE: 2006 Priorities for M3 team

ok

-----Original Message-----
From: Siegel, Jay
Sent: Wednesday, January 18, 2006 1:44 PM
To: Kornfeld, Warren; DiRienz, Mark
Subject: RE: 2006 Priorities for M3 team

OK with the top of the list. The simulations should not require any data, just a quant to look at historical unemployment, home price, and interest rate movements. I don't think expansion of the subprime dataset is important at all for existing products, and I'd put that below the simulations and spread credit capacity. The only thing we'd need the subprime data for is re-calibrating the model, which I assume isn't something we'll need to do anytime soon. As a new product, good idea -- but I think we need full functionality w/ M3 first, esp. if we're to remain short-staffed for yet another year.

-----Original Message-----
From: Kornfeld, Warren
Sent: Wednesday, January 18, 2006 1:37 PM
To: Siegel, Jay; DiRienz, Mark
Subject: FW: 2006 Priorities for M3 team

Based on our discussion here is my latest cut. I did keep expansion of the subprime dataset ahead of revising the simulation methodology. I put a question as to whether we want to expand such data set prior to beginning the simulation or are we comfortable that we have enough data? I do not think that this question does not need to be answered now but we can answer as we get closer to these steps.

I only am forwarding this to the two of you. Once we all agree, will forward it on to the others.

Subprime M3
Finish models
Rollout to internal users
Approval by internal users
Rollout out to external beta users
Approval by external beta users
Begin external sales
While completing the items above, develop documentation (Jody/Earl) and marketing material (Berrak)
M3 should include a 2nd lien analysis. Can look to some analyses short of developing a 2nd lien model, if there are time and resource constraints

Maintain Prime/Alt-A M3 product

Support external clients of M3

Develop separate internal database for rating purposes (RMBS, SQ, and monitoring) - build on loan-by-loan data already received when rating transactions plus data the servicer ratings group receives

Complete excess spread model interface

Develop a Prime data set for possible recalibration of Prime M3 as well as eventual product development

Expansion of Subprime data set for Subprime M3 (do we want to expand on the subprime data set prior to revising the simulation methodology?) as well as eventual product development

Revise simulation methodology for Prime and Subprime M3

Integrate excess spread model directly into simulations (we need to keep in mind that bankers always push the structures to stay ahead of what we can currently model, so we'll need flexibility to be able to react well)

-----Original Message-----
From: DiRienz, Mark
Sent: Tuesday, January 17, 2006 4:07 PM
To: Siegel, Jay
Cc: Kanef, Michael; Rasch, Jody; Stein, Roger; Kornfeld, Warren
Subject: RE: 2006 Priorities for M3 team

I am generally in favor with your rank-ordering
-----Original Message-----
From: Siegel, Jay
Sent: Monday, January 16, 2006 11:52 PM
To: Stein, Roger; DiRienz, Mark; Kornfeld, Warren
Cc: Kanef, Michael; Rasch, Jody
Subject: RE: 2006 Priorities for M3 team

My thoughts:
Maintain current M3 product (Yes) and generate data updates (not sure what 'data updates' means) as needed
Develop documentation and marketing material for M3
Conditional on resource (likely to come through) revise of simulation methodology for M3 by 12/06 (simulation methodology shouldn't take that long; there are no data issues etc??)
Support clients of current M3 product (Can/should we really roll this out to outsiders before the econ simulations are re-done)
Develop of second lien models for M3-Sub Prime by 4/06 (I'm not aware of any market or analytic issues with subprime 2nds; also a very small part of our universe)
Conditional on resource (very likely to come through), develop a Prime data consortium and consider recalibrating Prime models, to start by 9/06
EITHER sort out legal issues to permit a single pooled data set for product development and monitoring/analysis OR begin beta development of a separate database for monitoring/analysis (Apparently won't sit well with all issuers)
Integrate excess spread model directly into simulations (reducing the need for multiple committees and providing more analytic granularity) (Good target, we need to keep in mind that bankers always push the structures to stay ahead of what we can currently model, so we'll need flexibility to be able to react well)

MI project shouldn't push RMBS behind, since we've resourced the work to date, I'm sure FIG would have a quant to lend if this is important to them.

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, January 11, 2006 8:24 PM
To: Siegel, Jay; DiRienz, Mark; Kornfeld, Warren
Cc: Kanef, Michael; Rasch, Jody
Subject: 2006 Priorities for M3 team

Per Michael's request, I'm sending attaching a brief list of development priorities for 2006, in the order (priority) I think we should attack them. Please feel free to weigh in on either the content or the ordering of these.
Maintain current M3 product and generate data updates as needed
Support clients of current M3 product
Develop of second lien models for M3-Sub

DATE: 05/23/2007
TIME: 12:33:05 GMT
AUTHOR: Kolchinsky, Eric
RECEIPIENT: Fu, Yvonne; Yoshizawa, Yuri
CC:
SUBJECT: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Ok, but I'm not sure this will solve the communication problem. In the UBS case, the analysts were informed about the look through by the new deal staffing email and Yuri's email, below (in addition to the numerous discussions in sterring comm).

Unfortunately, our analysts are owerwhelmed and I'm concerned that the communication to the bankers will "2x and one notch" without any of the subtelties which we ascribe to the approach. I still get routinely asked for which tranches do we use the sequential life...

Thank you
Eric

-----Original Message-----
From: Fu, Yvonne
To: Kolchinsky, Eric; Yoshizawa, Yuri
Sent: Wed May 23 08:08:53 2007
Subject: RE: Paper on inter-CDO correlations - update from ABS Steering Committee

I think it should still be mentioned in the internal communication to give analysts better guidance. The current practtice is quite varied as the analysts do not seem to know what to do even in the cases for which you have communicated with the banks,i.e. UBS. I will send a revised one to both of you.

-----Original Message-----
From: Kolchinsky, Eric
Sent: Wednesday, May 23, 2007 7:56 AM
To: Yoshizawa, Yuri; Fu, Yvonne
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Yuri/Yvonne

In that case, should we exclude any mention of the one notch rule from the general communication? Instead, we should give comm chairs the discretion to apply the rule as they see fit. In this way, there is less of a chance of it getting back to the bankers as a "general rule". They are more likely to know it as something that only applies, as a concession, on the deal that they are working on.

Thank you very much
Eric

-----Original Message-----
From: Yoshizawa, Yuri
To: Kolchinsky, Eric; Fu, Yvonne
Sent: Tue May 22 23:02:49 2007
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

We need to find a way of positioning the 1 notch as our way of "grandfathering"

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: Kolchinsky, Eric
To: Fu, Yvonne; Yoshizawa, Yuri
Sent: Tue May 22 23:00:12 2007
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Yvonne

Looks good generally, two comments however.

1. The one notch rule. I understand the impetus, but it may be problematic in the long term. I think that any stress levels that we implement now will be percieved by the market as being close to the final. They have been asking for certainty in their ability to ramp and structure deals.

If we give a one notch leeway with 2x now and end up with 2x in the long term without the extra room -- I think that bankers will be upset. Instead of dealing with the problem now, we will have to deal with it when we implement the final methodology. I think that we would be better off doing 2.5x with one notch now and go to 2x without. That way we can at least give them a trade-off.

2. We should be clear that the 2x should apply to the underlying vs the MAC.

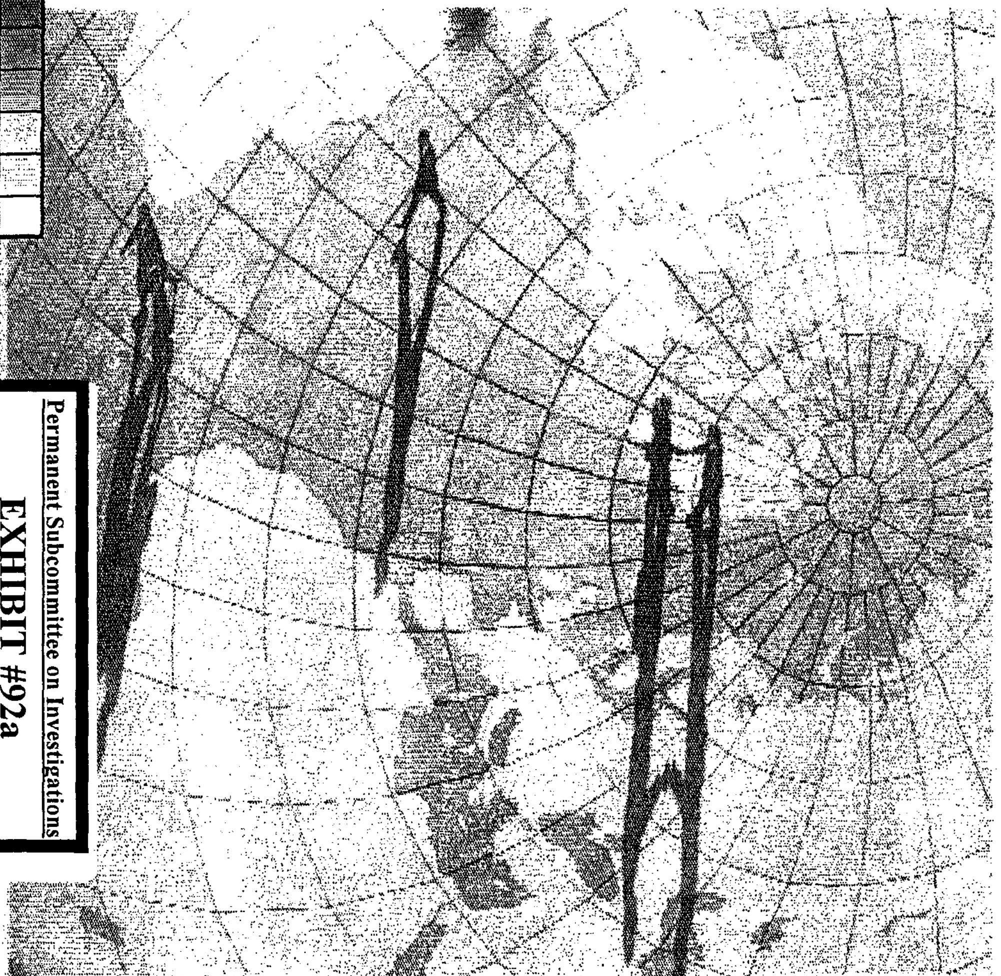
3. Could you add that this should apply to cdo buckets in abs cdos as well?

Thank you very much
Eric

-----Original Message-----
From: Fu, Yvonne
To: Kolchinsky, Eric; Yoshizawa, Yuri
Sent: Tue May 22 22:16:56 2007
Subject: Fw: Paper on inter-CDO correlations - update from ABS Steering Committee

I am planing on sending this to the group. Please let me know if you are ok with it - don't worry about spelling errors as I will do a spell check before sending!

Eric, we did not talk about the one notch



Moody's SFG 2002 Associate Survey

Highlights of
Focus Groups and Interviews

Prepared for:

Moody's Investors Service

Prepared by: MetrusGroup *and* ORC INTERNATIONAL®

May 2, 2002

Table of Contents

About The Interviews

- To gather information to assist in development of a business-focused associate survey for Moody's Structured Finance Group (SFG) a series of interviews and focus groups were conducted. These included:
  - Meetings with John Rutherfurd, Ray McDaniel, and Doug Woodham.
  - One-one-one interviews with Brian Clarkson, Dan Curry, Noel Kirnon, Andy Silver, Juan Pablo Soriano, and Detlef Scholz.
  - Two focus groups with SFG associates in New York.
  - Four focus groups with SFG associates in London.
- Participants in Interviews and groups were asked about:
  - What they saw as SFG's key business objectives.
  - What they considered to be the people issues most critical to SFG's efforts to reach its business objectives.
  - SFG's performance on these issues.
- The findings from these interviews are summarized in this document.
- Then, proposed questionnaire items are listed along with the issues they are intended to address. A copy of the draft questionnaire is provided as a separate document.

Overview Of Findings

- Most indicated that SFG business objectives included:
  - Generating increased revenue.
  - Increasing market share and/or coverage.
  - Fostering good relationships with issuers and investors.
  - Delivering high quality ratings and research
- Development of new products and services was also mentioned often, but not as frequently as the objectives listed above.
- Many felt that there should be a stronger focus on:
  - Improvement of the technology platform and the web site.
  - Developing a global presence for SFG (this was more an issue in Europe than in the US).
  - Developing associates.
- Understanding of business objectives and of how one's own work contributed to them were generally good, but there was some variation.
- When asked about how business objectives were translated into day-to-day work, most agreed that writing deals was paramount, while writing research and developing new products and services received less emphasis. Most agreed that there was a strong emphasis on relationships with issuers and investment bankers.

Overview of Findings

- When asked about the people issues most critical for SFG as it strives to reach its business objectives, issues most often mentioned included:
  - Performance and reward.
    - SFG management focuses on identifying high performers, and most acknowledge that high performers are rewarded.
    - But ratings are not communicated to all associates. Some know their ratings and some do not, and there may be some feeling that the system is inequitable. This may be more a concern in Europe than it is in the U.S.
    - While senior management of SFG agrees that good performance feedback is a critical ingredient of the performance/reward system, the amount and quality of performance feedback appear to vary from manager to manager.
  - Many acknowledge that salaries at Moody's is not as high as they are in investment banking. But most say there are tradeoffs that keep people at Moody's, most notably better balance between work life and personal life than they believe they would get elsewhere.
    - Since Moody's has separated from D&B, some say that workload is greater and that Moody's edge in work-life balance is eroding. As such, Moody's is seen as more vulnerable to turnover as the market improves.
    - In Europe, where the job market seems better and the gap in pay compared to other organizations seems larger, this set of issues appears to have more immediate consequences than it does in the U.S.

Overview of Findings

- **Most critical people issues, continued:**
  - Also mentioned as factors that keep people in SFG are intellectual challenge/stimulation, career opportunities, and being treated with respect. While it appears that performance in these areas is generally good, there may be some pockets of concern.
  - The quality of training and mentoring is seen as having an impact on performance.
    - Many say there is a need for more formal systematic training to help get new people up to speed more quickly.
    - At the same time, most acknowledge that on-the-job experience is critical for achieving proficiency. As such, the quality of mentoring and coaching has an impact on operating effectiveness.A nd at present the quality of mentoring and training seems uneven.
    - Most acknowledge that success at Moody's requires that people proactively seek training and development opportunities for themselves, so people are not looking to be spoon-fed. Rather, they see more effective training and mentoring as ways to enable busy, capable people to become more effective sooner.
    - There appears to be variation from manager to manager in the overall quality of people management. Some say this is an area in which training is needed.
  - As noted earlier, there is some concern about workload and its impact on operating effectiveness.
    - This is felt in both the U.S.and Europe, but appears to be more a concern in Europe.
    - Most acknowledge that Moody's intends to run lean, but there is some question of whether effectiveness is compromised by the current deployment of staff.

Overview of Findings

- Most critical people issues, continued:
  - Related to some extent to the workload issue is the question of allocation of time for writing research and development of new products and services. Management may be giving mixed messages to associates about priorities.
  - Many are concerned about the technology platform and web site.
    - They believe that improvement in technology should take a higher priority.
    - The effectiveness of centralized technology support is questioned.
    - Some say the web site needs work, and that they hear criticisms from clients.
  - Most acknowledge that relationship management is critical for SFG's effectiveness, and most believe that it is a high priority. It is noted by management that people need to understand how to preserve independent judgment while sustaining good relationships.
  - Teamwork appears to be strong, although some London employees say there is a need for better teamwork across locations and geographic regions.

Key to Questionnaire Issues

- A draft questionnaire is being submitted as a separate document. The survey will be administered via the Internet, but the draft is formatted as a paper survey to facilitate editing.
- In addition to asking demographic questions on the survey, we plan to link survey responses to performance rating data supplied by Moody's. We will do this while preserving the anonymity of individual questionnaires. This will enable management to examine the responses of associates with varying performance ratings.
- A key to the questionnaire that links questionnaire items to the issues outlined above appears on the following pages.

Key to Questionnaire Issues

- Questions I, II and III are demographics on job level, work location and manager that will serve as a basis for segmenting the findings by group.
- Question IV asks for perceptions of SFG business objectives. It is designed to provide information on SFG priorities as seen by associates. Associates are asked how important they believe the following are to SFG:
  - Generating increased revenue
  - Increasing market share/coverage
  - Fostering good relationships with issuers and investors
  - Developing new products/services that meet market needs
  - Delivering high-quality ratings
  - Writing high quality research
  - Developing a global presence for SFG
  - Developing, deploying and retaining highly-skilled associates
  - Improvement of the technology platform

Key to Questionnaire Issues

- Questions V and VI ask people how they spend their time and how they might better spend their time in service of SFG business objectives. They are designed to provide information on whether associates are spending their time in the areas deemed most important to management and where associates believe they could better spend their time.Activities included in the list are:
  - Rating deals
  - Writing research
  - Participating in rating committee meetings
  - Developing new products/services
  - Communicating with issuers/investors
  - Participating in internal Moody's meetings
  - Managing associates (making work assignments, directing work, communicating to associates, giving performance feedback, etc)
  - Mentoring other associates (providing on-the-job training and guidance to others)
  - Performing administrative tasks
  - Engaging in professional growth and development

Key to Questionnaire Issues

- Question VII asks associates whether they agree or disagree with a series of statements designed to address critical people issues at SFG. They include:
  - Questions on understanding, deployment of, and alignment with SFG's strategic direction:
    - I have a clear understanding of SFG's strategic direction
    - SFG senior management is effective at setting priorities that are consistent with its strategic direction
    - I understand how my group's objectives fit in with SFG's overall strategic objectives
    - I understand how my actions contribute to the strategic objectives of SFG
  - Questions on communications to and from SFG management, part of a set of items designed to assess management effectiveness:
    - Communication from SFG senior management to associates is effective
    - Communication upward from associates to SFG senior management is effective
  - One question on ethics:
    - My clients view SFG as an ethical organization
  - Four questions on new ideas, risk, and adapability designed to assess SFG's climate for new product and service development.
    - SFG has a culture that fosters new ideas, better work processes, and improved products and services
    - SFG is effective at implementing new ideas
    - Associates in SFG are willing to take risks to increase business, reduce costs, or improve efficiencies
    - IN SFG we have been quick to adapt to changing customer and market demands

Key to Questionnaire Issues

- Question VIII includes additional items on critical people issues at SFG. It includes questions on:
  - Client focus, designed to tap into the key issue of relationship management. Questions include:
    - We take responsibility to seek input from issuers to enable us to understand their needs
    - People in SFG are responsive to investors' needs
    - People in SFG are committed to building strong relationships with investors
    - People in SFG are responsive to issuers' needs
    - People in SFG are committed to building strong relationships with our issuers
    - We do a good job of balancing the need for objectivity with the need for good relationships
  - Authority/empowerment, an issue that surfaced as a strength in focus groups.
    - There is a good match between my responsibilities and my authority to carry them out
    - I am involved in decisions that affect my work
  - Respect, an issue that surfaced as a factor that keeps people at Moody's, and is generally regarded as a strength.
    - I am treated with respect and dignity
    - SFG management values the contributions of all associates regardless of difference in gender, age, ethnic background, lifestyle, or other personal characteristics
  - Teamwork, generally regarded as strength, although there was some question regarding the need for more cooperation across geographies.
    - There is good teamwork and cooperation *within* my SFG team
    - The people with whom Iwork at SFG trust each other
    - There is good teamwork and cooperation *between* my team and other teams in SFG
    - There is good teamwork and cooperation among SFG work locations/geographic regions

Key to Questionnaire Issues

- Question IX explores views of management at three levels, including senior management of Moody's, senior management of SFG, and associates' immediate managers. The items on Moody's and SFG management are designed to assess associates confidence in leadership and leadership's performance in setting overall direction. The items on immediate managers are designed to assess effectiveness of day-to-day management.
  - Moody's senior management questions include:
    - I have confidence in the leadership ability of the Moody's senior management team
    - Senior management of Moody's provides clear direction
    - Senior management of Moody's is effective at implementing change
  - SFG senior management questions include:
    - I have confidence in the leadership ability of the SFG senior management team
    - SFG senior management provides clear direction
    - I can believe what SFG senior management says
    - SFG Senior management takes action based on associate feedback
    - SFG Senior management is effective at implementing change
  - Questions on immediate managers include:
    - I have confidence in the leadership ability of my manager
    - My manager provides me with clear, understandable goals and assignments
    - My manager provides recognition when Ido a good job
    - My manager is effective at the business/technical side of management
    - My manager is effective at the people side of management
    - My manager is accessible

Key to Questionnaire Issues

- Question X includes items on several key issues, including performance management, reward, work life-personal life balance, technology, deployment of skills, and training/development. These are all seen by associates as critical people issues in SFG.
  - Questions on performance management include:
    - The feedback that Ireceive on my work helps me improve my performance
    - My last appraisal helped me improve my performance
    - I understand my performance rating
    - I understand how my actions contribute to the strategic objectives of SFG
    - SFG does a good job of attracting high performing associates
    - SFG does a good job of retaining high performing associates
    - SFG does a good job of managing poor performers
  - Questions on reward include:
    - Merit increases are linked to job performance
    - Bonus compensation is linked to job performance
    - I believe that my salary is set fairly for the kind of work Ido
    - I believe that my variable/incentive pay (bonuses, options) is set fairly

Key to Questionnaire Issues

- Question X continued:
  - Items on balance and workload include:
    - I am able to maintain a healthy balance between my work life and my personal/family life
    - The number of hours that lam expected to work is reasonable
    - We have enough people in my department to do quality work
  - The item on technology is:
    - I have the technology Ineed to perform my job effectively
  - Items on skill deployment are:
    - People on my team have the skills they need to perform their jobs well
    - Work is organized in a way that uses our staff resources effectively
  - Items on training and development include:
    - There are sufficient opportunities to achieve my career objectives at Moody's
    - I understand the criteria for promotion for jobs in which I am interested
    - I am given a real opportunity to improve my professional skills
    - I have access to the training Ineed to perform well in my job
    - I receive the mentoring/coaching Ineed to help me perform effectively

Key to Questionnaire Issues

- Question XI includes items on overall commitment, satisfaction, and intention to stay at SFG. The questions are:
  - I am committed to SFG's growth and success
  - Considering everything, how would you rate SFG as a place to work?
  - If you had your way, would you be working for SFG twelve months from now
- Questions XII and XIII are open-ended questions designed to solicit associate input on two issues:
  - *What are the one or two things that SFG could do that would have the greatest impact on its ability to achieve its business objectives?*
  - *What are the one or two things that SFG could do that would most improve its ability to retain valued associates?*
- Finally, question XIV includes additional demographics to enable SFG to segment the findings by gender, length of service, and ethnicity (this item is designed for the U.S. only).

BES - 2005

Presentation to
Derivatives Team,

April 7, 2006

Moody's Investors Service

Agenda

- Responses to 2004 BES
- Overview of 2005 Results & Feedback from Analysts
- 2006 Action Plan

Planned Responses to 2004 BES

- Training programs (SF wide and internal) – Training Coordinator Team
- Surveillance team
- Campus Hiring
- Suggestion Box
- Tech Team
- Admin Support
- Moody's Connect and other enterprise wide systems
- Ratings Consistency
  - Ratings Guide
  - Coordination with Europe
  - Co-Chairs for each product type
- Team Meetings
  - The rumor mill
  - BES update
- Opportunities
  - Focus Groups
  - Product Leaders
  - Co-Chairs
  - Surveillance Team
- Communication
  - Suggestion Box
  - 360 degree reviews
  - Semi-annual formal meeting

2005 BES Summary

- (from Gus's presentation to the group)

Positive Feedback from 2005 BES

- Responses are generally more positive than in the previous year.
  - Team consists of talented people who are approachable and helpful
  - Work is interesting and challenging
- Surveillance team is a big help.
- Team leader structure is working well.

Concern #1

We are overworked. Too many demands are placed on us for admin tasks, RACs, etc. and are detracting from primary workflow (btw: the new Surveillance Group has been a big help).

Solution #1

- Hire more people at all levels;
  - Current opens: 2 VP/Legal Analysts, VP/Quant, 2 AAs, 2 Snr Associates, 1 Stat Analyst
- Assign an Admin Analyst to every deal
  - AccuRate
  - Document Retention (but analysts must help)
- 1 Analyst per deal for "simple" deals (??See concern #8)
- See Solution #2

Concern #2

We have no Senior Associates to assist the analysts rating primary market flow. For example, help in NIRs would be much appreciated.

Solution #2

Snr Associates will assist in NIRs – We ask that analysts take care of their current inventory. Assignment of 1 NIR per Snr Associate per month should keep us up to date going forward – assuming capacity of up to 20 NIRs per month [but we don't have 20 Snr Associates – how did we come up with 20?].

Concern # 3

- **Inefficient information flow: several sources request the same info**

Solution # 3

- Better coordination so that we do not request certain info from the analysts if the info is already centralized
- One person will request all deal information including working group list from the lead analyst and assist in contacting appropriate people on the working group list to get documentation

Concern #4

- Whatever happened to the "10 day rule?" Bankers are send us documents and models at the last minute.

Solution #4

- "10 day rule" added to rating application
- When MD receives call from banker, "rule" will be reiterated.
- When analyst first establishes contact with banker, "rule" is reiterated. Any potential violations to be discussed with MD asap.

Concern #5

- Promotion criteria are lacking.

Solution #5

- Promotion criteria to be drafted for promotions up to and including VP.

Concern # 6

- Some of us are not getting timely PE's. What happened to semi-annual review and 360 degree review?

Solution # 6

- TMDs and team leaders with direct reports will try to do a better job with timely PE's.
- We ask analysts to take the initiative of requesting a semi-annual review if they desire (not everyone might want one)
- TMDs have been doing some form of 360 degree review by soliciting co-workers opinions when writing PE's. Do we need a more formal process?
- BES for all SVPs and SCOs [we decided not to do this, should we remove it? Let's keep it in.]

Concern # 7

- We need more mentoring and training for new analysts

Solution # 7

- Continue with the SFG training program
- Derivatives Resource Page
- Ratings guide for CLO and CDO of ABS are available (Synthetics issues list and committee memo templates are being created as well)
- Pairing new analysts with mentors
- Web-based internal training modules are being scheduled

Concern # 8

- Quant analysts seem to be responsible for almost everything: committee memo, rating letters, press releases, NIRs, document retention. Is there a clear division of labor? What are the legal analysts' responsibilities?

Solution # 8

- When the quant is doing a deal by himself, obviously all of those tasks will be his responsibility. When a lawyer is involved, there is no clear division of labor. The division of labor will depend on the seniority of the quant analyst and the workload of the lawyer. It is best if the quant can discuss with the lawyer what level of support he is hoping for at the outset of the deal. Given that we have 60ish quants and 12 lawyers it is obvious that the quants will shoulder the majority of the outlined tasks.

Concern #9

- Group is too large. It would be good to get to know others better.

Solution #9

- Will Mark try to organize another event [I've asked Mark to organize a Cirque du Soleil outing – not company sponsored though]? I will check our budget for an event. (GH)
- Derivatives Resource Page

Concern #10

- We are on different floors which leads to inefficiencies and ...

Solution #10

I'll get back to you (GH)

Concern # 11

- We need better technology to meet the demand of running increasingly sophisticated models.

Solution # 11

- We have added a few super computers.
- More improvement is on the way(?).
- We have the Technology Committee who were responsible for getting us the new computers—suggestions should be sent their way.

2006 Action Plan

- Additional hires at all levels
- Admin help with Accurate and doc retention
- SA help with NIRs
- Formalize, reiterate and re-enforce 10-day rule
- Promotional criteria to be drafted
- 360 degree review and BES for SVP/SCOs
- Rating guides for major asset classes and mentoring system for new analysts

DATE: 01/03/2007
TIME: 20:03:59 GMT
AUTHOR: Frankowicz, Wioletta
RECEIPIENT: Kothari, Deepika; Chatterjee, Debashish
CC:
SUBJECT: RE: Subprime performance

Ok. Doing now.

-----Original Message-----
From: Kothari, Deepika
Sent: Wednesday, January 03, 2007 2:50 PM
To: Chatterjee, Debashish; Frankowicz, Wioletta
Subject: RE: Subprime performance

I updated the Dec deal list under HE YIR folder further - only 3-4 deals left to be classified

W, you can add this list to the prior Master list.

Deepika Kothari
Residential Mortgage Backed Securities Group
Moody's Investors Service
' 201-915-8732
* deepika.kothari@moodys.com

-----Original Message-----
From: Chatterjee, Debashish
Sent: Wednesday, January 03, 2007 2:49 PM
To: Shih, Benjamin; Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Thanks Ben - this is very helpful!

-----Original Message-----
From: Shih, Benjamin
Sent: Wednesday, January 03, 2007 11:06 AM
To: Chatterjee, Debashish; Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Here are the data for cum loss for the top 10 issuers and the deals behind the data. Please let me know if you need any other data.

<< File: Top10Issuers cum loss.xls >> << File: Deals for Top 10 issuers.xls >>

-----Original Message-----
From: Chatterjee, Debashish
Sent: Thursday, December 28, 2006 4:55 PM
To: Frankowicz, Wioletta; Kothari, Deepika
Cc: Shih, Benjamin
Subject: FW: Subprime performance

Holy cow - is this data correct? I just graphed it and Freemont is such an outlier!! In an Appendix we might want to list the deals included under each originator.

-----Original Message-----
From: Shih, Benjamin
Sent: Thursday, December 28, 2006 4:42 PM

To: Chatterjee, Debashish
Cc: Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Here is the chart of top 10 issuers' 60+ delinquency. Please let me know if you need anything else for the HE YIR.

<< File: Top10Issuers.xls >>

-----Original Message-----
From: Chatterjee, Debashish
Sent: Wednesday, December 27, 2006 6:56 PM
To: Shih, Benjamin
Cc: Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Figure 4 a b c and d
They are off of current balance - could we also see it based on OB?

For the top 10 issuers - could we please see the 60+ delinquencies for the 2006 vintage.
I would also like to include figure 3 - once the data has been fixed.

Also - remember we had talked about doing a bar graph for the performance - both 6 months after issuance and 18 months after issuance?

I guess the best option is to meet early tomorrow morning and hash out the details. I'll send a meeting request out.

-----Original Message-----
From: Shih, Benjamin
Sent: Wednesday, December 27, 2006 5:11 PM
To: Chatterjee, Debashish
Cc: Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Could you tell me which chart in HE index report that you need? I assume you are referring to the Quarterly report but not all the figures? If you can give me the Figure numbers in the report, that will be great. Also for the top 10 issures, which performance measures?

-----Original Message-----
From: Chatterjee, Debashish
Sent: Wednesday, December 27, 2006 3:35 PM
To: Shih, Benjamin
Cc: Frankowicz, Wioletta; Kothari, Deepika; Huang, Sarah; Kommana, Rama
Subject: RE: Subprime performance

As early as possible. WE are trying to circulate the first draft on Friday.
If possible please send us the performance info first and then when the prepay info is ready you can send that to us.

-----Original Message-----
From: Shih, Benjamin
Sent: Wednesday, December 27, 2006 3:23 PM
To: Chatterjee, Debashish
Cc: Frankowicz, Wioletta; Kothari, Deepika; Huang, Sarah; Kommana, Rama
Subject: RE: Subprime performance

Debash,

When do you need this by? We are waiting for a calculation to be fixed in PDS in order for the prepay to be shown correctly.

From: Watson, Jeff
Sent: Wednesday, January 24, 2007 9:20 PM
To: Uppuluri, Sai; Glehan, David
Subject: RE: Quick question: Fremont

No, we don't treat their collateral any differently...

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 7:37 PM
To: Glehan, David; Watson, Jeff
Subject: Quick question: Fremont

Dave/Jeff:
I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?

Thanks

Sai Uppuluri
Associate Director, Structured Finance Ratings
Standard and Poor's Credit Market Services
55 Water Street, 40th Floor
Phone: (212) 438-3018
Fax : (212) 438-7322
Email : sai_uppuluri@sandp.com

From: Glehan, David
Sent: Wednesday, January 24, 2007 11:15 PM
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

:)

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 11:13 PM Eastern Standard Time
To: Glehan, David
Subject: RE: Quick question: Fremont

I know...i got good.com on the go

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: Glehan, David
Sent: Wednesday, January 24, 2007 11:05 PM Eastern Standard Time
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

You are good to go.

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 10:41 PM Eastern Standard Time
To: Glehan, David
Subject: RE: Quick question: Fremont

Yup

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: Glehan, David
Sent: Wednesday, January 24, 2007 10:14 PM Eastern Standard Time
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

Fico scores current?

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 08:18 PM Eastern Standard Time
To: Glehan, David
Subject: RE: Quick question: Fremont

OC deal...Less than 1 year seasoned

-----Original Message-----
From: Glehan, David
Sent: Wednesday, January 24, 2007 8:04 PM
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

Is it a NIM or an OC deal? Any seasoning?

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 07:36 PM Eastern Standard Time
To: Glehan, David; Watson, Jeff
Subject: Quick question: Fremont

Dave/Jeff:
I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?

Thanks

Sai Uppuluri
Associate Director, Structured Finance Ratings
Standard and Poor's Credit Market Services
55 Water Street, 40th Floor
Phone: (212) 438-3018
Fax : (212) 438-7322
Email : sai_uppuluri@sandp.com

From: Warrack, Thomas
Sent: Thursday, February 01, 2007 10:42 AM
To: Ahn, Laura; Albergo, Leslie; Alizadeh, Rasool; Arne, Errol; Barnes, Susan; Beauchamp, Kyle; Bergeland, Regina; Bergman, Mathew; Bliss, Brendan; Boardman, Jeremy; Bruzese, Frank; Cao, Becky; Chu, Eliza; Clements, Julia; Conon, Jonathan; Davis, Jessica; Deasy, Chris; Dougherty, Mike P; Epstein, Kenneth; Gleeson, Michael S; Glehan, David; Goldenberg, Mark; Graham, Peter; Grow , Brian (S&P); Grundy, James; Guinyard, Anthony; Hall, Daniel; Hawkins, Kisha; Hierl, Jonathan 11/12/2006; Hinman, Carissa; Hongwei Wang, David; Hopkins, Amanda; Kahan, Jack; Kennedy, Martin; Kimmel, George; Kostiw, Karen; Kumar, Rohit; Larkin, Daniel; Levin, Mark; Listner, Michael; Lukacsko, Erik; Maciaszek, Matthew; Mahdavian, Sharif; Manasseh, Rani; Mason, Scott; Mccormick P, Michael 9/7/2006; Mcdermott, Gail; McMillon, Robin; Messler, Julie; Muhammad, Aliyma; Neary, Rebecca; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Polumbo, Kimberly; Rossmann, Anne; Rubino, Beth; Samuels, Amy; Sang, John; Schneider, Jeremy; Shaikh, Waqas; Sharma, Sudhir; Siber, Matthew; Skuthan, Natalia; Smith, Keith; Solar, Mona; Stock, Michael; Stumberger, Danielle 1/4/2007 2:46:27 PM; Taylor, James; Tegen, Daniel; Tencer, Steve; Uppuluri, Sai; Van Kirk, Spencer; Vonderhorst, Brian; Wallace, Vanessa; Warrack, Thomas; Watson, Jeff; Weller, Brian; Wray, Michael; Yioupis, Leo; Zimmerman, Allen
Subject: FW: Defaults cause Fremont to end ties to 8,000 brokers
fyi

-----Original Message-----
From: Pollsen, Robert
Sent: Thursday, February 01, 2007 9:00 AM
To: Avant-Koger, Paula; Clarke, Lisa; Consul, Manish; Davey, Scott; Giudici, Andrew; Graffeo, Michael; Joyce, Kristymarie; Kim, Min; Mahabir, Lal; Rao, Asha; Ren, Chuye; Rivera, Jessica; Rivera, John; Warner, Ernestine; Young, Steven
Cc: Albergo, Leslie; Kostiw, Karen; Mcdermott, Gail; Osterweil, Terry; Stock, Michael; Tencer, Steve; Warrack, Thomas
Subject: Defaults cause Fremont to end ties to 8,000 brokers

Defaults cause Fremont to end ties to 8,000 brokers

Mon Jan 29, 2007 4:27 PM ET

By Al Yoon

LAS VEGAS, Jan 29 (Reuters) - Subprime mortgage lender Fremont Investment and Loan on Monday said it severed ties last quarter with some 8,000 brokers whose loans were responsible for some of the highest delinquency rates in the industry.

Such moves to improve loan quality have helped trim the number of early defaults on Fremont mortgages to a 3 percent rate from almost 6 percent in mid-2006, Mike Koch, a Fremont vice president of marketing, told investors at the American Securitization Forum meeting in Las Vegas. The so-called early payment defaults were close to 1 percent in 2005.

The brokers "released" were "highly correlated" to the sudden rise in defaults on Fremont loans, he said in response to questions from investors.

"First and foremost, increased loan quality is the No. 1 initiative for the year," Koch said.

Fremont was the fifth-biggest originator of subprime loans last year, with about $33 billion of loans issued.

A surge in defaults across the industry from low levels in 2003-2005 came as subprime underwriters loosened standards to help maintain volume in a shrinking market. The loans, most destined for the $575 billion home-equity, asset-backed bond market, are being returned by investors at an alarming pace, hurting profits.

For Santa Monica, California-based parent Fremont General Corp. <FMT.N>, soaring loan repurchases led to a $16.4 million loss on the sale of its mortgages in the first nine months of 2006, compared with a $316.4 million gain on sale for the same period of 2005.

A call to Fremont General's office of corporate compliance and investor relations wasn't immediately returned.

Bond rating companies including Standard & Poor's, Moody's Investors Service and Fitch Ratings since November have said they may downgrade parts of bond issues packaged with 2006 Fremont loans by a unit of French bank Societe Generale.

Other steps taken by Fremont to shore up loan quality include reducing the number of loans made to borrowers who state, rather than prove, their income, Koch said. Fremont has cut the number of "seconds" loans it makes on top of first mortgages to about 5 percent at year end 2006 from above 6 percent in the third quarter, he said.

"In 2007 we will continue to drive that number lower and lower," Koch said.

The release of brokers spawned the majority of urgent questioning from investors who have seen the value of their lower-rated securities slide since late 2006. Investors have complained of significant "tiering" of their bonds, in which bonds backed by loans of certain issuers have fallen in price relative to bonds whose attributes are otherwise similar.

Koch was reluctant to call the brokers "bad" because some may have simply specialized in loans that Fremont has cut back on, such as eighty-twenty loans. Eighty-twenty loans are two simultaneous loans, one to finance 80 percent of a home and another to cover 20 percent.

However, some of the brokers were "pushing appraisals" to make a home appear more valuable, he said.

Koch said Fremont is "well-positioned" to weather the downturn in the housing market and mortgage credit that has resulted in the closure of smaller rivals Ownit Mortgage Solutions and Sebring Capital Partners LP. H&R Block Inc.'s <HRB.N> OptionOne Mortgage Corp. is up for sale.

Among support, Fremont has an untapped $3 billion warehouse line of credit and nearly $4 billion in available credit from the Federal Home Loan Bank system, Koch said.

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GSAMP Trust 2007-FM2

Moody's Org ID: **720035753**

Closing Date: **21 Feb 2007**
Current Total Deal Size(Mil): **693.0**
Pay Frequency: **Monthly**
Market Segment: **Structured Finance**
Collateral Type: **HEL - Closed-End - Not High LTV**
Location of Assets: **UNITED STATES**

Originator: **Fremont Investment & Loan**
Trustee: **Deutsche Bank National Trust Company**
Primary Servicer: **Fremont Investment & Loan**
Underwriter: **Goldman Sachs & Co.**

Research | **Ratings** | **Related Parties**

Deal Research | Asset Class Research | Methodology

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Date	Document Type	Title
27 Mar 2010	Performance Report	GSAMP Trust 2007-FM2 View data in **Performance Data Services**
13 Jan 2010	Rating Action	Moody's updates loss projections for US Subprime RMBS issued in 2005-2007
13 Mar 2009	Rating Action	Moody's takes action on certain Goldman Sachs subprime RMBS
26 Feb 2009	Announcement	Moody's places 2005-2007 subprime RMBS on review for downgrade
23 Oct 2008	Rating Action	Moody's Downgrades Certain Goldman Subprime RMBS
18 Apr 2008	Rating Action	Moody's Downgrades Certain Goldman Sachs Subprime RMBS
04 Dec 2007	Rating Action	Moody's downgrades GSAMP subprime deals issued in 2007
08 Mar 2007	Rating Action	Moody's Rates GSAMP Trust 2007-FM2 Subprime Mortgage Deal
21 Feb 2007	Pre-Sale Report	GSAMP Trust 2007-FM2

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Permanent Subcommittee on Investigations

EXHIBIT #93e

Credit Ratings:
GSAMP Trust 2007-FM2
US$1.002 bil mortgage pass-through certificates series 2007-FM2

This Export copy displays all available data for the selected tab(s), including filtered data that may not currently appear on the screen.

Last Updated: 17-Apr-2010 19:45:30 EST

	Type	Rating Date	Rating Action	Rating
Tranche: A-1	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-1	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-1	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-1	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	AA
Tranche: A-1	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	AA
Tranche: A-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-1	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2A	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	B+
Tranche: A-2A	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	BB
Tranche: A-2A	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	BB
Tranche: A-2A	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2A	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2A	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2A	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2B	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2B	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-2B	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-2B	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2B	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2B	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2B	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2C	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2C	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-2C	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-2C	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	AA
Tranche: A-2C	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	AA
Tranche: A-2C	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2C	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2D	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2D	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-2D	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-2D	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	A
Tranche: A-2D	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	A
Tranche: A-2D	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA

Permanent Subcommittee on Investigations
EXHIBIT #93f

Tranche: A-2D	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: B-1	Local Long-Term	24-Mar-2009	Downgrade	D
Tranche: B-1	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: B-1	Local Long-Term	17-Oct-2007	Downgrade	B+
Tranche: B-1	Local Long-Term	28-Feb-2007	New Rating	BB+
Tranche: B-2	Local Long-Term	02-Feb-2009	Downgrade	D
Tranche: B-2	Local Long-Term	20-Aug-2008	Downgrade	CC
Tranche: B-2	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: B-2	Local Long-Term	17-Oct-2007	Downgrade	B-
Tranche: B-2	Local Long-Term	28-Feb-2007	New Rating	BB
Tranche: M-1	Local Long-Term	04-Aug-2009		CCC
Tranche: M-1	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-1	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	BBB
Tranche: M-1	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	BBB
Tranche: M-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA+
Tranche: M-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA+
Tranche: M-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA+
Tranche: M-1	Local Long-Term	28-Feb-2007	New Rating	AA+
Tranche: M-2	Local Long-Term	02-Mar-2010	Downgrade	CC
Tranche: M-2	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-2	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	B
Tranche: M-2	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	B
Tranche: M-2	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA
Tranche: M-2	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA
Tranche: M-2	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA
Tranche: M-2	Local Long-Term	28-Feb-2007	New Rating	AA
Tranche: M-3	Local Long-Term	02-Mar-2010	Downgrade	CC
Tranche: M-3	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-3	Local Long-Term	17-Oct-2007	Downgrade	A
Tranche: M-3	Local Long-Term	28-Feb-2007	New Rating	AA-
Tranche: M-4	Local Long-Term	04-Aug-2009	Downgrade	CC
Tranche: M-4	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-4	Local Long-Term	17-Oct-2007	Downgrade	BBB+
Tranche: M-4	Local Long-Term	28-Feb-2007	New Rating	A+
Tranche: M-5	Local Long-Term	24-Feb-2010	Downgrade	D
Tranche: M-5	Local Long-Term	04-Aug-2009	Downgrade	CC
Tranche: M-5	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-5	Local Long-Term	17-Oct-2007	Downgrade	BBB
Tranche: M-5	Local Long-Term	28-Feb-2007	New Rating	A
Tranche: M-6	Local Long-Term	24-Sep-2009	Downgrade	D
Tranche: M-6	Local Long-Term	04-Aug-2009	Downgrade	CC
Tranche: M-6	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-6	Local Long-Term	17-Oct-2007	Downgrade	BBB-
Tranche: M-6	Local Long-Term	28-Feb-2007	New Rating	A-
Tranche: M-7	Local Long-Term	20-Jul-2009	Downgrade	D
Tranche: M-7	Local Long-Term	30-Jan-2008	Downgrade	CCC

Tranche: M-7	Local Long-Term	17-Oct-2007	Downgrade	BB+
Tranche: M-7	Local Long-Term	28-Feb-2007	New Rating	BBB+
Tranche: M-8D	Local Long-Term	25-Jun-2009	Downgrade	D
Tranche: M-8D	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-8D	Local Long-Term	17-Oct-2007	Downgrade	BB
Tranche: M-8D	Local Long-Term	28-Feb-2007	New Rating	BBB
Tranche: M-8P	Local Long-Term	25-Jun-2009	Downgrade	D
Tranche: M-8P	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-8P	Local Long-Term	17-Oct-2007	Downgrade	BB+
Tranche: M-8P	Local Long-Term	28-Feb-2007	New Rating	BBB
Tranche: M-9	Local Long-Term	23-Apr-2009	Downgrade	D
Tranche: M-9	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-9	Local Long-Term	17-Oct-2007	Downgrade	BB-
Tranche: M-9	Local Long-Term	28-Feb-2007	New Rating	BBB-
Tranche: P	Local Long-Term	28-Feb-2007	Not Rated	NR
Tranche: R	Local Long-Term	20-Aug-2008	Not Rated, CreditWatch/Outlook	NR
Tranche: R	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: R	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: RC	Local Long-Term	20-Aug-2008	Not Rated, CreditWatch/Outlook	NR
Tranche: RC	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: RC	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: RX	Local Long-Term	20-Aug-2008	Not Rated, CreditWatch/Outlook	NR
Tranche: RX	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: RX	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: X	Local Long-Term	28-Feb-2007	Not Rated	NR

From: immanager@standardandpoors.com
Sent: Thursday, April 05, 2007 11:26 AM
To: Mooney, Shannon; Trant, Brian; Loken, Andrew
Subject: IMlogic IMManager conversation export: Thursday, April 05, 2007 11:25:36 AM EDT: shannon what happened?

IM Network: MSN IM

IM Users:

participant=shannon_mooney@standardandpoors.com "Mooney, Shannon" "shannon.mooney@comcast.net"
participant=brian_trant@standardandpoors.com "Trant, Brian" "trantbp@gmail.com"
participant=andrew_loken@standardandpoors.com "Loken, Andrew" "walchuk22@yahoo.com"

IM Dialog:

Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian started conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Mooney, Shannon has entered the conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Loken, Andrew has entered the conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian: shannon what happened?
Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 11:25:36 AM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 11:25:36 AM EDT Loken, Andrew has left the conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 11:25:39 AM EDT Loken, Andrew has entered the conversation.
Thursday, April 05, 2007 11:25:39 AM EDT Trant, Brian: i heard some fury
Thursday, April 05, 2007 11:25:51 AM EDT Mooney, Shannon: james yao at ubs
Thursday, April 05, 2007 11:26:05 AM EDT Mooney, Shannon: sarah is working with him

From: Halprin, James
Sent: Thursday, April 05, 2007 3:19 PM
To: Hu, Bujiang; Kambeseles, Peter; Cheng, Kenneth; De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo; Guarnuccio, Keith; Radziul, Robert
Cc: Cheng, Lois
Subject: RE: Vertical 2007-1/UBS/James Yao

Vertical is politically closely tied to B of A - and is mostly a marketing shop - helping to take risk off books of B o A. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform. JH

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Hu, Bujiang
Sent: Thursday, April 05, 2007 02:51 PM Eastern Standard Time
To: Kambeseles, Peter; Cheng, Kenneth; De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert

Cc: Cheng, Lois
Subject: Vertical 2007-1/UBS/James Yao

Lois, Sarah, and Shannon would like to give us a heads-up with respect to the lack of responsiveness/cooperation from UBS (James Yao) they're experiencing on Vertical 2007-1.

There seems to be a general lack of interest to work WITH us, incorporate our comments, or modeling to our criteria. Based on their collective difficult experience so far, our analysts estimate a smooth closing is unlikely. (The behavior is not limited to this deal either.)

From: Cheng, Lois
Sent: Friday, April 06, 2007 4:23 PM
To: Cheng, Lois; O'Keefe, Brian; Kambeseles, Peter
Cc: Sachse, Sarah; Mooney, Shannon; Gatmaitan, Joshua
Subject: RE: VERTICAL ABS CDO 2007-1, LTD- closing next tues, update
Just wanted to update you guys on Vertical. The model is passing now. We found a mistake in the waterfall modeling that was more punitive than necessary. James Yao has been notified and is probably having a chuckle at our expense. I still feel that his attitude toward our rating process and our team still needs to be addressed in some way.

Thanks,
Lois

From: Cheng, Lois
Sent: Thursday, April 05, 2007 3:05 PM
To: O'Keefe, Brian; Kambeseles, Peter
Cc: Sachse, Sarah; Cheng, Lois; Mooney, Shannon; Gatmaitan, Joshua
Subject: VERTICAL ABS CDO 2007-1, LTD- closing next tues, deal not passing
Importance: High

Hi Pete/Brian,

Just wanted to let you know that this deal is closing and going Effective next Tuesday, but our rated Equity tranche (BBB) is failing in our cashflow modeling.

Sarah tried a lot of ways to have the model passed. Unfortunately we are still failing by 1bp, without any stress runs and without modeling certain fees (anticipated to be minimal).

In addition, we already incorporated the actual ramped up portfolio, and not a hypothetical one, for this exercise.

Regards,
Lois

From: Cheng, Lois
Sent: Friday, March 30, 2007 5:10 PM
To:
Subject: VERTICAL ABS CDO 2007-1, LTD. UBS
Importance: High

I am covering for Josh on this deal which is closing 4/10/07. They want to finalize all the docs and cashflow by next Tues, 4/3. Sarah and I have been working with James Yao from UBS but we have not been getting cooperation from him. He has told me that I am jeopardizing the deal. Please can you address the following issues?

- Instead of him addressing my comments/questions, he asked me to go back to the analyst who rated the previous deal for answer because of the "time constraint".
- This is the third time that he refuses to model the cashflow according to the Indenture and Criteria. Sarah has given him notice on these points previously but he has not changed his model.
- We have not received revised swap docs following comments made by Josh.
- He purposely spelled Sarah's name wrong and says that he will spell her name correctly once she does what he asks her to do, which he should be doing himself

Regards,

Permanent Subcommittee on Investigations
EXHIBIT #94c

PRE-CLOSING COMMITTEE MEMORANDUM

To:	Derivatives Rating Committee
From:	Saiyid Islam, Peter Hallenbeck
Committee:	Steve Lioce, Rudy Bunja, Ainat Koller
Deal:	**Vertical ABS CDO 2007-1, Ltd**
Pricing:	February 22, 2007
Closing:	April 10, 2007

Vertical ABS CDO 2007-1, Ltd is a mezzanine Hybrid ABS transaction that is expected to be 95% synthetic (CDS assets) at closing. The CDO would primarily reference Subprime and Midprime RMBS securities (about 55% and 35% respectively) with ABS CDOs making up the remainder at time of closing. Target WARF is 460-470 (Baa2-), covenanted to 500. The transaction is expected to be about 97% ramped at closing.

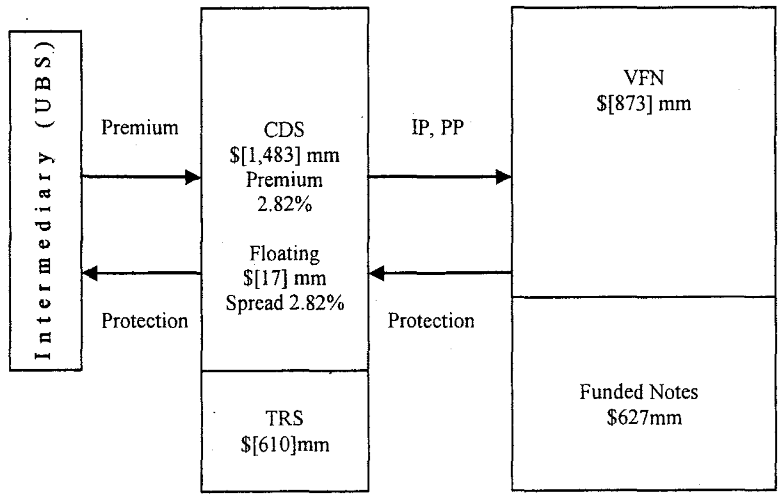
Banker:	UBS • James Yao 212-713-4972
Counsel:	Freshfields Bruckhaus Deringer LLP • Kiran Bokhari 212-277-4032
Collateral Manager:	Vertical Capital, LLC
Trustee:	Wells Fargo Bank, National Association
Effective:	May 2007
Reinvestment Period:	March, 2011
Payment Dates:	Monthly, commencing June 2007
First Auction Date:	[March, 2014]
TRS Counterparty:	MLI (P-1 rating)
CDS Asset Counterparty:	UBS AG, London Branch (Aa2/P1)
VFN Liquidity Provider:	[UBS]

Precedent

Deal:	Vertical Virgo 2006, Ltd
Closed:	Oct 31, 2006
Analysts:	Govind Gupta, Peter Hallenbeck

CAPITAL STRUCTURE

Tranche	Par	Size	Coupon	Moody's	Stated Maturity
Class X	$42,000,000		P&I of 700,000 / month	Aaa	Mar-2013
Class A-1S	$873,000,000	58.20%	0.18% / 1ML + 0.32%	Aaa	Mar-2047
Class A-1J	$229,000,000	15.27%	1ML + 0.75%	Aaa	Mar-2047
Class A-2L	$157,000,000	10.47%	1ML + 0.95%	Aa2	Mar-2047
Class A-3L	$57,000,000	3.80%	1ML + 3.50%	A2	Mar-2047
Class B-1L	$70,000,000	4.67%	1ML + 6.00%	Baa2	Mar-2047
Class B-2L	$32,000,000	2.13%	1ML + 7.00%	Baa3	Mar-2047
Class C-1L	$22,000,000	1.47%	1ML + 9.25%	Ba2	Mar-2047
Subordinated Notes	$60,000,000	4.00%	Residual		Mar-2047
Total	$1,500,000,000	100.00%			

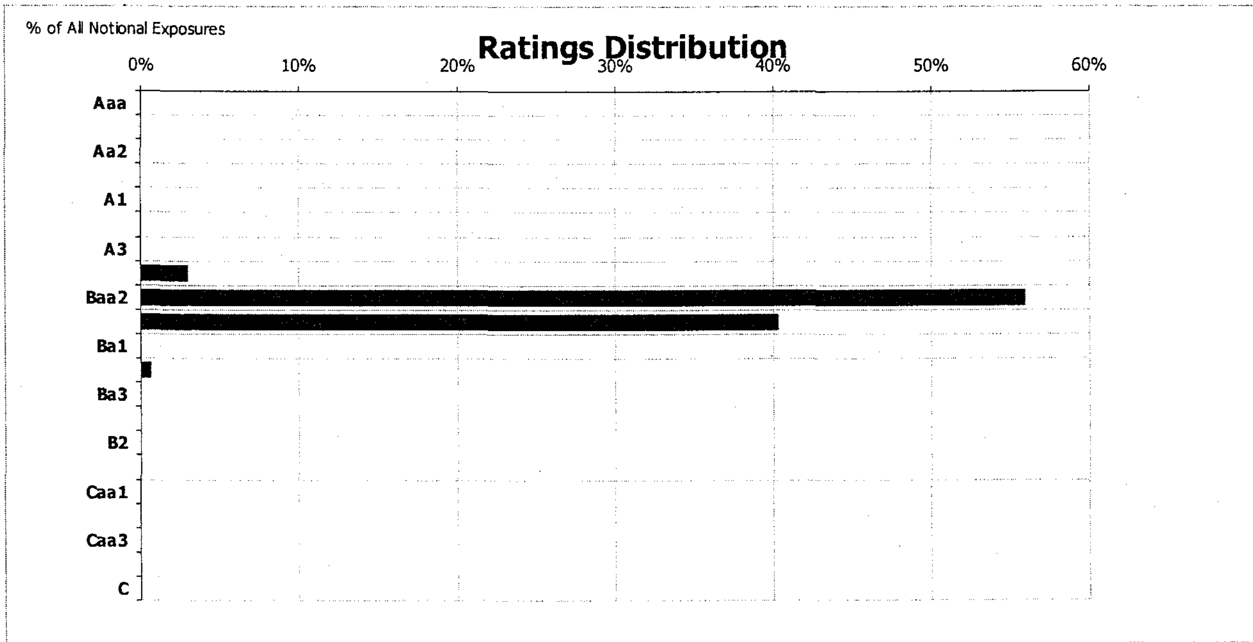


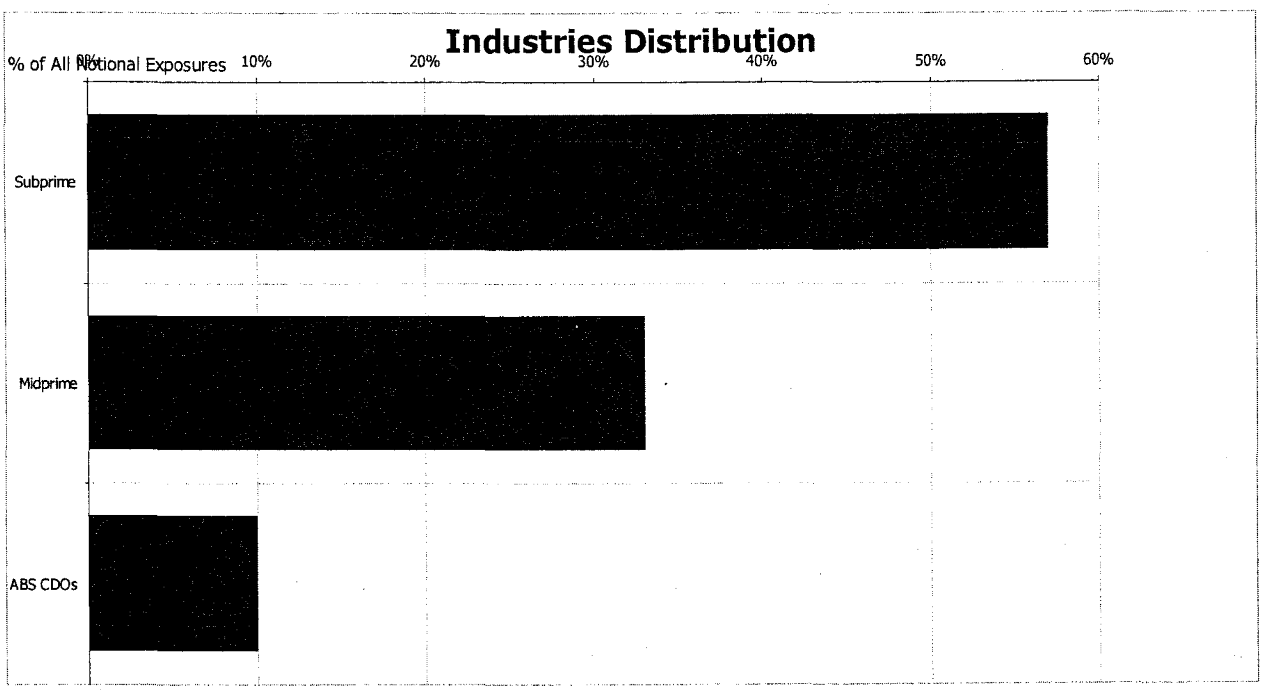
Deal Characteristics

Payment Frequency:	Monthly
Effective Date:	April 2007. At Closing, deal will be 99% Ramped Up, of which 97% will be CDS.
First Payment Date:	May 2007
Reinvestment Period:	Until April 2011
Auction Date:	8 years
Non-Call Period:	4 years
Stated Maturity:	40 years (2047); Maturity of Class X Notes is in 2013.

COLLATERAL

Total Initial Collateral Par:	$1,500,000,000
Weighted Average Life:	6.0 years
Weighted Average Rating Factor:	500
Weighted Average Recovery:	23.0%
Moody's Asset Correlation (covenant):	24% for n = 100
Weighted Average Spread (covenant):	2.82%
Current MAC:	22.57% for n = 100
Current Weighted Average Spread:	3.07%





Coverage Tests

There are no coverage tests in the deal except for a sequential pay test that is based on the Class B OC ratio.

Test	OC Requirement	
Class B Pro Rata Pay Test	103.0%	Years 1-4
Class B Pro Rata Pay Test	100.00%	Thereafter

Ratings-based OC Haircuts:

Rating Level ("Moody's Rating")	Cushion	Haircut
Ba1-Ba3	10%	10%
B1 – B3	0%	30%
≤ Caa1	0%	50%

Waterfall Features

Interest Waterfall

i. Trustee, Administrative Expenses, and Senior Management Fees
ii. Senior Payments to the CDS counterparty, TRS Counterparty and Hedge Counterparty
iii. Interest and Principal to the Class X Notes
iv. Interest to the Class A1S Notes
v. Interest to the Class A1J Notes
vi. Interest to the Class A2 Notes
vii. Interest to the Class A3 Notes
viii. Interest to the Class B1 Notes
ix. Interest to the Class B2 Notes
x. Interest to the Class C1 Notes
xi. Junior Management Fees
xii. Subordinated Payments to the CDS counterparty, TRS Counterparty and Hedge Counterparty
xiii. To the Subordinated Trustee and Administration Expenses
xiv. After the Auction Date, to the payment of principal first Pro Rata to the Class B1, Class B2 and Class C1 Notes, second to the Class A3 Notes, third to the Class A2 Notes, fourth to the A1J Notes and fifth to the reduction of the Class A1S Notes until paid in full
xv. During years 1-4 of the transaction to preference shareholders up to an annualized coupon of 15%
xvi. During years 1-4 of the transaction to pay principal on Class B1 and Class B2 notes on a Pro rata basis up to a 3% annualized original notional
xvii. The remaining to the Subordinated Noteholders

Principal Waterfall

i. The Amounts referred to in clauses (i) through (v) of the Interest Waterfall above to the extent not already paid by Interest Proceeds
ii. During the reinvestment period, toward the purchase of additional collateral.
iii. After the end of the reinvestment period but prior to the Auction Call Date, to the Pro Rata reduction of the Class A1S Notes and principal payments to the Funded Rated Notes, provided that no Sequential Test has ever been breached, until 50% of the original Reference Portfolio Principal is paid down, then sequentially to the reduction of the Class A1S Notes, the Class A1J Notes, the Class A2 Notes, the Class A3 Notes, the Class B1 Notes, the Class B2 Notes, and then the Class C1 Notes.
iv. To the Junior Management Fee
v. Any unpaid interest due (to the extent not paid by Interest Proceeds) sequentially to the Class A3 Notes, the Class B1 Notes, the Class B2 Notes, and the Class C Notes.
vi. Subordinated payments to CDS Counterparty, TRS Counterparty and Hedge Counterparty
vii. To the Subordinated Trustee and Administration expenses
viii. The remaining to Subordinated Noteholders

Eligibility Criteria

Collateral purchased must satisfy the following criteria:

1. Denominated and payable in U.S. Dollars

2. Moody's Rating at least **Ba3**
3. Obligor or issuer of security is not a fund owned or managed by Collateral Manager
4. Excluded Securities: Listed below under Portfolio Percentage Limitations
5. Long dated assets: 10% bucket of which 5% mature within 5 years of stated maturity and remainder within 10 years. Expected maturity is within deal maturity.

Portfolio Percentage Limitations **(Section *12.2)***

<u>By Rating:</u>	
Moody's Rating at least **Ba3 (Ba2 for Non RMBS)**	100%
Moody's Rating **Ba1 to Ba3**	≤ 5%
<u>Issuer Concentrations:</u>	
Single issue size Moody's Rating at least **Aa3**	≤ 2.0%
Single issue size Moody's Rating **A1 to A3**	≤ 1.5% (one exception 2.0%)
Single issue size Moody's Rating **Baa1** or **Baa2**	≤ 1.35% (two exceptions 2.0%, 1.5%)
Single issue size Moody's Rating **Baa3**	≤ 1% (two exceptions 1.35%)
Single issue size Moody's Rating **Ba1 to Ba3**	≤ 0.75% (two exceptions 1.0%)
<u>Single Servicer Concentration:</u>	
Servicer for Mortgage related securities:	
"Above Average" or better and not on negative watch	≤ 15% (10% for 2 servicers)
"Average" and not on negative watch	≤ 10%
Below "Average" and not on negative watch	≤ 5%
Servicers not for Mortgage	≤ 5%
<u>By Coupon Type</u>	
Fixed rate securities (not including CDS)	0%
CDS referencing fixed rate securities	20%
Floating Rate Securities (not including CDS)	20%
<u>By Type of Security:</u>	
Non Res A/B/B, HEL, or CMBS	≤ 20%
Residential A Mortgage Securities	≤ 25%
Residential B/C Mortgage Securities	≤ 100%
Home Equity Loan Securities	≤ 15%
CMBS Securities	
Aggregate CMBS	≤ 5%
CMBS Conduit Securities	≤ 5%
CMBS Credit Tenant Lease Securities (rated Aaa)	≤ 5%
CMBS Large Loan Securities (not below Baa2)	≤ 5%
Asset-Backed Securities	
Automobile Securities (not below Baa2)	≤ 10%
Credit Card Securities (not below Baa2)	≤ 2%
Student Loan Securities	
Fully guaranteed by the U.S. DOEd (not below Baa3)	≤ 5%
Not guaranteed by the U.S. DOEd (rated **Aaa**)	≤ 2%

Small Business Loan Securities	(not below Baa2)	≤ 2%
CDO Securities		
Aggregate		≤ 10%
CLOs		0%
High Yield CDOs (rated Aaa)		≤ 10%
CDO^2		≤ 10%
Single Manager (not Vertical)		≤ 2.5%
Single Issuer		≤ 1%
Equipment Leasing Securities		
Aggregate		0%
Trust Preferred CDO (all types)		0%
Time Share Securities (at least Baa2)		≤ 2%
Car Rental		0%
NIM		≤ 2%
REIT		0%
PIK Bonds (Pikable)		≤ 10%
Neg Am (rated at least Aa3)		≤ 10%
Zero Coupon		0%
Index linked Securities		0%
Synthetic Securities (other than hedging CDS)		
Aggregate		100%
Not CDS		≤ 20%
Not CDS Fixed		≤ 0%
By Frequency of Interest Pay		
Less than monthly		≤ 10%, none that pay less frequently than semi-annually. There are smoothing accounts set up for those paying less than monthly. 5% less than quarterly.

Other Limits

Pure Private Collateral Debt Securities	≤5%
Qualifying Foreign Obligors	≤5%
Average Life	≤15 years
Downgraded, withdrawn or on watch	≤5%

(not downgraded by two notches, or more than once, or rated Baa3 or below and have been downgraded prior to acquisition or on watch, or rated Baa2 and on watch.)

Shorts

No Shorts on cash.

Perfectly hedged shorts: has long position with reference obligation that forms part of the same Issue as, ranks pari passu with and has the same Stated Maturity as.

Any Disposition of a Hedging CDS Transaction shall be deemed to be an Acquisition of the portion of the notional amount of the Hedged CDS Transaction to which such Disposed of Hedging CDS transaction relates.

Net Issuer Hedged Short Premiums payable by the Issuer come out of the Interest Collection Account. Net premium inflows are treated as principal proceeds.

Unhedged (Naked) shorts: No naked shorts allowed.

Excluded Securities:

ABS Chassis Securities, ABS Container Securities, ABS Natural Resource Receivable Securities, Aircraft Leasing Securities, Bespoke CDO Securities, Cap Corridor Securities, Catastrophe Bonds, Combination Securities, Corporate CDO Securities, EETC Securities, Franchise Securities, Future Flow Securities, Guaranteed Asset-Backed Securities, Healthcare Securities, Interest Only Securities, Lottery Receivable Securities, Manufactured Housing Securities, Mutual Fund Fees Securities, Oil and Gas Securities, Principal Only Securities, Prohibited RMBS Securities, Restaurant and Food Services Securities, Small Business Loan Securities, Stadium Receivables Securities, Structured Settlement Securities secured with future legal fees, Tax Lien Securities, Tobacco Bonds, Toggle Floater Securities or Unhedged Short CDS Transactions.

VFN (Class A1S) Features

1. The initial Note Holder is UBS, which is currently rated Aa3.
2. Viable Funding Note Holder rating requirements: A1 & P1. If failing the requirements, with 30 days, they can replace themselves, obtain a satisfactory guarantor or fully fund the note (the money will be put into the reserve account. The VFN noteholder will only earn the commitment fee, not the full coupon.)
3. Permitted Use:
    a. CDS Termination Payment Amount;
    b. Bond Purchase Payment (may not cause a Notional Amount Shortfall and is subject to a cap of $100MM and must only be during Reinvestment Period);
    c. Credit Protection Payments;
    d. Interest Reimbursement Amounts;

4. Outs for the VFN:
    a. Commitment Termination Date: State Maturity or Redemption Date for the Notes; Event of Default (other than Specified Event of Default) and the liquidation of the collateral; Special Event of Default; CDS Termination; CDS term due to UBS default.
    b. For borrowing for CDS, no Specified Event of Default.
    c. Specified Event of Default: 5.1 (f) or (g)
    d. For Bond Purchases, causes a Notional Amount Shortfall or borrowings for such purpose exceed $100MM.
    e. Class B Pro Rata Pay Test is not satisfied;
    f. TRS Event of Default has occurred.

    Class A1S Notes are entitled to Make-Whole Amount with respect to an Optional Redemption occurring prior to Distribution Date in April 2011.

During the Reinvestment Period, the Remaining Unfunded Facility Commitment will be reduced in the following circumstances: (i) if a Ratings Confirmation Failure occurs, on the Distribution Date relating to the first Determination Date thereafter, to the extent necessary to obtain a Rating Confirmation (and to the extent that funds are available for such purpose in accordance with the Priority of Payments); and (ii) on each Distribution Date that occurs during any Reinvestment Suspension Period (and to the extent that funds are available for such purpose in accordance with the Priority of Payments), by application of the amounts of the Collateral Manager Discretionary Facility Reduction which the Collateral Manager elects to apply to reduce permanently the Remaining Unfunded Facility Commitment pursuant to the Indenture (*provided* that Commitment Fee will continue to accrue on the aggregate Collateral Manager Discretionary Facility Reduction to and including the last day of the Reinvestment Period).

Reserve Account (TRS) Investments:

1. TRS:
    a. TRS Required Ratings: P-1 & Aa3 (not on negative watch). If failure (**Collateralization Event**), MLI needs to take any action, including post collateral, that will satisfy RAC within 10 days.
    b. If TRS Swap Counterparty is downgraded below P-2 or A1 on negative watch, it shall, within 30 days, replace, get guarantor or any other action that satisfy RAC.
2. Eligible investments (a) cash, (c) demand and time deposits, (g) Reinvestment Agreements, (h) US money market, with counterparty rating not less than Aa2 or P1. Maturity date is no later than the Business Day immediately prior to the next distribution date.

On the Closing Date, the Issuer will deposit approximately U.S.$**610,000,000** (the "Initial Deposit") into the Reserve Account and invest such amounts in TRS Reference Obligations in accordance with the terms of the Total Return Swap. Under the TRS Transaction, the Issuer will pay all interest and similar distributions on the TRS Reference Obligations to the TRS Counterparty and the TRS Counterparty will pay one-month LIBOR on the notional amount of the Total Return Swap to the Issuer. If any TRS Reference Obligation in the TRS Asset Subaccount is sold at a price below the principal amount thereof, MLI shall be required to pay such deficiency to the Issuer. The notional amount of the Total Return Swap may be reduced by MLI, and the Total Return Swap may be terminated by MLI or the Issuer in certain circumstances.

Credit Default Swap (CMBS and RMBS applies, also CDOs):

There are two form-approved forms with PAUG and Physical Settlement. The forms will be used for both shorts and long. Otherwise subject to RAC.

Buyer (UBS) pays:
- Fixed Amount premium
- Additional Fixed Amount: Writedown reimbursement, principal shortfall reimbursement, interest shortfall reimbursement.

Seller (Vertical) pays:
- Floating Amount: Writedown, Principal Shortfall, Interest Shortfall
- Credit Protection Payments (Physical Settlement Amounts)

Credit Event:
- Failure to Pay Principal
- Writedown
    - Writedown or applied loss
    - Attribution of principal deficiency or realized loss
    - Forgiveness of principal
    - Implied Writedown (carry all the assets at par no matter if it is performing.)

- Distressed Ratings Downgrade
  - Caa2 or below
  - Rating withdrawn and not reinstated within five business days; provided if it was Baa3 or higher prior to such withdrawal, it shall not constitute a Distressed Ratings Downgrade is it is assigned at least Caa1 within 3 months after such withdrawal.

<u>Floating Amount Event</u>:

- Writedown
- Failure to Pay Principal
- Interest Shortfall

<u>Settlement</u>: Physical

<u>Party A Ratings</u>: Aa2 & P-1

<u>Party A (UBS) Downgrade Event:</u>

- If the counterparty fails the <u>Required Ratings (ST rating P-1 & LT rating A1)</u>, Party A shall take one of the following actions, at its sole expense:
  - Within 30 Business days, enter into a CSA and post collateral, or find replacement, or get guarantor, or other action subject to RAC.
- If the counterparty fails the <u>Second Level Required Ratings (ST rating P-2 and LT rating A3)</u>, Party A shall take one of the following actions, at its sole expense:
  - Within 10 Business days, find replacement, or get guarantor, or other action subject to RAC.

UBS will need to replace if they are rated P2 or A3.

<u>Hedging Strategies</u>

1. *<u>Interest Rate Risk</u>*
   Not Applicable

2. *<u>Liquidity Risk</u>*
   Not Applicable

3. *<u>Basis Swap</u>*
   Not Applicable (There is a quarterly/semi-annually paying asset smoothing account)

4. *<u>FX Risk</u>*
   Not Applicable

Modeling Assumptions

Model Used: CDOEdge

Model Parameters

Parameters	
Floating %	100%
Cash Assets	5%
Synthetic / CDS	95%
Moody's Asset Correlation (n = 100)	24%
WARF	500
Recovery	23%
WAC	-
WAS (synthetic)	2.82%
WAS	2.82%
TRS Spread	-1 Bps
Cash on Cash	None

C. Model Results:

Weighted Average of Base, Slow and Fast Prepayment Cases (MAC = 24%)

Unfunded Spread

Tranche	X	A1S	A1J	A2	A3	B1	B2	C1
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0001%**	**0.0057%**	**0.0799%**	**0.3665%**	**1.1171%**	**2.8156%**	**3.9836%**
Zero-Default WAL	3.223	8.492	9.38	9.459	9.102	7.966	7.966	7.972
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0993%**	**0.5556%**	**1.5584%**	**4.6683*%**	**6.3990%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1404%	0.6891%	2.0592%	3.4299%	7.4281%

**Sequential hurdle for B2*

50% Unfunded, 50% Funded Spread

Tranche	X	A1S	A1J	A2	A3	B1	B2	C1
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0001%**	**0.0058%**	**0.0800%**	**0.3671%**	**1.1202%**	**2.8284%**	**4.0111%**
Zero-Default WAL	3.223	8.493	9.381	9.466	9.154	8.001	8.001	8.002
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0994%**	**0.5614%**	**1.5666%**	**4.6683*%**	**6.4151%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1405%	0.6958%	2.0691%	3.4438%	7.4448%

**Sequential hurdle for B2*

Sensitivity to Correlation

Stressing ABS CDO correlations by factor of 1.5

Actual MAC: 22.57%
MAC after stressing ABS CDOs: 22.71% (i.e. still within covenant)

MAC Covenant Scaled by factor of 1.1

Weighted Average of Base, Slow and Fast Prepayment Cases (MAC = 26.4%)

Unfunded Spread

Tranche	**X**	**A1S**	**A1J**	**A2**	**A3**	**B1**	**B2**	**C1**
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0003%**	**0.0111%**	**0.1183%**	**0.4745%**	**1.2829%**	**3.0044%**	**4.1138%**
Zero-Default WAL	3.223	8.492	9.38	9.459	9.102	7.966	7.966	7.972
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0993%**	**0.5556%**	**1.5584%**	**4.6683*%**	**6.3990%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1404%	0.6891%	2.0592%	3.4299%	7.4281%

**Sequential hurdle for B2*

50% Unfunded, 50% Funded Spread

Tranche	**X**	**A1S**	**A1J**	**A2**	**A3**	**B1**	**B2**	**C1**
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0003%**	**0.0111%**	**0.1184%**	**0.4753%**	**1.2869%**	**3.0189%**	**4.1436%**
Zero-Default WAL	3.223	8.493	9.381	9.466	9.154	8.001	8.001	8.002
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0994%**	**0.5614%**	**1.5666%**	**4.6683*%**	**6.4151%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1405%	0.6958%	2.0691%	3.4438%	7.4448%

**Sequential hurdle for B2*

ClassA2 fails EL hurdle by 1 notch, passes Geomean.

<u>Ratings Guide</u> (confirm compliance and/or describe exemptions to the current criteria and, if necessary, elaborate on the description of the exception in the Issues List)

1. <u>Published Criteria</u>
Rating Factors

☐ *Post Reinvestment Period Reinvestment* — conforms to RF Vol.I No.1 (2/18/04) **Yes**
☐ *Ratings-triggered Haircuts* — conforms to RF Vol II No. 5 (1/25/06) **Yes**
☐ *Discount Securities* — conforms to RF Vol II No. 5 (1/25/06) **Yes**
☐ *Market Value Definition* — conforms to Rating Factor RF Vol. II No. 4 (12/14/05) **Yes**
☐ *Ramp-up Failure* — conforms to [Draft] Rating Factor? **Yes**

FAQs

☐ *Trading Restrictions Post-Downgrade* — conforms to FAQI (2/23/01), Q6 **Yes**
☐ *Defaulted Security Definition, No Grace Period* — conforms to FAQI (2/23/01), Q9 **Yes**
☐ *Defaulted Security Definition* — conforms to FAQI (2/23/01), Q10 **Yes**
☐ *Defaulted Securities Treatment in Tests* — conforms to FAQIII (3/29/04), Q1 **Yes**
☐ *PIKable Securities* — conforms to FAQIII (3/29/04), Q2 **Yes**
☐ *Non-PIKable Structured Finance Securities* — conforms to FAQIII (3/29/04), Q3 **(?)**
☐ *Uncapped Liabilities* — conforms to FAQIII (3/29/04), Q8 **?**
☐ *Securities on Watch Treated as Downgraded* — conforms to FAQIII (3/29/04), Q11 **Yes**

☐ *Use of Moody's Rating in the Indenture*— applied to (i) portfolio concentration limitations; (ii) definition of OC haircuts; (iii) screening of Combination Securities in the portfolio. **NOT CURRENTLY, HAVE MADE COMMENT.**
☐ *Notching Criteria for SF Securities*: — conforms to criteria "Notching Conventions for Multisector CDOs" dated 7/02 Update and RF Vol. II No. 3 (3/11/05) **Yes**
☐ *Weighted Average Life (declines by period)* — conforms to Checklist II.B.4 **Yes**

☐ *Criteria for Long-Dated Securities* **Yes**
☐ *Definition and Treatment of Synthetic Securities:* Yes
- *Single reference obligation vs. Multi-reference obligation*
- *Treatment for correlation*

☐ *Criteria for Asset-Specific Hedges (Deemed Floaters)* — conforms to "Deemed Fixed and Floating Assets Criteria" compiled by David Teicher **N/A**
☐ *Single-issue concentration and size of equity tranche in high-grade deals* — conforms to Yvonne Fu's email dated 7/21/05
☐ *Hedge Counterparty Standards* — conforms to Special Comment "Moody's Approach for Rating Threshold for Hedge Counterparties in CDO Transactions" (10/23/02) **Yes**

☐ *Currency Mismatch* — conforms to Checklist II.A.1 and Moody's Rating Methodology "<u>Moody's Approach to Rating Multi-Currency CDOs</u>" by Choi and LeHenaff, 9/15/05 **N/A**
☐ *CDOs with Short-Term Tranches* — conforms to "<u>CDOs with Short-Term Tranches: Moody's Approach to Rating Prime-1 CDO Notes</u>" by Mueller-Bharwani-Araya **N/A**
☐ *Trading Gains* — conforms to Checklist III.D.1 **Yes**
☐ *Reinvesting Recoveries* — conforms to Checklist III.E.2 **Yes**
☐ *Defaulting Reinvested Interest Proceeds* — conforms to Checklist IV.C.5
Not applicable
☐ *Events of Default* — conforms to Checklist I.E **Yes**

☐ *Tax Opinion Yes*
☐ *PIKable and other irregular pay: concentration limit for PIK assets should address Neg Am assets* **Yes**
☐ *IO Securities*
NA
☐ *Option ARMS*
NA

☐ *NIMS* — conforms to Gus Harris e-mail dated 7/3/01 **Yes**
☐ *Combination Securities in the collateral pool: see group meeting 11/3/04 (Portfolio Limitations)+ language on Moody's Rating*
Not applicable

2. <u>Key Points</u> (All the following were applicable in the previous transaction and we are currently confirming with UBS)

This deal is very similar to Vertical Virgo. To date, there have been not many changes to the documents and only some changes to the capital structure (TRS used instead of GIC as well as the addition of the Class X Notes instead of a Prepaid Swap to cover expenses).

1.) If UBS defaults, event of the default for the deal and noteholders from each class can majority vote to liquidate the deal.

We have asked for a look through analysis of Vertical's transactions to compare for correlation purposes. The manager complained that it would be too onerous to provide data for all positions in all CDOs. For now, we have asked for the closing date list of assets from the various transactions and ran some correlation stress tests on the CDO bucket (scaled by factor of 1.5) and covenant MAC (Scaled by factor of 1.1). Stressing the CDO bucket did not impact the ratings since the CDO bucket limitation is 10% in the transaction. Stressing the MAC made the Aa2 tranche fail the hurdle (by one notch) though it still passed the geomean.

2.) VFN Noteholder initially needs to be A1/P1 not on watch, but other VFN Noteholders must be Aa3/P1 not on watch (unless they are considered Specific VFN Noteholders).
3.) Can't short cash assets.
4.) If UBS defaults, VFN still on the hook for its obligation to fund.
5.) The CDO's commitment fee obligations will be terminated if the CDS goes away due to a UBS default.
6.) Negative drag concern if the VFN holder is downgraded past the required level. If the VFN holder is downgraded, they have to fund their full commitment in a separate account with Wells Fargo and the deal would continue to pay them the commitment fee (.18%, NOT 1 month libor + .32%). The VFN takes the negative drag risk, not the deal.
7.) Reporting the prices of the underlying reference obligations at the time the CDS is entered into. We requested it, hopefully we can get it into the docs.
8.) Breach of Agreement and Misrepresentation in the TRS and CDS Schedules. Neither party was willing to accept these, but were willing to listen in the future to arguments why they should be included.

debt_num	cusip	isin	org_num	Deal Name	Tranche	curRatg	curRatg_dt	prevRatg	prevRatg_dt	watchlist_(	watchlist_	maturity	product_line	initRatg	initRatg_dt
809778409	00075QAN2	US00075QAN25	809727457	ABFC Asset-Backed Certificates, Ser 2006-OPT1	Cl. M-9	Baa3	31-Aug-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa3	31-Aug-06
809778409	00075QAN2	US00075QAN25	809727457	ABFC Asset-Backed Certificates, Ser 2006-OPT1	Cl. M-9	Baa3	31-Aug-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa3	31-Aug-06
808681884	04541GTS1		808615521	Asset Bkd Sec Co Home Eqty Loan Tr 2005-HE6	Cl. M8	Baa2	23-Aug-05					7/25/2035	HEL - Closed-End - Not High LTV	Baa2	23-Aug-05
809405552	04541GXK3		809389151	Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE3	Cl. M7	Baa2	25-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Apr-06
809405552	04541GXK3		809389151	Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE3	Cl. M7	Baa2	25-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Apr-06
809490758	**04544GAP4**	**US04544GAP46**	**809417095**	**Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE4**	**Cl. M7**	**Baa3**	**10-Jul-07**	**Baa2**	**25-May-06**			**5/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**25-May-06**
809490758	**04544GAP4**	**US04544GAP46**	**809417095**	**Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE4**	**Cl. M7**	**Baa3**	**10-Jul-07**	**Baa2**	**25-May-06**			**5/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**25-May-06**
809687687	04544PAN9	US04544PAN96	809671064	Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE5	Cl. M8	Baa2	1-Aug-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	1-Aug-06
820045398	04544RAN5	US04544RAN52	820045290	Asset Bkd Sec Corp HEL Trust RFC 2007-HE1	Cl. M9	Baa3	22-Feb-07					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-07
820045398	04544RAN5	US04544RAN52	820045290	Asset Bkd Sec Corp HEL Trust RFC 2007-HE1	Cl. M9	Baa3	22-Feb-07					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-07
820155993	000824AQ5	US000824AQ53	820155934	ACA ABS 2007-1, Ltd.	Class C	Ba2	30-Mar-07					5/14/2047	CDO - Resecuritization	Ba2	30-Mar-07
809846494	000829AE1	US000829AE11	809846477	ACA Aquarius 2006-1, Ltd.	Class B1	Baa1	28-Sep-06					9/12/2046	CDO - Resecuritization - Synthetic	Baa1	28-Sep-06
809038730	004421UK7		809024928	ACE Securities Corp. Home Eqty Ln Tr 2005-HE7	Cl. M-8	Baa2	5-Dec-05					12/25/2035	HEL - Closed-End - Not High LTV	Baa2	5-Dec-05
809436548	004421ZE6		809418082	ACE Securities Corp. HEL Tr 2006-HE2	Cl. M-9	Baa3	8-May-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	8-May-06
809875471	00442BAN1	US00442BAN10	809864310	ACE Securities Corp. HEL Tr 2006-HE4	Cl. M-8	Baa2	9-Oct-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809875471	00442BAN1	US00442BAN10	809864310	ACE Securities Corp. HEL Tr 2006-HE4	Cl. M-8	Baa2	9-Oct-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809855398	**00441XAP9**	**US00441XAP96**	**809807082**	**ACE Securities Corp. HEL Tr 2006-NC2**	**Cl. M-9**	**Baa2**	**2-Oct-06**			**DNG**	**10-Jul-07**	**7/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**2-Oct-06**
809855398	**00441XAP9**	**US00441XAP96**	**809807082**	**ACE Securities Corp. HEL Tr 2006-NC2**	**Cl. M-9**	**Baa2**	**2-Oct-06**			**DNG**	**10-Jul-07**	**7/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**2-Oct-06**
814974110	00441YAP7	US00441YAP79	814974068	ACE Securities Corp. HEL Tr 2006-OP2	Cl. M-9	Baa2	10-Nov-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Nov-06
820094815	05569GAN6	US05569GAN60	820094792	BNC Mortgage Loan Trust 2007-1	Cl. M8	Baa2	16-Mar-07					3/25/2037	HEL - Closed-End - Not High LTV	Baa2	16-Mar-07
814989385	142146AG4	US142146AG49	814989379	Carina CDO Ltd.	Class D-1	Baa1	29-Nov-06					11/10/2046	CDO - Resecuritization - Synthetic	Baa1	29-Nov-06
814989385	142146AG4	US142146AG49	814989379	Carina CDO Ltd.	Class D-1	Baa1	29-Nov-06					11/10/2046	CDO - Resecuritization - Synthetic	Baa1	29-Nov-06
809582795	14453FAM1		809564437	Carrington Mortgage Loan Trust 2006-NC2	Cl. M-8	Baa2	27-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Jun-06
809582798	14453FAN9		809564437	Carrington Mortgage Loan Trust 2006-NC2	Cl. M-9	Baa3	27-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa3	27-Jun-06
809395751	144531FW5		809305199	Carrington Mortgage Loan Trust 2006-OPT1	Cl. M-9	Baa3	20-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Apr-06
809512849	14453EAN2		809480245	Carrington Mortgage Loan Trust 2006-RFC1	Cl. M-9	Baa3	2-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	2-Jun-06
809512849	14453EAN2		809480245	Carrington Mortgage Loan Trust 2006-RFC1	Cl. M-9	Baa3	2-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	2-Jun-06
820020602	144526AN0	US144526AN04	820020578	Carrington Mortgage Loan Trust, Ser 2007-RFC1	Cl. M-9	Baa3	7-Feb-07					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	7-Feb-07
809873662	17309PAL0	US17309PAL04	809845043	Citigroup Mortgage Loan Trust 2006-AMC1	Cl. M-8	Baa2	9-Oct-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809873662	17309PAL0	US17309PAL04	809845043	Citigroup Mortgage Loan Trust 2006-AMC1	Cl. M-8	Baa2	9-Oct-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809644665	**172983AP3**	**US172983AP33**	**809547472**	**Citigroup Mortgage Loan Trust 2006-NC1**	**Cl. M-9**	**B1**	**10-Jul-07**	**Baa3**	**18-Jul-06**			**8/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa3**	**18-Jul-06**
809716079	23242EAT6	US23242EAT64	809688786	CWABS Asset-Backed Certificates Trust 2006-13	Cl. MV-8	Baa2	10-Aug-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	10-Aug-06
809716079	23242EAT6	US23242EAT64	809688786	CWABS Asset-Backed Certificates Trust 2006-13	Cl. MV-8	Baa2	10-Aug-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	10-Aug-06
809531061	22237JAN7	US22237JAN72	809509276	CWABS Asset-Backed Certificates Tr 2006-BC2	Cl. M-8	Baa2	9-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Jun-06
809531061	22237JAN7	US22237JAN72	809509276	CWABS Asset-Backed Certificates Tr 2006-BC2	Cl. M-8	Baa2	9-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Jun-06
809013292	29256PBE3		808890774	Encore Credit Receivables Trust 2005-4	Cl. M-9	Baa3	22-Nov-05					1/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Nov-05
820194923	269251AE4	US269251AE43	820194919	E*Trade VI ABS CDO VI, Ltd.	Class B-1	Baa2	25-Apr-07					5/9/2047	CDO - Resecuritization - Synthetic	Baa2	25-Apr-07
809525748	36244KAP0		809506093	GSAMP Trust 2006-HE3	Cl. M-9	Baa3	8-Jun-06					5/25/2046	HEL - Closed-End - Not High LTV	Baa3	8-Jun-06
809525748	36244KAP0		809506093	GSAMP Trust 2006-HE3	Cl. M-9	Baa3	8-Jun-06					5/25/2046	HEL - Closed-End - Not High LTV	Baa3	8-Jun-06
809642236	362439AN1		809607027	GSAMP Trust 2006-HE4	Cl. M-8	Baa2	18-Jul-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	18-Jul-06
809642236	362439AN1		809607027	GSAMP Trust 2006-HE4	Cl. M-8	Baa2	18-Jul-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	18-Jul-06
809642236	362439AN1		809607027	GSAMP Trust 2006-HE4	Cl. M-8	Baa2	18-Jul-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	18-Jul-06
820208838	362440AN9	US362440AN96	820210091	Gsamp Trust 2007-HE2	Cl. M-8	Baa2	26-Apr-07					3/25/2037	HEL - Closed-End - Not High LTV	Baa2	26-Apr-07
809013031	437084QG4	US437084QG49	808876306	CSFB Home Equity Asset Trust 2005-8	Cl. M-8	Baa2	22-Nov-05					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	22-Nov-05
809013031	437084QG4	US437084QG49	808876306	CSFB Home Equity Asset Trust 2005-8	Cl. M-8	Baa2	22-Nov-05					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	22-Nov-05
809367748	437084UZ7		809342961	CSFB Home Equity Asset Trust 2006-3	Cl. M-8	Baa2	7-Apr-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Apr-06
809672515	437096AR1		809627574	Home Equity Asset Trust 2006-5	Cl. B-1	Baa3	26-Jul-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Jul-06
809672515	437096AR1		809627574	Home Equity Asset Trust 2006-5	Cl. B-1	Baa3	26-Jul-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Jul-06
809734890	437097AP3	US437097AP33	809691001	CSFB Home Equity Asset Trust 2006-6	Cl. M-8	Baa2	16-Aug-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	16-Aug-06
809734890	437097AP3	US437097AP33	809691001	CSFB Home Equity Asset Trust 2006-6	Cl. M-8	Baa2	16-Aug-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	16-Aug-06
809889355	43709NAP8	US43709NAP87	809854151	CSFB Home Equity Asset Trust 2006-7	Cl. M-8	Baa2	13-Oct-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	13-Oct-06
815062872	43709QAQ9	US43709QAQ91	815062700	Home Equity Asset Trust 2006-8	Cl. B-1	Baa3	19-Dec-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
815062872	43709QAQ9	US43709QAQ91	815062700	Home Equity Asset Trust 2006-8	Cl. B-1	Baa3	19-Dec-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
820004189	43710LAP9	US43710LAP94	820004149	CSFB Home Equity Asset Trust 2007-1	Cl. B-1	Baa3	16-Feb-07					5/25/2037	HEL - Closed-End - Not High LTV	Baa3	16-Feb-07
820004189	43710LAP9	US43710LAP94	820004149	CSFB Home Equity Asset Trust 2007-1	Cl. B-1	Baa3	16-Feb-07					5/25/2037	HEL - Closed-End - Not High LTV	Baa3	16-Feb-07
809823021	43709LAN7	US43709LAN73	809803247	IndyMac HEML Asset-Backed Trust 2006-D	Cl. M-9	Baa3	21-Sep-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa3	21-Sep-06
815075245	43709XAQ4	US43709XAQ43	815075169	IndyMac HEML Asset-Backed Trust 2006-E	Cl. M-9	Baa3	8-Jan-07					4/25/2037	HEL - Closed-End - Not High LTV	Baa3	8-Jan-07
809888096	46602UAM0	US46602UAM09	809863694	IXIS Real Estate Capital Trust 2006-HE3	Cl. B-2	Baa2	12-Oct-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	12-Oct-06
809888096	46602UAM0	US46602UAM09	809863694	IXIS Real Estate Capital Trust 2006-HE3	Cl. B-2	Baa2	12-Oct-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	12-Oct-06
820033072	45073DAM0	US45073DAM02	820032863	IXIS Real Estate Capital Trust 2007-HE1	Cl. B-2	Baa2	5-Feb-07					5/25/2037	HEL - Closed-End - Not High LTV	Baa2	5-Feb-07
809750383	46629BBB4	US46629BBB45	809740756	J.P. Morgan Mortgage Acquisition Tr 2006-CW2	Cl. MV-9	Baa3	22-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Aug-06
809750383	46629BBB4	US46629BBB45	809740756	J.P. Morgan Mortgage Acquisition Tr 2006-CW2	Cl. MV-9	Baa3	22-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Aug-06
809750383	46629BBB4	US46629BBB45	809740756	J.P. Morgan Mortgage Acquisition Tr 2006-CW2	Cl. MV-9	Baa3	22-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Aug-06
809474574	**46626LJZ4**		**809387384**	**J.P. Morgan Mortgage Acquisition Tr 2006-NC1**	**Cl. M-9**	**Ba1**	**10-Jul-07**	**Baa3**	**19-May-06**			**4/25/2036**	**HEL - Closed-End - High LTV**	**Baa3**	**19-May-06**
809474574	**46626LJZ4**		**809387384**	**J.P. Morgan Mortgage Acquisition Tr 2006-NC1**	**Cl. M-9**	**Ba1**	**10-Jul-07**	**Baa3**	**19-May-06**			**4/25/2036**	**HEL - Closed-End - High LTV**	**Baa3**	**19-May-06**
809793891	46629FAN0	US46629FAN06	809756715	J.P. Morgan Mortgage Acquisition Tr 2006-NC2	Cl. M-9	Baa3	8-Sep-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa3	8-Sep-06
809875890	46629NAP8	US46629NAP87	809850803	J.P. Morgan Mortgage Acquisition Tr 2006-RM1	Cl. M-8	Baa2	9-Oct-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809364385	46626LJD3		809342449	J.P. Morgan Mtge Acquisition Corp. 2006-WMC1	Cl. M-9	Baa3	6-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	6-Apr-06
809855266	46629KAP4	US46629KAP49	809806888	J.P. Morgan Mortgage Acquisition Tr 2006-WMC3	Cl. M-8	Baa2	2-Oct-06					8/25/2036	HEL - Closed-End - High LTV	Baa2	2-Oct-06
809855266	46629KAP4	US46629KAP49	809806888	J.P. Morgan Mortgage Acquisition Tr 2006-WMC3	Cl. M-8	Baa2	2-Oct-06					8/25/2036	HEL - Closed-End - High LTV	Baa2	2-Oct-06
809528826	530150AN1	USG5478YAG55	809528803	Libertas Preferred Funding I, Ltd.	Class E	Baa2	8-Jun-06					12/5/2043	CDO - Resecuritization - Cash Flow	Baa2	8-Jun-06
815063572	576449AN2	US576449AN27	815063217	MASTR Asset Backed Securities Trust 2006-HE4	Cl. M-9	Baa3	19-Dec-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
815119068	576455AN9	US576455AN93	815119038	MASTR Asset Backed Securities Trust 2006-HE5	Cl. M-9	Baa2	10-Jan-07					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Jan-07
809275055	**57643LNP7**		**809220417**	**MASTR Asset Backed Securities Trust 2006-NC1**	**Cl. M-8**	**Baa2**	**6-Mar-06**			**DNG**	**10-Jul-07**	**1/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**6-Mar-06**

Permanent Subcommittee on Investigations

EXHIBIT #94e

debt_num	cusip	isin	org_num	Deal Name	Tranche	curRatg	curRatg_dt	prevRatg	prevRatg_dt	watchlist_(	watchlist_	maturity	product_line	initRatg	initRatg_dt
809275055	57643LNP7		809220417	MASTR Asset Backed Securities Trust 2006-NC1	Cl. M-8	Baa2	6-Mar-06			DNG	10-Jul-07	1/25/2036	HEL - Closed-End - Not High LTV	Baa2	6-Mar-06
809878332	55275BAP2	US55275BAP22	809838545	MASTR Asset Backed Securities Trust 2006-NC2	Cl. M-9	Baa2	9-Oct-06			DNG	10-Jul-07	8/25/2036	HEL - Closed-End - High LTV	Baa2	9-Oct-06
809878332	55275BAP2	US55275BAP22	809838545	MASTR Asset Backed Securities Trust 2006-NC2	Cl. M-9	Baa2	9-Oct-06			DNG	10-Jul-07	8/25/2036	HEL - Closed-End - High LTV	Baa2	9-Oct-06
815128100	55275RAP7	US55275RAP73	815128030	MASTR Asset Backed Securities Trust 2006-NC3	Cl. M-9	Baa1	8-Jan-07					10/25/2036	HEL - Closed-End - Not High LTV	Baa1	8-Jan-07
809369469	57643LRU2	US57643LRU25	809337689	MASTR Asset Backed Securities Trust 2006-WMC1	Cl. M-8	Baa2	7-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Apr-06
809369469	57643LRU2	US57643LRU25	809337689	MASTR Asset Backed Securities Trust 2006-WMC1	Cl. M-8	Baa2	7-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Apr-06
809777110	578325AE2	US578325AE23	809777094	Mayflower CDO I Ltd.	Class B-1L	Baa2	31-Aug-06					6/12/2046	CDO - Resecuritization - Synthetic	Baa2	31-Aug-06
809225833	59020U3Q6		809194695	Merrill Lynch Mortgage Investors Tr 2006-HE1	Cl. B-3A	Baa3	20-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Feb-06
809225833	59020U3Q6		809194695	Merrill Lynch Mortgage Investors Tr 2006-HE1	Cl. B-3A	Baa3	20-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Feb-06
809380981	59020VAN3		809367272	Merrill Lynch Mortgage Investors Tr 2006-HE2	Cl. B-3	Baa3	12-Apr-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	12-Apr-06
809380981	59020VAN3		809367272	Merrill Lynch Mortgage Investors Tr 2006-HE2	Cl. B-3	Baa3	12-Apr-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	12-Apr-06
809687816	59023EAR9	US59023EAR99	809657568	Merrill Lynch Mortgage Investors Tr 2006-HE4	Cl. B-3	Baa3	1-Aug-06					7/25/2037	HEL - Closed-End - Not High LTV	Baa3	1-Aug-06
809640267	590217AQ8		809590170	Merrill Lynch Mortgage Investors Tr 2006-RM3	Cl. B-3	Baa3	18-Jul-06					6/25/2037	HEL - Closed-End - Not High LTV	Baa3	18-Jul-06
809222120	59020U4K8		809217240	Merrill Lynch Mtge Investors Tr 2006-WMC1	Cl. B-3	Baa3	17-Feb-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa3	17-Feb-06
809222120	59020U4K8		809217240	Merrill Lynch Mtge Investors Tr 2006-WMC1	Cl. B-3	Baa3	17-Feb-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa3	17-Feb-06
808736245	61744CTD8		808671906	Morgan Stanley ABS Cap I Inc Tr 2005-WMC6	Cl. B-3	Baa3	12-Sep-05					7/25/2035	HEL - Closed-End - Not High LTV	Baa3	12-Sep-05
808736245	61744CTD8		808671906	Morgan Stanley ABS Cap I Inc Tr 2005-WMC6	Cl. B-3	Baa3	12-Sep-05					7/25/2035	HEL - Closed-End - Not High LTV	Baa3	12-Sep-05
809592955	61748BAN4		809578200	Morgan Stanley ABS Capital I Inc. Tr 2006-HE4	Cl. B-3	Ba3	10-Jul-07	Baa3	30-Jun-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa3	30-Jun-06
809592955	61748BAN4		809578200	Morgan Stanley ABS Capital I Inc. Tr 2006-HE4	Cl. B-3	Ba3	10-Jul-07	Baa3	30-Jun-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa3	30-Jun-06
809651978	61749NAP2	US61749NAP24	809587016	Morgan Stanley ABS Capital I Inc. Tr 2006-HE5	Cl. B-3	Ba2	10-Jul-07	Baa3	20-Jul-06			8/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Jul-06
809651978	61749NAP2	US61749NAP24	809587016	Morgan Stanley ABS Capital I Inc. Tr 2006-HE5	Cl. B-3	Ba2	10-Jul-07	Baa3	20-Jul-06			8/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Jul-06
809888228	61750FAQ3	US61750FAQ37	809857683	Morgan Stanley ABS Capital I Inc. Tr 2006-HE6	Cl. B-3	Ba2	10-Jul-07	Baa3	12-Oct-06			9/25/2036	HEL - Closed-End - Not High LTV	Baa3	12-Oct-06
815032011	61750SAQ5	US61750SAQ57	815031602	Morgan Stanley ABS Cap Inc. Tr 2006-HE8	Cl. B-3	Ba1	10-Jul-07	Baa3	19-Dec-06			10/25/2036	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
809251831	61744CYK6		809180626	Morgan Stanley ABS Capital I Inc. Tr 2006-NC1	Cl. B-3	Baa3	27-Feb-06					12/25/2035	HEL - Closed-End - Not High LTV	Baa3	27-Feb-06
809604775	61748LAN2		809480242	Morgan Stanley ABS Capital I Inc. Tr 2006-NC4	Cl. B-2	Ba1	10-Jul-07	Baa2	7-Jul-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
809604775	61748LAN2		809480242	Morgan Stanley ABS Capital I Inc. Tr 2006-NC4	Cl. B-2	Ba1	10-Jul-07	Baa2	7-Jul-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
809188551	61744CXW1		809177601	Morgan Stanley ABS Cap I Inc. Tr 2006-WMC1	Cl. B-3	Baa3	1-Feb-06					12/25/2035	HEL - Closed-End - Not High LTV	Baa3	1-Feb-06
809607540	61749KAP8		809587472	Morgan Stanley ABS Cap I Inc. Tr 2006-WMC2	Cl. B-2	Ba3	10-Jul-07	Baa2	7-Jul-06			7/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
809607540	61749KAP8		809587472	Morgan Stanley ABS Cap I Inc. Tr 2006-WMC2	Cl. B-2	Ba3	10-Jul-07	Baa2	7-Jul-06			7/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
820053019	61753EAN0	US61753EAN04	820052878	Morgan Stanley ABS Capital I Inc. Tr 2007-HE2	Cl. B-3	Baa3	16-Mar-07	(P)Baa3	28-Feb-07			1/25/2037	HEL - Closed-End - Not High LTV	(P)Baa3	15-Feb-07
820053019	61753EAN0	US61753EAN04	820052878	Morgan Stanley ABS Capital I Inc. Tr 2007-HE2	Cl. B-3	Baa3	16-Mar-07	(P)Baa3	28-Feb-07			1/25/2037	HEL - Closed-End - Not High LTV	(P)Baa3	15-Feb-07
809279875	617451EA3		809266608	Morgan Stanley Capital I Inc. Trust 2006-HE1	Cl. B-3	Baa3	8-Mar-06					1/25/2036	HEL - Closed-End - High LTV	Baa3	8-Mar-06
809373232	61744CYY6		809365229	Morgan Stanley Home Equity Loan Trust 2006-2	Cl. B-3	Baa3	10-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa3	10-Apr-06
809524889	61749GAN2		809509539	Morgan Stanley Home Equity Loan Trust 2006-3	Cl. B-3	Ba2	10-Jul-07	Baa3	7-Jun-06			4/25/2036	HEL - Closed-End - Not High LTV	Baa3	7-Jun-06
809524889	61749GAN2		809509539	Morgan Stanley Home Equity Loan Trust 2006-3	Cl. B-3	Ba2	10-Jul-07	Baa3	7-Jun-06			4/25/2036	HEL - Closed-End - Not High LTV	Baa3	7-Jun-06
809442326	65536MAN7		809393701	Nomura Home Equity Loan Trust 2006-HE2	Cl. M-9	Baa3	9-May-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	9-May-06
820040739	65537MAP1	US65537MAP14	820040174	Nomura Home Equity Loan Trust 2007-2	Cl. M-9	Baa3	15-Feb-07					1/25/2037	HEL - Closed-End - Not High LTV	Baa3	15-Feb-07
809188856	76112BW63		809178294	RAMP Series 2006-EFC1 Trust	Cl. M-8	Baa2	1-Feb-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	1-Feb-06
809188856	76112BW63		809178294	RAMP Series 2006-EFC1 Trust	Cl. M-8	Baa2	1-Feb-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	1-Feb-06
809079369	76110W7L4		809033589	RASC Series 2005-KS11 Trust	Cl. M-8	Baa2	15-Dec-05					12/25/2035	HEL - Closed-End - Not High LTV	Baa2	15-Dec-05
809291308	75406AAL3	US75406AAL35	809228523	RASC Series 2006-EMX2 Trust	Cl. M-8	Baa2	10-Mar-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Mar-06
809413148	76113ACJ8		809393741	RASC Series 2006-EMX3 Trust	Cl. M-8	Baa2	27-Apr-06					4/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Apr-06
809526661	75406DAM5		809486591	RASC Series 2006-EMX4 Trust	Cl. M-8	Baa2	8-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	8-Jun-06
809715892	754065AM2	US754065AM24	809671932	RASC Series 2006-EMX6 Trust	Cl. M-8	Baa2	10-Aug-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Aug-06
809536044	75406EAM3		809506933	RASC Series 2006-KS4 Trust	Cl. M-8	Baa2	12-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	12-Jun-06
809536044	75406EAM3		809506933	RASC Series 2006-KS4 Trust	Cl. M-8	Baa2	12-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	12-Jun-06
809726430	75406WAN1	US75406WAN11	809685988	RASC Series 2006-KS6 Trust	Cl. M-9	Baa3	14-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	14-Aug-06
814973329	75406YAN7	US75406YAN76	814973069	RASC Series 2006-KS9 Trust	Cl. M-8	Baa2	8-Nov-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	8-Nov-06
820080788	74924WAN7	US74924WAN74	820080718	RASC Series 2007-KS2 Trust	Cl. M-8	Baa2	8-Mar-07					2/25/2037	HEL - Closed-End - Not High LTV	Baa2	8-Mar-07
809809998	86361KAM9	US86361KAM99	809762278	Structured Asset Investment Loan Tr 2006-BNC3	Cl. M7	Baa2	15-Sep-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	15-Sep-06
809809998	86361KAM9	US86361KAM99	809762278	Structured Asset Investment Loan Tr 2006-BNC3	Cl. M7	Baa2	15-Sep-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	15-Sep-06
809666760	86360RAN3		809635545	Structured Asset Securities Corp Tr 2006-EQ1	Cl. M8	Baa2	25-Jul-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Jul-06
809666760	86360RAN3		809635545	Structured Asset Securities Corp Tr 2006-EQ1	Cl. M8	Baa2	25-Jul-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Jul-06
820036515	86362PAQ8	US86362PAQ81	820036469	Structured Asset Securities Corp Tr 2007-BC1	Cl. M9	Baa2	7-Feb-07					2/25/2037	HEL - Closed-End - Not High LTV	Baa2	7-Feb-07
809947745	80556AAM9	US80556AAM99	809947700	Saxon Asset Securities Trust 2006-3	Cl. B-2	Baa2	24-Oct-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	24-Oct-06
809947443	80918HAJ4	US80918HAJ41	809947436	Scorpius CDO, Ltd.	Class F	Baa2	30-Nov-06					11/7/2046	CDO - Resecuritization - Synthetic	Baa2	30-Nov-06
809233442	84751PKN8		809220995	SURF Trust 2006-BC1	Cl. B-3A	Baa3	22-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-06
809233442	84751PKN8		809220995	SURF Trust 2006-BC1	Cl. B-3A	Baa3	22-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-06
809287585	83611MLG1		809227432	Soundview Home Loan Trust 2006-1	Cl. M-7	Baa2	9-Mar-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Mar-06
809410111	83611MNR5		809367576	Soundview Home Loan Trust 2006-2	Cl. M-9	Baa3	26-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Apr-06
809410111	83611MNR5		809367576	Soundview Home Loan Trust 2006-2	Cl. M-9	Baa3	26-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Apr-06
809838623	83612JAN4	US83612JAN46	809810845	Soundview Home Loan Trust 2006-EQ1	Cl. M-9	Baa3	26-Sep-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Sep-06
809838623	83612JAN4	US83612JAN46	809810845	Soundview Home Loan Trust 2006-EQ1	Cl. M-9	Baa3	26-Sep-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Sep-06
809312548	83611MMF2		809295207	Soundview Home Loan Trust 2006-OPT1	Cl. M-7	Baa2	20-Mar-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	20-Mar-06
809312548	83611MMF2		809295207	Soundview Home Loan Trust 2006-OPT1	Cl. M-7	Baa2	20-Mar-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	20-Mar-06
809384534	83611MMT2		809324770	Soundview Home Loan Trust 2006-OPT2	Cl. M-7	Baa2	13-Apr-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa2	13-Apr-06
809583269	83612CAN9		809546887	Soundview Home Loan Trust 2006-OPT5	Cl. M-8	Baa2	27-Jun-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Jun-06
809583269	83612CAN9		809546887	Soundview Home Loan Trust 2006-OPT5	Cl. M-8	Baa2	27-Jun-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Jun-06
814986943	87337WAE0	US87337WAE03	814986985	TABS 2006-5, Ltd.	Class B1L	Baa1	22-Dec-06			DNG	11-Jul-07	9/12/2046	CDO - Resecuritization - Synthetic	Baa1	22-Dec-06
815041099	87337YAE6	US87337YAE68	815041104	TABS 2006-6, Ltd.	Class B1	Baa1	27-Dec-06					11/16/2047	CDO - Resecuritization - Synthetic	Baa1	27-Dec-06
820134028	872159AJ7	US872159AJ75	820134020	TABS 2007-7, Ltd.	Class C	Ba2	30-Mar-07					4/10/2047	CDO - Resecuritization	Ba2	30-Mar-07
820030352	89608XAH9	US89608XAH98	820030346	Tricadia CDO 2006-7, Ltd.	Class E	Baa3	28-Feb-07					10/1/2051	CDO - Resecuritization - Synthetic	Baa3	28-Feb-07
815096522	55313HAD0	US55313HAD08	815096518	MKP Vela CBO, Ltd.	Class D	Baa2	27-Dec-06			DNG	11-Jul-07	12/10/2046	CDO - Resecuritization - Synthetic	Baa2	27-Dec-06
815078867	94769WAL7	US94769WAL72	815078859	Webster CDO I, Ltd.	Class B-1L	Baa2	21-Dec-06					4/13/2047	CDO - Resecuritization - Synthetic	Baa2	21-Dec-06

debt_num	cusip	isin	org_num	Deal Name	Tranche	curRatg	curRatg_dt	prevRatg	prevRatg_dt	watchlist_(	watchlist_	maturity	product_line	initRatg	initRatg_dt
809572594	93934JAN4	US93934JAN46	809477008	WaMu Mortgage Pass-Thru WMABS Ctfs 2006-HE2	Cl. M-9	Baa3	23-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	23-Jun-06
815141928	93935KAM2	US93935KAM27	815141913	WaMu Asset-Backed Certificates WMABS 2007-HE1	Cl. M-8	Baa2	22-Jan-07					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	22-Jan-07

DATE: 10/24/2007
TIME: 17:49:21 GMT
AUTHOR: Polansky, Jonathan
RECEIPIENT: Park, John; Kolchinsky, Eric; Fu, Yvonne; Choi, Eun; Bunja, Rudolph; Araya, Rodrigo; Yoshizawa, Yuri; Hu, Jian; Chen, Karie
CC: Wyszomierski, Teresa
SUBJECT: RE: Updated: Rating Review Committee - Vertical ABS CDO 2007-1 EOD

Eric and I spoke to UBS. They said that they still have not decided whether to liquidate or keep the deal as is (being reviewed at sr levels at UBS). They felt that acceleration was not a viable option as all proceeds would be used to pay the funded notes and not the super senior swap (at least the way they interpret the language). As a result, my recommendation is to take the actions described below under proposed rating action. The press release will need to address the various options under the EOD. In the event of a liquidation, given the volatility of the underlying prices as well as other termination costs, the ratings (as a result of a liquidation) may differ from the current action and direction will most likely vary by tranche.

Please let me know if you agree with the proposed actions or have any comments. Thanks.

Jon

Tranche Original (Rated) Balance Current (Rated) Balance Def Int Rate Orig Public Rating/ Orig Shadow
Last Rating Action Date Curr Public Rating/ Curr Shadow Proposed Rating Action Run B

U.S. $873,000,000 Class A1S Variable Funding Senior Secured Floating Rate Notes Due 2047 873,000,000
873,000,000 L+ .32 Aaa 4/26/2007 Aaa Ba1(WD) Ba2

U.S. $229,000,000 Class A1J Senior Secured Floating Rate Notes Due 2047 229,000,000 229,000,000
L+ .75 Aaa 4/26/2007 Aaa B2(WD) B3

U.S. $157,000,000 Class A2 Senior Secured Floating Rate Notes Due 2047 157,000,000 157,000,000
L+ .95 Aa2 4/26/2007 Aa2(WD) Caa1 (WD) Caa1

U.S. $57,000,000 Class A3 Secured Deferrable Interest Floating Rate Notes Due 2047 57,000,000
57,000,000 L+ 3.5 A2 4/26/2007 A2(WD) Caa3 (WD) Caa3

U.S. $70,000,000 Class B1 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 70,000,000
69,300,000 L+ 6 Baa2 4/26/2007 Baa2(WD) Ca Ca

U.S. $32,000,000 Class B2 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 32,000,000
31,680,000 L+ 7 Baa3 4/26/2007 Baa3(WD) Ca Ca

U.S. $22,000,000 Class C Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 22,000,000
22,000,000 L+ 9.25 Ba2 4/26/2007 Ba2(WD) Ca Ca

U.S. $50,000,000 Class I Subordinated Notes Due 2047 50,000,000 44,574,180 6
NR 4/26/2007 NR NR

U.S. $10,000,000 Class II Subordinated Notes Due 2047 10,000,000 10,000,000 0
NR 4/26/2007 NR NR

U.S. $42,000,000 Class X Senior Secured Fixed Rate Notes Due 2013 42,000,000 40,009,243
5.46 Aaa 4/26/2007 Aaa Aaa

Total 1,542,000,000 1,533,563,423

DATE: 10/26/2007
TIME:
AUTHOR: Jill Zelter
RECEIPIENT: Vincent Matsui
CC:
BCC: John Schiavetta
SUBJECT: Re: Fw: Vertical Capital

he has a good point.- what if we revised it and took at names- but just described the practices until the air clears.

Vincent Matsui/LP/NYC/F-I
10/26/2007 04:47 PM

To
jill.zelter@fitchratings.com
cc

Subject
Fw: Vertical Capital

fyi.
----- Forwarded by Vincent Matsui/LP/NYC/F-I on 10/26/2007 04:46 PM -----

Vincent Matsui/LP/NYC/F-I
10/26/2007 04:31 PM

To
Roger Merritt/CF/NYC/F-I
cc
john.schiavetta@fitchratings.com, kim.slawek@fitchratings.com
Subject
Re: Vertical Capital

Roger -

To be fair to Vertical, and the 21 other managers we are currently reviewing, I think we should stay with the process of collective performance assessment - Vertical has over a dozen CDOs outstanding. Most of the 2007 deals we are reviewing are rapidly encountering serious difficulties - GE Asset Management, another CAM2 SF manager feels its 2007 deal (barely 6 months old) is at risk of an EoD. For all managers with 2007 deals, we need to balance the performance of this catastrophic vintage with the more favorable performance of earlier CDOs. Our updated performance opinion on all of these managers will be out in about 3 weeks.

Concerning the Best Practices piece, it speaks to particular infrastructure/personnel/process strengths of a manager, but is silent on performance. We've had close to 900 external downloads of this report since it's posting in July so it continues to strike a chord. Of course, if the collective wisdom is that's it's best to remove, I'm happy to make that happen.

Vince

Roger Merritt/CF/NYC/F-I
10/26/2007 03:11 PM

To
Vincent Matsui/LP/NYC/F-I@F-I
cc
john.schiavetta@fitchratings.com, kim.slawek@fitchratings.com
Subject
Vertical Capital

Vince
FYI, Moody's today lowered a Vertical AAA SF CDO tranche to BBB-.
I saw we have a CAM 2 on Vertical and cite them in our Best Practices report for CDO CAMs.
Any thoughts Vertical's CAM rating?
Should this go on RW given this event? I know we have a review underway.
I wonder if we should pull the best practices report insomuch as three of the managers cited - Vertical, GSC and C-BASS -- all have issues.
Roger

From: Bryan, Andrea
Sent: Friday, October 26, 2007 12:04 PM
To: Hu, Bujiang; Ghetti, Belinda; Jordan, Pat; Tesher, David; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn
Cc: De Diego Arozamena, Alfredo; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert
Subject: RE: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Very severe and what's up with the A1S class??
Andrea.

-----Original Message-----
From: Hu, Bujiang
Sent: Friday, October 26, 2007 9:23 AM
To: Ghetti, Belinda; Jordan, Pat; Tesher, David; Bryan, Andrea; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn

Cc: De Diego Arozamena, Alfredo; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert
Subject: RE: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Let me know if I can help.
How do we feel about the magnitude of their actions?

-----Original Message-----
From: Ghetti, Belinda
Sent: Friday, October 26, 2007 9:21 AM
To: Hu, Bujiang; Jordan, Pat; Tesher, David; Bryan, Andrea; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn

Cc: De Diego Arozamena, Alfredo; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert
Subject: RE: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

All right, I will take a stab at the article this weekend anyway. Will send it to you on Monday.

-----Original Message-----
From: Hu, Bujiang
Sent: Thursday, October 25, 2007 11:19 PM Eastern Standard Time
To: Jordan, Pat; Tesher, David; Bryan, Andrea; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn
Cc: De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert

Subject: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Oh, well. The cat is out of the bag.

-----Original Message-----
From: YUNFEI XU, BLOOMBERG/ 731 LEXIN [mailto:yunfeixu@bloomberg.net]
Sent: Thursday, October 25, 2007 11:12 PM Eastern Standard Time
To: Hu, Bujiang
Subject: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downg
2007-10-25 18:46 (New York)

New York	New York
Yuri Yoshizawa	Evan Tepper
Managing Director	Analyst
Structured Finance Group	Structured Finance Group
Moody's Investors Service	Moody's Investors Service
JOURNALISTS: 212-553-0376	JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653	SUBSCRIBERS: 212-553-1653

Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downgrades Possible

New York, October 25, 2007 -- Moody's Investors Service announced today that it has downgraded and placed on review for further possible downgrade the following classes of notes issued by Vertical ABS CDO 2007-1, Ltd.:

(1) $873,000,000 Class A1S Variable Funding Senior Secured Floating Rate Notes Due 2047

Prior Rating: Aaa

Current Rating: Ba1, on review for possible downgrade

(2) $229,000,000 Class A1J Senior Secured Floating Rate Notes Due 2047

Prior Rating: Aaa

Current Rating: B2, on review for possible downgrade

(3) $157,000,000 Class A2 Senior Secured Floating Rate Notes Due 2047

Prior Rating: Aa2, on review for possible downgrade

Current Rating: Caa1, on review for possible downgrade

(4) $57,000,000 Class A3 Secured Deferrable Interest Floating Rate Notes Due 2047

Prior Rating: A2, on review for possible downgrade

Current Rating: Caa3, on review for possible downgrade

(5) $70,000,000 Class B1 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 Prior Rating: Baa2, on review for possible downgrade

Current Rating: Ca

(6) $32,000,000 Class B2 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 Prior Rating: Baa3, on review for possible downgrade

Current Rating: Ca

(7) $22,000,000 Class C Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 Prior Rating: Ba2, on review for possible downgrade

Current Rating: Ca

(8) $42,000,000 Class X Senior Secured Fixed Rate Notes Due 2013

Prior Rating: Aaa

Current Rating: Aaa, on review for possible downgrade

The rating actions reflect severe deterioration in the credit quality of the underlying portfolio, as well as the occurrence on October 17, 2007 of an event of default caused by a failure of the senior credit test per Section 5.1(h) of the Indenture, dated April 10, 2007.

Vertical ABS CDO 2007-1, Ltd. is a collateralized debt obligation backed primarily by a portfolio of RMBS securities, CMBS securities and synthetic securities in the form of credit default swaps. Reference obligations for the credit default swaps are RMBS securities, CMBS securities and CDO securities.

The senior credit test requires that the net outstanding portfolio collateral balance adjusted for ratings-based haircuts equal or exceed the sum of the outstanding Class A1S Notes (including all unfunded

commitments) and the Class A1J Notes. A high number of recent ratings downgrades on the underlying portfolio magnified the impact of the ratings-based haircuts, causing the senior credit test failure. On October 11, 2007, 74% of the underlying portfolio was downgraded or placed on review for possible downgrade by Moody's.

Under an event of default in this transaction, a majority of the controlling class will be entitled to determine the remedies to be exercised under the indenture. The controlling class consists solely of the Class A1S Notes. Liquidation of the underlying portfolio is one possible remedy; however, it is not clear at this time whether the controlling class will choose to exercise this option.

The rating downgrades taken today reflect the increased expected loss associated with each tranche. Losses are attributed to diminished credit quality on the underlying portfolio. The expected losses of certain tranches may be different, however, depending on the timing and choice of remedy to be pursued by the controlling class. Because of this uncertainty, the Class X, the Class A1S Notes, the Class A1J Notes, the Class A2 Notes and the Class A3 Notes remain on review for possible downgrade pending the receipt of definitive information.

DATE: 10/26/2007
TIME: 18:25:15 GMT
AUTHOR: Brennan, James
RECEIPIENT: Sean Perkins
CC:
SUBJECT: RE: Debtwire: (DW) ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

Thanks for sending. I will give you a call to catch up. I am in meetings all day today, but the picture is not pretty.

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Sean Perkins [mailto:sperkins@Kstreetcap.com]
Sent: Friday, October 26, 2007 2:17 PM
To: Brennan, James
Subject: FW: Debtwire: (DW) ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

Sean Perkins
Investment Analyst

Kamunting Street Capital (K-Street)
Direct: 212.490.4358
Trading: 212.490.4343

E-Mail: sperkins@kstreetcap.com
AOL IM: SeanPerkins99

-----Original Message-----
From: Debtwire US Alert [mailto:info@debtwire.com]
Sent: Friday, October 26, 2007 1:38 PM
To: Sean Perkins
Subject: Debtwire: (DW) ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

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1. (DW)
ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

Main body :

At least three ABS CDOs are liquidating after buckling under the weight of rating agency downgrades within their underlying subprime mortgage collateral, according to two buyside sources. UBS' Vertical ABS CDO 2007-1 and RBS Greenwich Capital's Gulf Stream-Atlantic CDO 2007-1 are rumored among those liquidating, according to the sellsider. UBS and RBS are holding the super senior notes to those deals, the sellsider said.

Pending rating agency downgrades are causing the secondary market for ABS CDO notes to seize up after a revival in recent weeks. The threat of CDO

liquidations is causing the secondary market valuation of anything but super senior bonds to fall drastically, the sources said. If super senior noteholders exercise the option to liquidate a given deal, holders of CDO notes subordinate to that tranche are not assured to get any money back

-

even mezzanine and junior AAA noteholders, the sellsider said.

UBS declined to comment and RBS did not return a request for comment.

So far, the liquidations are being triggered by rating agency actions alone. Event of default triggers in the deals are being tripped because the value of bonds within the deals' portfolios are cut following the rating agency downgrades. Those cuts cause the ratio of senior tranche credit enhancement to collateral equity to falter. The controlling class

-

typically super senior noteholders, but sometimes junior AAA and AA classes - often has the option to liquidate the deal's collateral in such an event.

Since triggers are being hit by downgrades and not necessarily credit quality deterioration, some market participants say the rating agencies may be acting prematurely.

"The rating agencies just kind of detonated the entire market," said the

sellsider. "I think they are completely out of line. They hypocritically

built this business with the underwriters, and now are saying we got it wrong," the sellsider said. There is a wide disparity between when ratings-based triggers in CDOs - particularly in high grade deals backed

by senior subprime bonds - will be hit versus when the underlying collateral will actually deteriorate, said a second sellsider.

Moody's Investor's Service is threatening ABS CDO downgrades all the way

up to the senior AAA level.

PSI-MOODYS-000107

From: Warner, Ernestine
Sent: Monday, October 29, 2007 11:46 AM
To: Rivera, John
Cc: Giudici, Andrew
Subject: FW: Vertical CDO 2007-1

Attachments: Dan Vertical ABS CDO 2007-1_10-3-2007 Portfolio_RMBS.xls

John, you may need this too.

EW
-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Monday, October 29, 2007 11:41 AM
To: Warner, Ernestine; Giudici, Andrew
Cc: Gillis, Tom; D'Erchia, Peter; Muthukrishnan, Ramki; Kobylinski, Jimmy; Scanlin, Kate; Anderberg, Stephen
Subject: RE: Vertical CDO 2007-1

Hi, Ernestine/Andrew,

Please see the attached file for the collateral portfolio in this deal. And just let me know if anything else you need from me.

Thanks, Jen

-----Original Message-----
From: Anderberg, Stephen
Sent: Monday, October 29, 2007 11:23 AM
To: Warner, Ernestine; Zhang, Jennifer (Lei); Giudici, Andrew
Cc: Gillis, Tom; D'Erchia, Peter; Muthukrishnan, Ramki; Kobylinski, Jimmy; Scanlin, Kate
Subject: FW: Vertical CDO 2007-1

Hello Ernestine,

Sorry to create more work, but this is fairly urgent - can you have someone review the RMBS tranches in this portfolio to estimate the most conservative potential rating outcomes for the bonds in the portfolio? We want to review this transaction and see the results under the worst possible outcome.

Thanks! Jen, can you forward the portfolio?

Steve

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Monday, October 29, 2007 10:49 AM
To: Anderberg, Stephen; Muthukrishnan, Ramki
Subject: RE: Vertical CDO 2007-1

Hi,Steve/Ramki,

In case you are interested, please see the attached spreadsheet on the EOD OC (Senior Adjusted Credit Test) calculation we have got from the trustee.

Thanks, Jen

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Saturday, October 27, 2007 9:53 PM
To: Anderberg, Stephen; Muthukrishnan, Ramki
Subject: RE: Vertical CDO 2007-1

Hi, Steve,

Sorry for late reply. I have just got your message from my treo. Based on the trustee's calculation on the EOD OC (i.e. Junior AAA OC ratio), the ratings haircut is $340.87 mm, about 22.74% of the total par. The haircut using S&P ratings is only 11.40% based on our calculation. So the trustee is definitely taking Moody's haircut for the EOD OC calculation. Currently we do not have detailed information on the ratings haircut, i.e. we do not know the exact breakdown of the Ba, B and Caa bucket in the portfolio. But we do know Moody's haircut should be 10% for below Baa3, 30% for below Ba3 and 50% for below B3. So by doing reverse calculation and assuming the current collateral portfolio is carrying the same percentage of B and Caa, then Moody's CCC bucket should be about 28.43%. Again, it is just some back-the-envelop calculation as we do not know the exact ratings breakdown and we only know the total ratings haircut amount.

In addition, the trustee is also carrying the defaulted securities for the amount of $140 mm, about 9.34% of the total par. We do not have any defaulted securities using S&P ratings. So I think probably the defaulted securities are using Moody's ratings. This might be another reason why Moody's has downgraded the super senior from AAA to BB+. For your information, the calculation on the EOD OC has not been in any kinds of reports yet. We contacted the trustee and that is why we have got a spreadsheet of simple calculation but not with the ratings details.

Please let me know if anything else you need from me.

Have a nice trip to India!

Thanks, Jen

-----Original Message-----
From: Anderberg, Stephen
Sent: Saturday, October 27, 2007 3:43 PM
To: Zhang, Jennifer (Lei); Muthukrishnan, Ramki
Subject: RE: Vertical CDO 2007-1

Thanks, Jen. Can you tell what the size of the CCC bucket is using the Moody's ratings?

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Friday, October 26, 2007 04:23 PM Eastern Standard Time
To: Anderberg, Stephen; Muthukrishnan, Ramki
Subject: Vertical CDO 2007-1

In addition, I have assumed that the waterfall will go strictly sequential after confirming with Jake who has reviewed the Indenture based on EOD. So all the classes below Class A-1S (Super Senior) are not getting paid on interest and principal until the super senior is completely paid down. I think the reasons why Moody's has taken the Senior AAA to BB+ could be 1) different CCC bucket based on their underlying asset ratings; 2) taking market values into consideration.

Using our own S&P ratings, the CCC rated assets only account for 6.34% of the total portfolio. In the liability structure, the super senior AAA account for 60.68%. So that is why our BEs are still showing o.k. results for the senior AAAs.

Anything else I can do, just let me know.

Thanks, Jen

-----Original Message-----
From: Anderberg, Stephen
Sent: Friday, October 26, 2007 3:44 PM
To: Zhang, Jennifer (Lei)
Subject: What is the size of the CDO bucket...

...in the Vertical CDO 2007 deal?

Thanks!

Steve

Sent from my GoodLink synchronized handheld (www.good.com)

Vertical ABS CDO 2007-1, Ltd.

Moody's Org ID: 715131483

Closing Date: **10 Apr 2007**
Current Total Deal Size(Mil): **1535.0**
Pay Frequency: **Not Applicable**

Market Segment: **Structured Finance**
Collateral Type: **CDO - Cash ABS - Mezzanine**
Location of Assets: **UNITED STATES**

Collateral Manager: **Vertical Capital, LLC**
Trustee: **Wells Fargo Bank, National Association**
Underwriter: **UBS Investment Bank**

Research | **Ratings** | **Related Parties** **View CDO EMS Data**

Deal Research | Asset Class Research | Indices & Data | Methodology

Results 1 - 15 of 15 Page 1 of 1

Date	Document Type	Title
24 Oct 2008	Performance Overview	Vertical ABS CDO 2007-1, Ltd. View data in **Performance Data Services**
11 Sep 2008	Rating Action	Moody's withdraws ratings of Notes issued by 34 ABS CDOs
23 Jun 2008	Rating Action	Moody's downgrades ratings of Notes issued by Vertical ABS CDO 2007-1, Ltd.
21 Jan 2008	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
14 Jan 2008	Rating Action	Moody's downgrades ratings of Notes issued by Vertical ABS CDO 2007-1, Ltd.
26 Dec 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
26 Nov 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
08 Nov 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
25 Oct 2007	Rating Action	Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downgrades Possible
18 Sep 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
21 Aug 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
13 Aug 2007	Rating Action	Moody's places notes issued by Vertical ABS CDO 2007-1, Ltd. on watch for possible downgrade
21 Jul 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
20 Jul 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
26 Apr 2007	Rating Action	Moody's Rates the Vertical ABS CDO 2007-1, Ltd. Offering from UBS Investment Bank

Results 1 - 15 of 15 Page 1 of 1

Permanent Subcommittee on Investigations
EXHIBIT #94k

X05CV084013452S : **Superior Court**

Pursuit Partners, LLC et al : **Complex Litigation Docket at Stamford**

v.

UBS AG et al : **September 8, 2009**

MEMORANDUM OF DECISION
ON PLAINTIFFS' APPLICATION FOR A PREJUDGMENT REMEDY (#124)

Introduction

This is a case involving allegations of securities fraud and related causes of action. It has been brought by a hedge fund against a financial institution whose businesses include the creation and marketing of securities in the form of a series of notes. These notes constitute a complex financial investment product known generically in the securities industry as collateralized debt obligations (Notes or CDOs). CDOs are a type of structured credit product in the world of asset-backed securities. CDOs lump various types of debt - from the very safe to the very risky - into one bundle. The various types of debt are known as tranches.[1] The purpose of these products is to create tiered cash flows for various groups of investors holding the different tranches. These cash flows come from mortgages and other debt obligations that have been pooled together. These Notes are customarily marketed and sold to institutional investors and hedge funds, the types of entities which are considered generally self-sufficient in the area of due diligence.

Pursuit Partners, LLC is a hedge fund based in Stamford, Connecticut. This hedge fund is managed by Pursuit Investment Management, LLC, and includes two investment

[1] "Tranche" is the French word for "slice." A tranche is a piece, portion or slice of a deal or structured financing. Different tranches have different risks, rewards and/or maturities.

Permanent Subcommittee on Investigations
EXHIBIT #941

funds known as the Pursuit Opportunity Fund I Master Ltd. and the Pursuit Capital Master (these entities collectively referred to as Pursuit or the Plaintiffs). The defendant UBS AG is a Swiss Bank with a securities affiliate known as UBS Securities, LLC. (collectively referred to as UBS). The principal United States offices for UBS are located in Stamford, Connecticut and New York, New York. At the operative times in this case, the co-defendant Robert T. Morelli (Morelli) was employed as the head of the UBS syndicate desk.

The remaining two defendants, Moody's Corporation (Moody's) and the McGraw-Hill Companies, Inc, d/b/a Standard and Poor's (S & P), are both credit-ratings agencies. Ratings agencies are a vital part of the securities market, and their ratings greatly influence the market. To help investors assess risks, ratings agencies analyze and rate companies and the fixed-income securities they issue, using risk profiles to determine the likelihood that issuers will default on their loans. Markets react, often dramatically, to the increased or decreased likelihood of default when a rating changes. Moody's and S & P were responsible for rating the credit worthiness of the collateral underlying the CDOs sold to Pursuit by UBS and at issue in this case. In fact, the credit ratings for these CDOs changed in an adverse manner shortly after UBS sold the Plaintiffs some $35,573,904.53 worth of Notes, Notes then rated some form of "Investment Grade," in a series of transactions between late July 2007 and October 1, 2007.[2]

It is the credit ratings downgrades publicly announced by Moody's and S & P later in the month of October 2007, a short time after the last Note was purchased from UBS by

[2] For purposes of the PJR hearing, the parties have agreed that this is the amount at issue. The original claim totaled over $40 million, but at the PJR hearing, the Plaintiffs withdrew their claims in connection with two of the CDOs they had purchased from UBS. (Transcript [Tr.] 4/7/09, p. 87). Therefore, the Plaintiffs' application for a PJR is based on its purchases of four classes of Notes in three different CDOs arranged by UBS, as follows: Vertical ABS CDO 2007-1, ACA ABS 2007-2 Ltd., and TABS 2007-7 CDO.

Pursuit, and the adverse effect that such changes to those credit ratings had on the value of the Notes held by Pursuit due to certain "trigger" language contained in each of the CDOs, and UBS's earlier role in marketing and soliciting purchases of such Notes by the Plaintiffs, and finally (and most importantly), UBS's degree of knowledge of such impending ratings changes, and representations made by UBS to Pursuit in written, oral and email communications, that are at the heart of this case.

On January 21, 2009, the Plaintiffs filed a thirty count Second Amended Complaint, stating claims of relief against UBS, Morelli, Moody's and S & P. The allegations center on a fraud allegedly committed by UBS upon Pursuit in connection with Pursuit's purchase of CDOs from UBS. The Plaintiffs also moved for the issuance of a prejudgment remedy (PJR) solely against the UBS defendants, which resulted in an evidentiary hearing on the application. Following the hearing, the parties submitted their proposed findings of fact and conclusions of law.[3]

The issue facing this court is simple, even if some of the nuances of the securities purchased and sold in this case are complex. Have the Plaintiffs presented sufficient evidence to warrant the granting of a PJR?[4] At the hearing held on the application for a PJR, the court heard witnesses from both sides, and it received into evidence numerous, if not voluminous, documents relating to the transactions between the parties and the Notes

[3] Prior to this memorandum of decision as to the PJR, the court, *Blawie, J.*, granted the defendants' motion to strike the counts in the Plaintiffs' complaint sounding in negligent concealment, negligent supervision, breach of contract, breach of duty of good faith and fair dealing, civil conspiracy and breach of fiduciary duty. Therefore, the court will not address those allegations in this decision.

[4] The court declines the Plaintiffs' request to consider evidence of UBS's uncharged misconduct as evidence of a common scheme or plan for purposes of ruling upon this application for a PJR. This is in reference to the fact that in February 2009, UBS agreed to pay $780 million to United States authorities to settle accusations that it helped wealthy Americans illegally evade taxes through secret offshore bank accounts that went undeclared to the Internal Revenue Service. UBS has admitted to conspiracy to defraud the I.R.S, and the Plaintiffs may renew their motion to introduce such evidence at a trial on the merits of their allegations, but it played no part in this court's decision on the PJR.

probable cause as a condition of obtaining a prejudgment remedy is not as demanding as proof by a fair preponderance of the evidence." (Internal quotation marks omitted.) *Kosiorek* v. *Smigelski,* 112 Conn. App. 315, 319, 962 A.2d 880, cert. denied, 291 Conn. 903, 967 A.2d 113 (2009); see *36 DeForest Avenue, LLC* v. *Creadore,* 99 Conn.App. 690, 698, 915 A.2d 916, cert. denied, 282 Conn. 905, 920 A.2d 311 (2007) (stating that the burden of proof at a probable cause hearing is a low one). "At a probable cause hearing on a prejudgment remedy, a trial court may properly consider all evidence presented, including testimony of witnesses, documentary evidence, and affidavits." *Fleet Bank of Connecticut* v. *Dowling,* 28 Conn. App. 221, 225, 610 A.2d 707, cert. granted on other grounds, 223 Conn. 921, 614 A.2d 821 (1992).

Facts

With this standard in mind, and for the purposes of this application, the court finds the following facts based on the evidence and testimony it finds credible. In the spring 2007, UBS marketed certain CDO[7] Notes to Pursuit. (Transcript [Tr.] 4/6/09, pp. 110-11). Pursuit, although not a regular investor in "synthetic" CDOs[8], was familiar with the CDO market from prior investments. (Tr., 4/7/09, pp. 91-92). In early 2007, UBS solicited Pursuit with CDO Notes for sale. (Tr., 4/7/09, pp. 110-11). The Plaintiffs inquired with UBS about purchasing CDO Notes at a discount that were both "investment

[7] The complaint defines "CDO" or collateralized debt obligation as a vehicle which allows investors to invest in the future performance of either actual or referenced mortgages that act as the underlying collateral. A CDO allows an investor to purchase a position whose return profile is based upon the performance of a security with a defined risk and reward, without actually purchasing the mortgages themselves.

[8] Unlike CDOs that may be backed by actual mortgages or underlying collateral, synthetic CDOs are usually backed by credit derivatives such as credit default swaps. At its most basic, a credit default swap is similar to an insurance contract. The swap provides the buyer with protection and coverage against specific risks in exchange for a periodic fee paid to the counterparty who "buys" that risk. The protection "buyer" is paid a set amount if there is a triggering event that is a specified risk, such as a default or a credit rating downgrade.

grade" and "triggerless."[9] It is the ratings "triggers" embedded in the transaction documents and credit default swaps that made millions of dollars in future payments to Pursuit and UBS dependent upon how Moody's and S & P labeled certain credit risks. With such heavy reliance upon these ratings, the court finds that it created a bit of a ratings trap, due to the catastrophic consequences of a downgrade.

While there are varying degrees of investment grade, a Note rated as investment grade by Moody's and/or S & P is reserved for the highest end of the credit spectrum. As such, it is deemed to have the most predictable cash flow and is usually deemed to carry the lowest risk of default. Pursuit informed UBS that although it was willing to make an investment in the mortgage market, it was unwilling to take the extra-market risk of an investment that was subject to unilateral termination by a senior investor (such as UBS). Pursuit further informed UBS that it would only purchase Notes that: (1) were investment grade; (2) "triggerless"; (3) not subject to an over collateralization test (O.C. test); (4) bore a substantial discount from par; and (5) would perform based upon market, rather than extra-market conditions. (Tr., 4/7/09, p. 91). All of these conditions were designed to ensure the safety and security of any investment by Pursuit. In the spring of 2007, UBS informed Pursuit that based upon the pre-drafted Offering Memoranda for the CDOs, it would not meet Pursuit's conditions for sale of the Notes. (Tr., 4/7/09, pp. 110-11).

Soon after, as a result of certain meetings with Moody's, the court finds probable cause to sustain the claim that UBS became privy to material non-public information regarding a pending change in Moody's ratings methodology. (Exhibits [Exhs.] 11, 17).

[9] In paragraph sixty-eight of the Second Amended Complaint, the Plaintiffs state that "[i]t is generally accepted in the CDO investment community that the term 'triggerless' means that the O.C. test [Over Collateralization test] or Senior Credit test - which otherwise would allow the super-senior Noteholder to trigger or initiate a liquidation of the less senior positions in order to protect the super-senior Noteholder's investment – is inapplicable." Canales testified that triggers put the purchaser of a Note at a disadvantage, and can shut off the cash flow. (Tr. 4/6/09, p. 95).

This change in ratings methodology, when implemented, would cause the Notes that UBS had previously offered and sold as investment grade to no longer receive the same investment grade ratings. (Exhs. 11, 17, 22, 25). Due to the way the CDOs at issue were structured, such a change would effectively render the Notes, and Pursuit's investment in them, worthless. Thus, in the summer of 2007, UBS was aware that the Notes they were currently marketing for sale in their CDOs were Notes for which the ratings agencies would soon no longer be giving investment grade ratings. At that time, UBS was holding a significant amount of unsold Notes in inventory that would lose a significant amount of value when such a ratings downgrade occurred, (Tr., 4/7/09, pp. 140-41), and therefore had an incentive to lower UBS's inventory of these Notes and their corresponding exposure.

In late summer 2007, UBS again contacted Pursuit and offered to sell the same Notes that Pursuit had rejected several months earlier. UBS, without disclosing the information regarding the ratings of the Notes, represented to Pursuit that UBS would now meet Pursuit's aforementioned terms in a "no trigger deal." (Exh. 32). This is significant, because the terms and conditions of the Notes purchased by the Plaintiffs were by that point fixed and immutable, just as they had been the first time such Notes were pitched by UBS. That included such details as trigger vs. triggerless and/or the types of triggers each CDO contained, all of which were contained in the respective offering memorandum. The only feature *not* spelled out was the actual purchase price to be paid for the Notes, which was subject to negotiation. The offering memoranda for each CDO was received into evidence. As to the TABS 2007-7 CDO, the offering memorandum was dated March 17, 2007. (Exh. T). The offering memorandum for Vertical ABS CDO 2007-1 was dated

April 6, 2007 (as supplemented April 9, 2007). (Exh. FF). The offering memorandum for ACA ABS 2007-2 was dated June 27, 2007. (Exh. AA).

With the exception of the ACA ABS 2007-2 CDO, which was not finalized until June 2007, the court finds that what had changed between UBS's first unsuccessful pitch and its second, successful pitch to the Plaintiffs was not the presence or absence of triggers, or the structures of the CDOs themselves, but UBS's awareness that these high grade securities on its hands would soon turn into financial toxic waste. Shortly after selling Pursuit the subject Notes, UBS diverted the cash waterfall payments after a ratings agency downgrade . UBS triggered a termination and liquidation of the Notes, wiping out Pursuit's entire investment. Between July 26, 2007, and October 1, 2007, Pursuit purchased the Notes that are the subject of this litigation.

UBS sent the Offering Memoranda for the Vertical ABS CDO 2007-1,[10] ACA ABS 2007-2 Ltd.[11] and TABS 2007-7 CDOs[12] to Pursuit in summer and fall 2007 by cover emails. These emails contain certain "transaction highlights" for each CDO. (Exhs. 32, 45, 83). Pursuit confirmed that at least two of its employees read the Offering Memoranda, and that Pursuit would not have relied on a one- or two-page transaction highlights email to invest tens of millions of dollars, but instead would have relied on the transaction documents for each CDO. (Tr. 4/6/09, p. 208; 4/7/09, pp. 5, 39). To do otherwise would

[10] The closing date on the Vertical CDO was April 10, 2007 and Pursuit purchased Notes in Vertical's B2 class on July 26, 2007, and in Vertical's B1 Notes on August 7, 2007.
[11] The closing date on the ACA CDO was June 28, 2007 and Pursuit purchased Notes in ACA's B1class on September 6, 2007.
[12] The closing date on the TABS CDO was March 20, 2007 and Pursuit purchased Notes in TABS' B3 class on October 1, 2007. As to the TABS CDO, the court finds that the "no trigger" language was specifically couched by UBS in favorable terms for prospective investors in the Notes, as it meant that coupon interest would be "unaffected by rating agency downgrades actions in the underlying collateral pool." (Exh. 55).

have been unreasonable and contrary to the standard of care in the CDO industry. (Tr. 4/8/09, p. 87).

It is true that there had already been a public disclosure on May 15, 2007 by Moody's that it was "re-examining its correlation assumptions for ABS [asset backed securities] CDO tranches" due to "increasing overlaps in the securities underlying ABS CDOs" traceable to a "growing proportion of synthetic transactions." The disclosure noted that, "Moody's expects to complete its correlation analysis over the next couple of months." (Exh. O). It is also true that the Plaintiffs purchased these Notes at a deep discount. However, in July 2007, the court finds probable cause to sustain the claim that UBS, as a large player in the CDO market (Tr. 4/8/09, p. 34), one that "worked very closely with the CDO analysts at the ratings agencies," (Tr. 4/7/09, pp. 211-212), failed to advise Pursuit that it in fact knew material nonpublic information about the ratings agencies and their methods,[13] and that the ratings agencies were going to downgrade the Notes UBS was selling. This change was material, as it essentially was a shift from a performance-based rating methodology to a market-based ratings methodology. Given the deteriorating conditions in this sector of the market at that time, such ratings changes as to these Notes were universally negative. On July 11, 2007, the day that Moody's publicly announced it was putting 184 CDO tranches on review for possible downgrade, Morelli sent an email stating simply "put today in your calendar." (Exh. 24). In explaining the context of that email, the significance of that day was described to the court by Morelli as, "Today was

[13] For example, a July 31, 2007 email from Vab Kumar, Director, Global CDO Group for UBS Securities LLC was received into evidence (Exh. 38) The email was sent to both UBS employees working the CDO desk as well as certain Moody's CDO ratings analysts, with a copy to Morelli. The email concerns the Vertical 2007-2 CDO, which was purchased by the Plaintiffs. It starts out by stating that "*There have been a number of things that have been asked by Moodys on the above mentioned deal that are not market* and not your criteria in deals we have closes in the past week."(Emphasis added.) As the Senior Structurer at UBS, Kumar had extensive interactions with the ratings agencies.

essentially the beginning of the end of the CDO business, meaning the bonds were getting downgraded, they were probably going to get downgraded further and we [UBS] were going to lose a lot of money." (Tr. 4/7/09, p. 213).

UBS failed to disclose and actively concealed the fact that based upon this change, the Notes being marketed by UBS would *not* maintain their investment grade rating, and would lose a significant amount of value, if not the liquidation of the entire investment. After the July 2007 action by Moody's, it was followed by the "massive mortgage bond downgrades" which were publicly announced October 11-19, 2007. (Exh. 78). By the time Moody's publicly announced these ratings downgrade, the court concludes that probable cause exists to sustain a belief that UBS had known that Moody's was not just "re-examining assumptions," but was changing its methodology, and that the collateral underlying the Notes would therefore no longer be rated investment grade. Had Pursuit been aware of this, it would not have invested in the subject Notes.

In sum, the court finds probable cause to sustain the claim that UBS sold the Notes to Pursuit without disclosing the following material non-public information: (1) that the Notes would soon no longer carry an investment grade rating, as the ratings agencies intended to withdraw these ratings as a result of a change in methodology; and (2) that once the investment grade rating was withdrawn, the CDO Notes sold by UBS to Pursuit, being valued in the tens of millions of dollars, would thereby become worthless.

Fraud in the Inducement

Under New York law, "The required elements of a cause of action for fraud are representation, falsity, scienter, deception, and injury. . . . In order to establish deception, any reliance upon the false representation must be "justifiable under all the circumstances"

It is clear that that from the parties' extensive contact, UBS knew that Pursuit was only interested in investing in Notes that carried an "investment grade." (Tr., 4/6/09, p.91). The Plaintiffs presented evidence suggesting that UBS, from their dealings with the ratings agencies, had reason to believe that certain collateral would be downgraded in the near future and their "investment grade" rating would be withdrawn. The Plaintiffs' submitted multiple emails from UBS employees. These emails constitute both direct and circumstantial evidence of UBS's knowledge of a change in Moody's ratings methodology, and the likelihood, if not certainty, that this change in methodology would cause Moody's to downgrade the subject CDO Notes. (Exhs. 11, 17). As early as May 17, 2007, UBS had reason to believe that Moody's was changing its methodology and that would result in the downgrading of certain asset-backed securities. (Exhs. 11, 17). UBS's emails show that its employees met with Moody's representatives to discuss the impact of the downgrades and when they should start downgrading.[17] (Exh. 17). Thereafter on July 11, 2007, UBS employees had knowledge that Moody's was going to downgrade CDOs by the end of the day.[18] On July 26, 2007, UBS instructed its employees to "reduce cdos . . . no need to publicly relay this, but if you are close on something, [please] close it . . .[thanks] for your discretion." (Exh. 34). In response to that email, Morelli stated "[P]ursuit has dry gun powder but not tons of it."[19] Soon after on August 28, 2008, Morelli sent an email referencing the subject Notes, stating that he had "sold more crap to Pursuit." (Exh. 49). The court finds that the problem was not confined to only the CDOs at issue in this PJR. For instance, on September 24, 2007, as

[17] "It sounds like Moodys is trying to figure out when to start downgrading, and how much damage they're going to cause – they're meeting with various investment banks." (Exh. 17).
[18] "FW: hearing moody's will announce a bunch of CDO downgrades in the next hourish." Morelli's response was: "[I'm] going out for lunch . . . do not call the police if I never return." (Exh. 22).
[19] The term "dry gun powder" refers to funds available for purchases of securities. (Tr., 4/6/09, p. 142).

the clock was running out on the investment grade ratings for its products, another UBS employee sent an email to a UBS director referencing another supposed "investment grade" rated CDO in their inventory, writing, "OK still have this vomit?" (Exh. 62).

Based on the above-mentioned evidence, the court finds that the Plaintiffs' have presented sufficient evidence to satisfy the probable cause standard with respect to their claim that UBS was in possession of superior knowledge that was not readily available to the Plaintiffs. This material nonpublic information related to rating agency downgrades that would significantly decrease, if not render worthless, the CDO Notes it was selling Pursuit. Further, UBS was aware the Pursuit was only seeking to invest in CDO Notes rated "investment grade," and UBS knew that by investing in the subject CDO Notes, Pursuit was acting on the basis of misleading information. Moreover, because UBS was in the position of "Super-senior Noteholder" in the structure of these CDOs, such ratings downgrades, while working to the detriment of buyers like the Plaintiffs, could work to the benefit of sellers like UBS in the super-senior position, because super-seniors have first dibs on whatever payments are made on a CDO. A UBS Securities LLC credit analyst explained it in an October 16, 2007 email sent to Morelli and others. Writing about the billions of dollars in Moody's downgrades, downgrades that were now public knowledge, the UBS analyst wrote, "These bonds [subject to downgrades] appear in countless CDOs. The downgrades were more severe than what the market seemed to anticipate !!! And !!! The downgrades could constitute a triggering event that would be an Event of Default for various for various CDOs... If this occurs, then it may prove salutary for the Super-senior holders [like UBS] as more cash flow would be preserved for their protection." (Exh. 91). A November 21, 2007 email from a UBS senior structurer on its CDO desk stated it more succinctly. Writing to Morelli, Kumar and the head of UBS's CDO group, and ending with a smiley face, the email says "we protect our super seniors the best :)."

Connecticut Uniform Securities Act (CUSA)

General Statutes § 36b-29 provides in relevant part: "(a) Any person who . . . (2) offers or sells or materially assists any person who offers or sells a security by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, who knew or in the exercise of reasonable care should have known of the untruth or omission, the buyer not knowing of the untruth or omission, and who does not sustain the burden of proof that he did not know, and in the exercise of reasonable care could not have known, of the untruth or omission, is liable to the person buying the security . . . ." With respect to this claim pursuant to CUSA, the court adopts and incorporates its reasoning regarding Pursuit's fraudulent omissions claim.

Unjust Enrichment

The elements of unjust enrichment are "that: (1) the defendant benefited; (2) the benefit was at the expense of the plaintiff; and (3) that equity and good conscience require restitution." *Mazzaro de Abreu* v. *Bank of America Corp.*, 525 F. Sup. 2d 381, 397 (S.D.N.Y. 2007). With respect to this claim, the court adopts and incorporates its reasoning regarding Pursuit's fraudulent omissions claim. Moreover, in light of the alternate grounds articulated to sustain the application for a PJR, the court will not address the remaining allegations of negligence.

Frank Canelas

From: evan.malik@ubs.com
Sent: Wednesday, August 01, 2007 9:50 AM
To: Anthony Schepls
Subject: FW: Mezz CDO Offerings

Here is some new stuff we would offer the vertical that bot the b2 at 34 this is one notch higher and morelli thinks it should get 3/4 of year of io more he would sell it to at FORTY no FIFTY this is a good block.
If we get that done then I wil get better offers on the others Ignore the tabs I know u don't like it Go phatty this is FIRM and its morelli

-----Original Message-----
From: Morelli, Robert
Sent: Wednesday, August 01, 2007 9:41 AM
Subject: Mezz CDO Offerings

Size	Bond	Rating	Type	Trig	BB	B	<=CCC	Offer	Price	
$ 7mm	NAUT 2007-5A BV	- / - / BBB	PRIME	Yes	4.16%	0.00%	0.00%	600dm	$92.75	
$11mm	CRNMZ 2007-4A B1	Baa2 / BBB	Mezz	No	0.00%	0.00%	0.00%	1000dm	$82.00	no downgrades or watchlisted secs
$25mm	VERT 2007-1A B1	Baa2 / BBB	Mezz	No	14.04%	1.00%	0.00%	4.5yrs IO	$50.00	see below
$25mm	TABS 2007-7A B3	Baa3 / BBB-	Mezz	No	8.74%	0.00%	0.27%	4.5yrs IO	$57.00	see below
$19mm	CABAY 2006-1A B	Baa2 / BBB	Mezz	Yes	3.71%	2.50%	0.00%	3.0yrs IO	$25.00	

watchlisted securities are counted at two notches lower

VERT 2007-1A B1 a lot of excess spread. portfolio would need to write down by 24% before the Class B1 Note coupon was impaired
TABS 2007-7A B3 a lot of excess spread. portfolio would need to write down by 22% before the Class B3 Note coupon was impaired

Call desk with ANY feedback on levels.

Call Rob Morelli or Jared Menzel for any additional info on any of these offerings.

Rob Morelli
Executive Director
UBS Investment Bank
1285 Ave of the Americas
11th Floor
New York, NY 10019
Tel (212) 713-4972
Cell (917) 658-7705
Fax (203) 719-8439

From: Malik, Evan
Sent: Tuesday, August 28, 2007 12:37 PM
To: Corcoran, Hugh
Subject: Re: 95pts Wine Spec, Best Tignanello since 1997!

Kewl. Sold some more crap to pursuit. Brock close to getting money in for distressed cdo fund. 500mmish
----
Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Corcoran, Hugh
To: Malik, Evan
Sent: Tue Aug 28 12:32:18 2007
Subject: RE: 95pts Wine Spec, Best Tignanello since 1997!

Yes -talked to ximo

-----Original Message-----
From: Malik, Evan
Sent: Tuesday, August 28, 2007 12:26 PM
To: Corcoran, Hugh
Subject: Re: 95pts Wine Spec, Best Tignanello since 1997!

Cheap 53ish 58 a bottle? was it 01 or 00 I forgot. ? Did u c my bbeerg about barclays
----
Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Corcoran, Hugh
To: Malik, Evan
Sent: Tue Aug 28 12:23:22 2007
Subject: FW: 95pts Wine Spec, Best Tignanello since 1997!

what did we buy the 2000 for

From: Jeff Daniels - The Wine Club SF [mailto:jeffdaniels@thewineclub.com]
Sent: Tuesday, August 28, 2007 12:02 PM
To: undisclosed-recipients
Subject: 95pts Wine Spec, Best Tignanello since 1997!

Best Since 1997!
95pts Wine Spectator
2004 Antinori Tignanello IGT
Tuscany, Italy
Offers aromas of blackberry, with hints of raisin and lots of spices. Full and velvety, with wonderful concentration and a long, rich finish. Very stylish and exciting. Sangiovese, Cabernet Sauvignon and Cabernet Franc. Best after 2012.–J.S. Wine Spectator Advance Oct 15.

From:	McCleary, Jack
Sent:	Thursday, July 05, 2007 3:57 PM
To:	Corlito, Dayna; Morelli, Robert; Patel, Malay; Grimaldi, Keith; Tsai, Lirenn
Cc:	Martin, David-S; Stehli, James
Subject:	Re: ABS Subprime & Moody's downgrades

I am not aware of this meeting but we did host a moodys meeting a few months ago with the desk on this topic. Assuming they initiated this and want all points of view.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Corlito, Dayna
To: McCleary, Jack; Morelli, Robert; Patel, Malay; Grimaldi, Keith; Tsai, Lirenn
CC: Martin, David-S; Stehli, James
Sent: Thu Jul 05 14:45:14 2007
Subject: FW: ABS Subprime & Moody's downgrades

FYI. You may already be in the loop but wanted to pass the info just in case.

Dayna Corlito
UBS Investment Bank
MBS/ABS Business Manager
(212) 713-3216
Dayna.Corlito@ubs.com

From: Goldsteen, David
Sent: Thursday, July 05, 2007 2:34 PM
To: Corlito, Dayna
Subject: ABS Subprime & Moody's downgrades

Hi Dayna

I just got off the phone with David Oman in CRC, who reports to David Bawden. Apparently they're meeting w/ Moodys to discuss impacts of ABS subprime downgrades, etc. Has he been in contact with the Desk?

It sounds like Moodys is trying to figure out when to start downgrading, and how much damage they're going to cause -- they're meeting with various investment banks.

David

UBS-CT 021485

Permanent Subcommittee on Investigations
EXHIBIT #94o

DATE: Tuesday, July 17, 2007
TIME: 8:54 PM (GMT)
AUTHOR: Rekeda, Alexander
RECEIPIENT: Kolchinsky, Eric
CC:
SUBJECT: Analyst for Brighton

Eric:

Can you pls assign analysts for Brighton ABS CDO. We□re planning to price it in the late August. Yuri Chumak is a transactor on this deal.

Btw, as a way of feedback, I should say that Marc Leibert had a pretty good grip on our last deal, but Sindhu Veluri (his modeling colleague) is not as experienced. I figured since the new deal pipeline is dramatically down and more experienced analysts may be available, it would be great to have someone more experienced for Brighton. The reason is that Delphinus was a mezz deal with a lot of cushion, so we did not really care that much. Brighton is a SHG deal with WARF of 15, so we may not have that luxury. Someone like Qi Wang, Yu Sung, or someone with similar experience would be perfect. Btw, pls don□t say anything to Sindhu □ I think she is genuinely trying to do her best, but it does take some experience with these deals.

Thanks,
Alex

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 11:51 AM
To: Mooney, Shannon
Subject: RE: Delphinus closing date vs effective date
Thank you Shannon.

-----Original Message-----
From: Mooney, Shannon
Sent: Monday, August 20, 2007 11:36 AM
To: Sprinkle, Lauren
Subject: RE: Delphinus closing date vs effective date

Hey, let the higher ups handle this. I have spoken with Keith and given him the details. He will speak with Bruce and will let you know if he needs anything from you.

Thanks,

Shannon Mooney
Ratings Analyst, Global CDO Group
Structured Finance Ratings

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: 212-438-7447
Fax: 212-438-2650
shannon_mooney@standardandpoors.com

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:57 AM
To: Zhao, Bruce
Cc: Cheng, Lois; Mooney, Shannon; Guarnuccio, Keith
Subject: Delphinus closing date vs effective date

Bruce,

Regarding Delphinus, it appears that the closing date portfolio they gave us for analysis and the effective date portfolio (closing date=effective date) were not the same. It appears that the 25ish assets that they included in our closing date portfolio that were dummies were replaced in less than 24 hours with assets that would have been notched and made the portfolio worse. The issue is that given they would have provided us with this portfolio at closing date, the SDR's would have gone up and they would not have been able to close as they would not have been passing. They are, however, passing effective date with the effective date portfolio. Do you want to address this with them, or let it go?

Thanks
Lauren

Permanent Subcommittee on Investigations
EXHIBIT #95b

PSI-SP-000358

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:48 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject: RE:

Yes, the concern is that the deal would've never passed (and actually would've been worse) if they included the assets that they claimed they are dummies. Yet in less than 24 hrs later they were able to purchase all these dummy assets and declared effective date on closing date. I don't know how you want to handle it but I would tell the primary analyst about the situation and see how he wants to deal with it. I mean, the deal closed and it is passing effective date monitor test, so we have to issue Effective Date Rac.

Lois Cheng
Global CDO Group
Structured Finance Ratings

Standard and Poor's
55 Water Street, 41 Floor
New York, NY 10041-0003
212-438-1898
lois_cheng@sandp.com

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:44 AM
To: Cheng, Lois
Cc: Mooney, Shannon
Subject: RE:

Ok, but if you notched, you should unotched those assets. But since you're using current ratings, it really doesn't matter

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:40 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject: RE:

We do not notch anything on effective date. We use current ratings and that is how this deal passes effective date. We ran the monitor with the notched ratings just to see and it is failing several tranches (Junior AAA, A, BBB+ and BBB-)

Lois Cheng
Global CDO Group
Structured Finance Ratings

Standard and Poor's
55 Water Street, 41 Floor
New York, NY 10041-0003
212-438-1898
lois_cheng@sandp.com

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:38 AM
To: Cheng, Lois
Cc: Mooney, Shannon
Subject: RE:

Lois,

At effective date, are you notching everything per the press release or are you just using the current rating at effective date. Becuase if you're notching everything, surveillance went over this deal and unnotched a bunch of assets which is going to affect the SDR's. Please see the attached.

All the assets highlighted in yellow between surveillance scrub and rating after surveillance scrub (hence they were dragged from one column to another) were said to be OK by surveillance and don't need to be notched.

*unhide the columns.

Call to discuss. 201[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Thx,
lauren

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:27 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject: RE:

Um.. looks like the remaining portion is actually all sub-prime (57 asset code vs all 56s in closing date portfolio), less principal, and worse ratings (mostly BBBs but closing date has more A-'s). Let me come over and discuss...

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:13 AM
To: Cheng, Lois
Cc: Mooney, Shannon
Subject: RE:

Hi Lois,

This is the closing date portfolio I received on 7.18.07 from the banker. It has 26 dummy assets. So unless they ramped up overnight (when we stayed up working until past midnight on the 19th)....

Thanks
Lauren

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:06 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject:

Hi Lauren,

This is the ramped up collateral as of 7.19.07. You can take a look and see if it is different from the closing date portfolio you received from the banker.

Lois Cheng
Global CDO Group
Structured Finance Ratings

Standard and Poor's
55 Water Street, 41 Floor
New York, NY 10041-0003
212-438-1898
lois_cheng@sandp.com

Main Rating Change Report

Rating Change Report

Start: 1/1/08
End: 1/31/08

Generate Report

Region	Action Date	Deal Name	Tranche	Original Balance	Prior Rating	Current Rating	Action	Publish Indc	Not-ches	Closing Date	Product Line Description	Rolled Up Description	Calced Notches
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $131,000,000 Class B Senior Floating Rate Notes Due October 2047	$131,000,000	A3	Caa1	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $138,500,000 Class A-3 Senior Floating Rate Notes Due October 2047	$138,500,000	Aaa	B3	DNG	Y	15	7/19/07	CDO - Resecuritization	CDO	-15
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $144,500,000 Class A-2 Senior Floating Rate Notes Due October 2047	$144,500,000	Aaa	B1	DNG	Y	13	7/19/07	CDO - Resecuritization	CDO	-13
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $15,000,000 Class D-3 Mezzanine Floating Rate Deferrable Notes Due October 2047	$15,000,000	Caa3	Ca	DNG	Y	1	7/19/07	CDO - Resecuritization	CDO	-1
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $15,000,000 Class E Mezzanine Floating Rate Deferrable Notes Due October 2047	$15,000,000	Caa3	Ca	DNG	Y	1	7/19/07	CDO - Resecuritization	CDO	-1
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $160,000,000 Class A-1C Senior Floating Rate Notes Due October 2047	$160,000,000	Aaa	Ba2	DNG	Y	11	7/19/07	CDO - Resecuritization	CDO	-11
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $30,500,000 Class D-2 Mezzanine Floating Rate Deferrable Notes Due October 2047	$30,500,000	B1	Ca	DNG	Y	6	7/19/07	CDO - Resecuritization	CDO	-6
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $48,000,000 Class D-1 Mezzanine Floating Rate Deferrable Notes Due October 2047	$48,000,000	Ba2	Ca	DNG	Y	8	7/19/07	CDO - Resecuritization	CDO	-8
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $73,500,000 Class A-1A Senior Floating Rate Notes Due October 2047	$73,500,000	Aaa	Ba1	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $77,500,000 Class C Mezzanine Floating Rate Deferrable Notes Due October 2047	$77,500,000	Baa3	Ca	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $86,500,000 Class A-1B Senior Floating Rate Notes Due October 2047	$86,500,000	Aaa	Ba1	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/23/08	Delphinus CDO 2007-1, Ltd.	U.S. $640,000,000 Super Senior Swap dated as of July 19,2007	$640,000,000	Aaa	Baa3	DNG	Y	9	7/19/07	CDO - Resecuritization	CDO	-9

Permanent Subcommittee on Investigations
EXHIBIT #95c

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Delphinus CDO 2007-1, Ltd.

Moody's Org ID: **720276636**

Closing Date:	**19 Jul 2007**	Market Segment:	**Structured Finance**
Current Total Deal Size(Mil):	**1641.0**	Collateral Type:	**CDO - Cash ABS - Mezzanine**
Pay Frequency:	**Monthly**	Location of Assets:	UNITED STATES

Collateral Manager: **Delaware Asset Advisers**
Trustee: **Wells Fargo Bank, N.A.**
Underwriter: **Mizuho International plc**

Research | Ratings | Related Parties

Deal Research | Asset Class Research | Indices & Data | Methodology

Results 1 - 34 of 34

Date	Document Type	Title
22 Mar 2010	Performance Overview	Delphinus CDO 2007-1, Ltd. View data in **Performance Data Services**
24 Feb 2010	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
20 Jan 2010	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
15 Dec 2009	Announcement	Moody's: Delphinus CDO ratings unaffected by sale of Delaware
22 Oct 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
19 Sep 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
27 Aug 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
25 Jul 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Jun 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
04 May 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
24 Mar 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
23 Feb 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
25 Dec 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
20 Nov 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Oct 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Sep 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
26 Aug 2008	Rating Action	Moody's downgrades ratings of Notes issued by 30 ABS CDOs
17 Aug 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Jul 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
18 Jun 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
15 May 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
30 Apr 2008	Rating Action	Moody's takes action on Delphinus CDO 2007-1, Ltd.
30 Apr 2008	Rating Action	Moody's takes action on Delphinus CDO 2007-1, Ltd.
22 Apr 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.

Permanent Subcommittee on Investigations
EXHIBIT #95d

	21 Mar 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	25 Feb 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	23 Jan 2008	Rating Action	Moody's downgrades rating assigned to Swap Transaction enter
	21 Jan 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	18 Jan 2008	Rating Action	Moody's downgrades ratings assigned to Notes issued by Delphi
	26 Dec 2007	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	26 Nov 2007	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	26 Nov 2007	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	07 Nov 2007	Rating Action	Moody's Takes Neg Action on Delphinus CDO 2007-1
	31 Jul 2007	Rating Action	Moody's rates the Delphinus CDO 2007-1, Ltd. offering from Miz

Results 1 - 34 of 34

Credit Ratings:
Delphinus CDO 2007-1 Ltd
US$987 mil Delphinus CDO 2007-1 Ltd

This Export copy displays all available data for the selected tab(s), including filtered data that may not currently appear on the screen.

Last Updated: 18-Apr-2010 17:20:17 EST

	Type	Rating Date	Rating Action	Rating	CreditWatch/Outlook	CreditWatch/Outlook Date
Tranche: A-1A	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-1A	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC	Watch Neg	16-Apr-2008
Tranche: A-1A	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC	NM	20-Feb-2008
Tranche: A-1A	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	08-Jan-2008
Tranche: A-1A	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: A-1B	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-1B	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC	Watch Neg	16-Apr-2008
Tranche: A-1B	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC	NM	20-Feb-2008
Tranche: A-1B	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	08-Jan-2008
Tranche: A-1B	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: A-1C	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-1C	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC-	Watch Neg	16-Apr-2008
Tranche: A-1C	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC-	NM	20-Feb-2008
Tranche: A-1C	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	AA+	Watch Neg	08-Jan-2008
Tranche: A-1C	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	AA+	NM	21-Dec-2007
Tranche: A-1C	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	18-Dec-2007
Tranche: A-1C	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: A-2	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-2	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC-	Watch Neg	16-Apr-2008
Tranche: A-2	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC-	NM	20-Feb-2008
Tranche: A-2	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	AA+	Watch Neg	08-Jan-2008
Tranche: A-2	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	AA+	NM	21-Dec-2007
Tranche: A-2	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	18-Dec-2007
Tranche: A-2	Local Long-Term	02-Aug-2007	New Rating	AAA		

Permanent Subcommittee on Investigations
EXHIBIT #95e

Tranche: A-3	Local Long-Term	20-Feb-2008		CC		
Tranche: A-3	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: A-3	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	A+	Watch Neg	08-Jan-2008
Tranche: A-3	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	A+	NM	21-Dec-2007
Tranche: A-3	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	18-Dec-2007
Tranche: A-3	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: B	Local Long-Term	20-Feb-2008		CC		
Tranche: B	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: B	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	BBB+	Watch Neg	08-Jan-2008
Tranche: B	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	BBB+	NM	21-Dec-2007
Tranche: B	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AA	Watch Neg	18-Dec-2007
Tranche: B	Local Long-Term	02-Aug-2007	New Rating	AA		
Tranche: C	Local Long-Term	20-Feb-2008		CC		
Tranche: C	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: C	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	BBB-	Watch Neg	08-Jan-2008
Tranche: C	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	BBB-	NM	21-Dec-2007
Tranche: C	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	A	Watch Neg	18-Dec-2007
Tranche: C	Local Long-Term	02-Aug-2007	New Rating	A		
Tranche: D-1	Local Long-Term	20-Feb-2008		CC		
Tranche: D-1	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: D-1	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	B+	Watch Neg	08-Jan-2008
Tranche: D-1	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	B+	NM	21-Dec-2007
Tranche: D-1	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BBB+	Watch Neg	18-Dec-2007
Tranche: D-1	Local Long-Term	02-Aug-2007	New Rating	BBB+		
Tranche: D-2	Local Long-Term	20-Feb-2008		CC		
Tranche: D-2	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: D-2	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	CCC+	Watch Neg	08-Jan-2008
Tranche: D-2	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	CCC+	NM	21-Dec-2007
Tranche: D-2	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BBB-	Watch Neg	18-Dec-2007
Tranche: D-2	Local Long-Term	02-Aug-2007	New Rating	BBB-		
Tranche: D-3	Local Long-Term	20-Feb-2008		CC		
Tranche: D-3	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: D-3	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	CCC	Watch Neg	08-Jan-2008
Tranche: D-3	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	CCC	NM	21-Dec-2007

Tranche: D-3	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BBB-	Watch Neg	18-Dec-2007
Tranche: D-3	Local Long-Term	02-Aug-2007	New Rating	BBB-		
Tranche: E	Local Long-Term	21-Dec-2007		CC		
Tranche: E	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	CC	NM	21-Dec-2007
Tranche: E	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BB	Watch Neg	18-Dec-2007
Tranche: E	Local Long-Term	02-Aug-2007	New Rating	BB		
Tranche: Pref Shrs	Local Long-Term	02-Aug-2007	Not Rated	NR		
Tranche: S	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: S	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC	Watch Neg	16-Apr-2008
Tranche: S	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC	NM	20-Feb-2008
Tranche: S	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	08-Jan-2008
Tranche: S	Local Long-Term	02-Aug-2007	New Rating	AAA		

From: Loken, Andrew
Sent: Tuesday, August 07, 2007 10:10 AM
To: Mooney, Shannon
Subject: RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent

Back in May, the deal had 2 assets default, which caused it to fail. We tried some things, and it never passed anything I ran. Next thing I know, I'm told that because it had gone effective already, it was surveillance's responsibility, and I never heard about it again. Anyway, because of that, I never created a new monitor.

-----Original Message-----
From: Mooney, Shannon
Sent: Tuesday, August 07, 2007 9:53 AM
To: Loken, Andrew
Subject: FW: Fw: S&P CDO Monitor Kodiak CDO I: Urgent
Importance: High

Do you have final docs for Kodiak CDO I? Email below is claiming that the note balance in the monitor is incorrect. Yay monitors...

Thanks,

Shannon Mooney
Ratings Analyst, Global CDO Group
Structured Finance Ratings

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: 212-438-7447
Fax: 212-438-2650
shannon_mooney@standardandpoors.com

-----Original Message-----
From: Keisha.M.Gray@BANKOFNY.COM [mailto:Keisha.M.Gray@BANKOFNY.COM]
Sent: Monday, August 06, 2007 1:33 PM
To: Mooney, Shannon
Subject: RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent
Importance: High

Shannon,
We are receiving a fail on the Class H notes for Kodiak CDO I. I just want to verify with you that the monitor is calculating accurately.

Here is the asset file.

The monitor is still pulling in the wrong par for the Class A-1 notes, the accurate par is 306,625,000.

(See attached file: Kodiak I assets 080107.xls)

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223
(F) 713-483-6660
keisha.m.gray@bankofny.com

Shannon, is this the new input file that calculates with the correct par? If so, then it is still showing the A-1 par as $293MM when it is actually 306,625,000.

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223
(F) 713-483-6660
keisha.m.gray@bankofny.com

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"Mooney, Shannon"

<shannon_mooney@standardan To: <Ying.H.Zhang@BANKOFNY.COM>, "Loken,
Andrew"

dpoors.com> <andrew_loken@standardandpoors.com>

cc: <Keisha.M.Gray@BANKOFNY.COM>,
<S&P.Model@bankofny.com>

05/09/2007 02:11 PM Subject: RE: Fw: S&P CDO Monitor Kodiak CDO I:
Urgent

Please see attached.

Regards,
Shannon Mooney
Ratings Analyst, Global CDO Group
Structured Finance Ratings

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: 212-438-7447
Fax: 212-438-2650
shannon_mooney@standardandpoors.com

-----Original Message-----
From: Ying.H.Zhang@BANKOFNY.COM [mailto:Ying.H.Zhang@BANKOFNY.COM]
Sent: Thursday, May 03, 2007 10:22 AM
To: Loken, Andrew; CDOmonitor@sandp.com; Mooney, Shannon; Cheng, Lois; cdoeffectivedateportfolios@sandp.com
Cc: Keisha.M.Gray@BANKOFNY.COM; S&P.Model@bankofny.com
Subject: Re: Fw: S&P CDO Monitor Kodiak CDO I: Urgent

Attached is the S&P CDO Monitor Detail Report for Kodiak CDO I. The payment of this deal will be end of this week.

Please provide us with the S&P Monitor ASAP, and please let me if you have question.

Thanks,

Ying Zhang
The Bank of New York, N.A.
Global Corporation Trust

Tel: 713-483-6202
Email: Ying.H.Zhang@bankofny.com

Keisha M. Gray

To: Ying H.
Zhang/TX/DOMESTIC/BNY@BNY
05/03/2007 09:18 cc:

AM Subject: Fw: S&P CDO

Monitor Kodiak CDO I: Urgent

Thanks, Ying.

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223
(F) 713-483-6660
keisha.m.gray@bankofny.com

----- Forwarded by Keisha M. Gray/TX/DOMESTIC/BNY on 05/03/2007 09:17 AM

Keisha M. Gray

To: Alan B.
Rubino/TX/DOMESTIC/BNY@BNY
04/16/2007 04:31 cc:

PM Subject: S&P CDO Monitor
Kodiak CDO I

Hi Alan,
Please request an input file for Kodiak CDO I.

(See attached file: KODIAK CDO I_SP CDO Monitor Asset Information.xls)

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223

(F) 713-483-6660
keisha.m.gray@bankofny.com

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(See attached file: utKodiak CDO I, Ltd.InputFile1.0.1.zip)

Kodiak CDO I, Ltd.

Moody's Org ID: **400044439**

Closing Date: **19 Sep 2006**
Current Total Deal Size(Mil): **759.0**
Pay Frequency: **Quarterly**

Market Segment: **Structured Finance**
Collateral Type: **CDO - Trust Preferred CDO**
Location of Assets: **UNITED STATES**

Collateral Manager: **Kodiak CDO Management LLC**
Trustee: **JPMorgan Chase Bank, National Association**
Underwriter: **Barclays Capital**

Research | **Ratings** | **Related Parties**

Deal Research | Asset Class Research | Methodology

Results 1 - 4 of 4 — Page 1 of 1

Date	Document Type	Title
09 Apr 2009	Rating Action	Moody's downgrades TRUP CDOs exposed to REITs
24 Apr 2008	Rating Action	Moody's downgrades Notes issued by 11 REIT-related CDOs
30 Nov 2007	Announcement	Moody's puts or leaves on review for downgrade Notes issued by 11 REIT-related CDOs
28 Sep 2006	Rating Action	Moody's assigns ratings to notes issued by Kodiak CDO I, Ltd.

Results 1 - 4 of 4 — Page 1 of 1

Permanent Subcommittee on Investigations
EXHIBIT #96b

Credit Ratings:
Kodiak CDO I, Ltd.
US$774.7 mil Kodiak CDO I, Ltd.

This Export copy displays all available data for the selected tab(s), including filtered data that may not currently appear on the screen.

Last Updated: 18-Apr-2010 17:14:10 EST

	Type	Rating Date	Rating Action	Rating	CreditWatch/Outlook	CreditWatch/Outlook Date
Tranche: A-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	A+	Watch Neg	17-Sep-2009
Tranche: A-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	A+	NM	02-Apr-2009
Tranche: A-1	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AAA	Watch Neg	16-Jul-2008
Tranche: A-1	Local Long-Term	02-Oct-2006	New Rating	AAA		
Tranche: A-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	BB	Watch Neg	17-Sep-2009
Tranche: A-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	BB	NM	02-Apr-2009
Tranche: A-2	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AAA	Watch Neg	16-Jul-2008
Tranche: A-2	Local Long-Term	02-Oct-2006	New Rating	AAA		
Tranche: B	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	B-	Watch Neg	17-Sep-2009
Tranche: B	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	B-	NM	02-Apr-2009
Tranche: B	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA	Watch Neg	16-Jul-2008
Tranche: B	Local Long-Term	02-Oct-2006	New Rating	AA		
Tranche: C	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC	Watch Neg	17-Sep-2009
Tranche: C	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC	NM	02-Apr-2009
Tranche: C	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA	Watch Neg	16-Jul-2008
Tranche: C	Local Long-Term	02-Oct-2006	New Rating	AA		
Tranche: D-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC-	Watch Neg	17-Sep-2009
Tranche: D-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC-	NM	02-Apr-2009
Tranche: D-1	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA-	Watch Neg	30-Apr-2008
Tranche: D-1	Local Long-Term	02-Oct-2006	New Rating	AA-		
Tranche: D-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC-	Watch Neg	17-Sep-2009
Tranche: D-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC-	NM	02-Apr-2009
Tranche: D-2	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA-	Watch Neg	30-Apr-2008
Tranche: D-2	Local Long-Term	02-Oct-2006	New Rating	AA-		
Tranche: D-3	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC-	Watch Neg	17-Sep-2009
Tranche: D-3	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC-	NM	02-Apr-2009
Tranche: D-3	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA-	Watch Neg	30-Apr-2008
Tranche: D-3	Local Long-Term	02-Oct-2006	New Rating Downgrade,	AA-		
Tranche: E-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CC	NM	02-Apr-2009

Permanent Subcommittee on Investigations
EXHIBIT #96c

Tranche: E-1	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	A-	Watch Neg	30-Apr-2008
Tranche: E-1	Local Long-Term	13-Sep-2007	Downgrade	A-	NM	13-Sep-2007
Tranche: E-1	Local Long-Term	02-Oct-2006	New Rating	A		
Tranche: E-2	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: E-2	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	A-	Watch Neg	30-Apr-2008
Tranche: E-2	Local Long-Term	13-Sep-2007	Downgrade	A-	NM	13-Sep-2007
Tranche: E-2	Local Long-Term	02-Oct-2006	New Rating	A		
Tranche: F	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: F	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	BBB	Watch Neg	30-Apr-2008
Tranche: F	Local Long-Term	13-Sep-2007	Downgrade	BBB	NM	13-Sep-2007
Tranche: F	Local Long-Term	02-Oct-2006	New Rating	BBB+		
Tranche: G	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: G	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	B+	Watch Neg	30-Apr-2008
Tranche: G	Local Long-Term	13-Sep-2007	Downgrade, CreditWatch/Outlook	B+	NM	13-Sep-2007
Tranche: G	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	BBB	Watch Neg	09-Aug-2007
Tranche: G	Local Long-Term	02-Oct-2006	New Rating	BBB		
Tranche: H	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: H	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	CCC	Watch Neg	30-Apr-2008
Tranche: H	Local Long-Term	13-Sep-2007	Downgrade, CreditWatch/Outlook	CCC	NM	13-Sep-2007
Tranche: H	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	BB+	Watch Neg	09-Aug-2007
Tranche: H	Local Long-Term	02-Oct-2006	New Rating	BB+		
Tranche: Income	Local Long-Term	02-Oct-2006	Not Rated	NR		

Moody's Investors Service

99 Church Street
New York, New York 10007

January 30, 2006

James Mark, First Vice President
Washington Mutual Commercial Capital Markets
1201 Fifth Avenue -13th Floor
Seattle, WA 98101

Dear Mr. Mark,

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-WL3**
ASSET-BACKED CERTIFICATES, SERIES 2006 WL3

Moody's Investors Service has assigned the following ratings to the certificates issued in the above-referenced transaction:

Class I-A, rated Aaa
Class II-A1, rated Aaa
Class II-A2, rated Aaa
Class II-A3, rated Aaa
Class II-A4, rated Aaa
Class M-1, rated Aa1
Class M-2, rated Aa2
Class M-3, rated Aa3
Class M-4, rated A1
Class M-5, rated A2
Class M-6, rated A3
Class M-7, rated Baa1
Class M-8, rated Baa2
Class M-9, rated Baa3
Class B-1, rated Ba1

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

- 00056 - 500040627

Permanent Subcommittee on Investigations
EXHIBIT #97a

Moody's Investors Service

April 6, 2006

99 Church Street
New York, New York 10007

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-3**
ASSET-BACKED CERTIFICATES, SERIES 2006-3

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the notes issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
B	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

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Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 4 - 00003 - 500042088

Moody's Investors Service

May 9, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

99 Church Street
New York, New York 10007

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-4**
ASSET-BACKED CERTIFICATES, SERIES 2006-4

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the notes issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 5 - 00008 - 500042970

Moody's Investors Service

May 10, 2006

99 Church Street
New York, New York 10007

James Mark
First Vice President
Washington Mutual Commercial Capital Markets
1201 Third Avenue, WMT1041
Seattle, WA 98101

Dear Mr. Mark,

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-A**
ASSET-BACKED CERTIFICATES, SERIES 2006-A

Moody's Investors Service has assigned the following ratings to the certificates issued in the above-referenced transaction:

		Rating
Class	A-1	Aaa
Class	A-2	Aaa
Class	A-3	Aaa
Class	M-1	Aa2
Class	M-2	Aa3
Class	M-3	A2
Class	M-4	A3
Class	M-5	Baa1
Class	M-6	Baa2
Class	M-7	Baa3
Class	B-1	Ba1
Class	B-2	Ba2

Moody's will publicly disseminate the assigned ratings as well as any revisions therein or withdrawals, through normal print and electronic media and in response to requests to Moody's rating desk. Moody's may publish information relating to the transaction including information on the underlying collateral/assets. The ratings are not recommendations to buy, sell or hold securities. The ratings may be changed at any time without notice. The ratings are subject to our receipt of final, signed documents and legal opinions, as previously agreed, within 30 days of the closing of the deal.

RMBS - 2006 - 5 - 00014 - 500043121

Moody's Investors Service

99 Church Street
New York, New York 10007

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Debash Chatterjee

Debash Chatterjee
VP/ Senior Analyst

RMBS - 2006 - 5 - 00014 - 500043121

Moody's Investors Service

99 Church Street
New York, New York 10007

June 15, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-5**
ASSET-BACKED CERTIFICATES, SERIES 2006-5

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the notes issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
B-1	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 6 - 00016 - 500043858

Moody's Investors Service

99 Church Street
New York, New York 10007

July 26, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-6**
ASSET-BACKED CERTIFICATES, SERIES 2006-6

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 7 - 00032 - 500045417

Moody's Investors Service

August 30, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-7**
ASSET-BACKED CERTIFICATES, SERIES 2006-7

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 8 - 00077 - 500046047

Moody's Investors Service

September 21, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-8**
ASSET-BACKED CERTIFICATES, SERIES 2006-8

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 9 - 00034 - 500046720

Moody's Investors Service

October 12, 2006

Mr. James Mark, First Vice President
Washington Mutual Bank
1301 Second Avenue, 15th Floor
Seattle, WA 98101

99 Church Street
New York, New York 10007

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-9
ASSET-BACKED CERTIFICATES, SERIES 2006-9**

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
B	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 10 - 00177 - 500047751

Moody's Corporation

99 Church Street
New York, New York 10007

November 6, 2006

Mr. Thomas G. Lehmann
Washington Mutual Mortgage Securities Corp.
1301 Second Avenue, WMC 1501
Seattle, WA 98101

Re: **Long Beach Mortgage Loan Trust 2006-10**
Asset-Backed Certificates, Series 2006-10

Dear Mr. Lehmann:

Moody's Investors Service has assigned the following ratings in connection with the above-referenced transaction:

Class	Amount	Rating	Class	Amount	Rating
I-A	$ 288,380,000	Aaa	M-4	$ 16,635,000	A1
II-A1	212,803,000	Aaa	M-5	16,131,000	A2
II-A2	95,210,000	Aaa	M-6	15,123,000	A3
II-A3	157,760,000	Aaa	M-7	14,115,000	Baa1
II-A4	54,928,000	Aaa	M-8	8,570,000	Baa2
M-1	32,262,000	Aa1	M-9	8,066,000	Baa3
M-2	30,750,000	Aa2	M-10	6,049,000	Ba1
M-3	18,652,000	Aa3	B	10,082,000	Ba2

These ratings are subject to Moody's receipt of all final, fully-executed documents, mortgage loan lists, appropriate legal opinions, and officers' certificates, executed as previously agreed. The ratings so assigned, as well as any revisions therein or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's ratings desk. Moody's may publish information relating to the transaction including information on the underlying collateral/assets. Please send information necessary to monitor this rating on a monthly basis to:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street
New York, NY 10007
(212) 298-7139 (fax)
ServicerReports@moodys.com

Thank you for using Moody's.

Sincerely,

Ketut Ariadi Kusuma
Associate Analyst

RMBS - 2006 - 11 - 00016 - 809968839

Moody's Corporation

99 Church Street
New York, New York 10007

December 14, 2006

Mr. Thomas G. Lehmann
Washington Mutual Bank
1301 Second Avenue, WMC 1501
Seattle, WA 98101

**Re: Long Beach Mortgage Loan Trust 2006-11
Asset-Backed Certificates, Series 2006-11**

Dear Mr. Lehmann:

Moody's Investors Service has assigned the following ratings in connection with the above-referenced transaction:

Class	Amount	Rating	Class	Amount	Rating
I-A	$ 408,047,000	Aaa	M-4	$ 24,750,000	A1
II-A-1	332,114,000	Aaa	M-5	23,250,000	A2
II-A-2	136,392,000	Aaa	M-6	22,500,000	A3
II-A-3	243,208,000	Aaa	M-7	19,500,000	Baa1
II-A-4	91,489,000	Aaa	M-8	11,250,000	Baa2
M-1	48,750,000	Aa1	M-9	12,000,000	Baa3
M-2	44,250,000	Aa2	B-1	8,250,000	Ba1
M-3	27,750,000	Aa3	B-2	15,000,000	Ba2

These ratings are subject to Moody's receipt of all final, fully-executed documents, mortgage loan lists, appropriate legal opinions, and officers' certificates, executed as previously agreed. The ratings so assigned, as well as any revisions therein or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's ratings desk. Moody's may publish information relating to the transaction including information on the underlying collateral/assets. Please send information necessary to monitor this rating on a monthly basis to:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street
New York, NY 10007
(212) 298-7139 (fax)
ServicerReports@moodys.com

Thank you for using Moody's.

Sincerely,

Ketut Ariadi Kusuma
Associate Analyst

RMBS - 2006 - 12 - 00039 - 815048870

2006 Transaction Statistics

	2006-1	2006-2	2006-3	2006-4	2006-5	2006-6	2006-7	2006-8	2006-9	2006-10	2006-11
Issue Date	Feb 7, 2006	Mar 7, 2006	Apr 6, 2006	May 9, 2006	Jun 15, 2006	Jul 26, 2006	Aug 30, 2006	Sep 21, 2006	Oct 12, 2006	Nov 9, 2006	Dec 14, 2006
Aggregate Pool Size (billions)	$ 2.50	$ 3.00	$ 1.74	$ 1.92	$ 1.93	$ 1.69	$ 1.60	$ 1.38	$ 1.52	$ 1.01	$ 1.50
Average Loan Size	$ 221,218	$ 203,813	$ 213,779	$ 194,309	$ 200,960	$ 212,127	$ 212,882	$ 214,186	$ 217,404	$ 215,152	$ 235,110
Weighted Average Coupon	8.25%	8.54%	8.51%	8.55%	8.60%	8.39%	8.39%	8.46%	8.58%	8.47%	8.20%
ARM Gross Margin	5.11%	5.10%	5.10%	5.10%	5.10%	5.10%	5.09%	5.11%	5.10%	5.11%	5.11%
FICO	633	632	634	635	631	639	636	639	639	635	639
FICO < 600	26.7%	25.7%	23.0%	20.0%	23.1%	18.7%	18.8%	18.7%	18.9%	21.2%	21.1%
Original Loan to Value Ratio	79.7%	80.9%	80.7%	80.8%	80.9%	80.9%	80.8%	81.2%	81.8%	81.7%	81.3%
Combined Loan to Value Ratio	90.7%	90.8%	90.6%	92.4%	89.2%	90.2%	89.7%	89.8%	89.9%	88.9%	87.7%
Debt to Income Ratio	41.6%	41.7%	41.4%	41.7%	41.0%	41.5%	41.5%	39.4%	39.5%	39.6%	39.3%
1st Liens	100.0% 633	96.3% 631	96.0% 633	95.0% 633	95.0% 630	95.0% 638	94.6% 637	94.0% 638	93.8% 637	93.8% 634	93.8% 633
2nd Liens	0.0% na	3.7% 659	4.0% 661	5.0% 660	5.0% 657	5.0% 658	5.4% 655	6.0% 658	6.3% 658	6.2% 655	6.3% 659
1sts Liens with 2nd Liens (Total	58.4% 653	52.5% 654	53.1% na	61.1% 650	44.1% 651	48.3% 657	46.2% 657	44.7% 657	41.8% 657	37.3% 654	32.9% 657
1sts Liens with 2nd Liens (% of	58.4% 653	54.5% 654	55.4% na	64.3% 650	46.4% 651	50.9% 657	48.9% 657	47.6% 657	44.5% 657	39.6% 654	35.1% 657
Adjustable Rate Mortgages	91.3% 633	88.1% 632	87.3% 633	85.9% 634	82.8% 630	83.9% 638	83.9% 636	82.6% 636	81.9% 636	78.8% 631	75.9% 634
Fixed Rate Mortgages	8.7% 628	11.9% 632	12.7% 638	14.1% 639	17.3% 637	16.2% 643	16.1% 646	17.4% 655	18.2% 653	21.2% 652	24.2% 657
Loans with Prepay Penalties	67.8% 633	66.1% 632	67.9% 634	67.3% 636	67.9% 631	71.7% 640	69.1% 640	75.1% 640	74.9% 641	75.5% 637	79.5% 640
Interest Only Loans	7.6% 674	8.5% 667	8.1% 664	7.1% 662	7.3% 668	6.4% 669	6.3% 666	7.5% 666	8.3% 671	8.5% 659	9.8% 665
40 Year Amortization	44.6% 648	45.0% 645	44.9% 649	41.7% 652	45.0% 640	52.8% 647	52.1% 646	46.3% 648	49.3% 646	43.9% 640	49.9% 642
Full Documentation	46.3% 610	45.6% 609	42.6% 612	44.0% 614	48.7% 617	51.0% 624	53.5% 626	52.3% 629	52.5% 626	57.7% 628	60.3% 632
Stated Income	49.2% 655	52.5% 652	53.6% 653	52.4% 652	46.8% 648	44.2% 656	41.4% 653	41.9% 654	42.1% 653	38.3% 649	34.9% 662
Limited Documentation	4.6% 616	3.9% 616	3.8% 614	3.7% 629	4.6% 621	4.8% 634	5.0% 632	5.8% 629	5.5% 631	4.0% 630	4.9% 630
Owner Occupied	89.6% 631	89.1% 630	88.7% 632	90.6% 634	89.2% 628	91.4% 636	91.4% 636	91.1% 637	89.7% 636	90.5% 632	91.4% 636
Non-owner Occupied	9.1% 649	9.6% 646	9.8% 649	8.6% 646	9.2% 660	7.4% 665	7.1% 665	7.5% 669	8.5% 665	7.9% 662	7.3% 670
2nd Home	1.3% 641	1.3% 650	1.5% 642	0.8% 644	1.6% 645	1.2% 643	1.4% 641	1.4% 650	1.8% 638	1.7% 660	1.3% 649
Purchase	63.2% 649	61.9% 650	60.7% 652	68.3% 649	56.6% 647	56.2% 654	52.3% 656	51.7% 657	49.5% 656	46.0% 654	40.1% 657
Cashout	33.2% 604	34.2% 603	35.5% 606	28.6% 605	39.7% 611	39.4% 619	43.9% 619	41.3% 619	42.0% 619	45.8% 617	52.3% 625
Rate/Term Refi	3.7% 607	3.6% 602	3.9% 613	3.1% 602	3.6% 609	4.4% 617	3.8% 611	6.9% 631	8.5% 640	8.2% 632	7.6% 639
California	39.9% 644	39.8% 643	41.4% 645	38.2% 647	38.2% 641	41.8% 648	39.5% 648	39.6% 645	40.1% 647	35.9% 645	45.5% 649
Florida	8.2% 629	7.5% 632	8.7% 626	9.1% 636	9.8% 628	10.4% 636	11.6% 633	11.8% 635	9.6% 639	10.3% 630	7.1% 627
Illinois	6.7% 639	5.5% 633	4.6% 639	6.5% 632	4.7% 632	4.0% 645	4.8% 636	2.9% 639	4.5% 641	3.5% 632	3.3% 639
Texas	4.8% 610	4.5% 617	4.2% 613	5.3% 623	5.5% 620	5.1% 624	5.2% 629	4.8% 631	4.6% 630	4.9% 637	3.8% 624

Washington Mutual

Permanent Subcommittee on Investigations
EXHIBIT #97b

Long Beach Mortgage Loan Trust 2006-4

Moody's Org ID:**400042970**

Closing Date:**09 May 2006**
Current Total Deal Size(Mil):**669.0**
Pay Frequency:**Monthly**

Market Segment:**Structured Finance**
Collateral Type:**HEL - Closed-End - Not High LTV**
Location of Assets:**UNITED STATES**

Trustee:**Deutsche Bank National Trust Company**
Primary Servicer:**Washington Mutual Bank**
Underwriter:**Lehman Brothers Inc., WaMu Capital**

Debt ID	Tranche	Rating Description	Current Rating	Watch Status	Last Rating Action	Rating Date	Face Amount(Mil) Original	Current	Maturity	Currency
CUS:54251MAS3	Cl. B	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	19	0	25 May 2036	USD
MDY:809478281	Cl. C	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	33	0	25 May 2036	USD
CUS:54251MAA2	Cl. I-A	PASS-THRU CTFS	Caa2	Possible Downgrade	Downgrade	20 Mar 2009	787	316	25 May 2036	USD
CUS:54251MAB0	Cl. II-A1	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Jun 2008	325	0	25 May 2036	USD
CUS:54251MAC8	Cl. II-A2	PASS-THRU CTFS	A2	Possible Downgrade	Downgrade	20 Mar 2009	130	1	25 May 2036	USD
CUS:54251MAD6	Cl. II-A3	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	213	214	25 May 2036	USD
CUS:54251MAE4	Cl. II-A4	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	56	57	25 May 2036	USD
CUS:54251MAF1	Cl. M-1	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	66	40	25 May 2036	USD
CUS:54251MAQ7	Cl. M-10	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Jul 2008	13	0	25 May 2036	USD
CUS:54251MAR5	Cl. M-11	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 May 2008	19	0	25 May 2036	USD
CUS:54251MAG9	Cl. M-2	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	59	0	25 May 2036	USD
CUS:54251MAH7	Cl. M-3	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	37	0	25 May 2036	USD
CUS:54251MAJ3	Cl. M-4	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	31	0	25 May 2036	USD
CUS:54251MAK0	Cl. M-5	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	33	0	25 May 2036	USD
CUS:54251MAL8	Cl. M-6	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	28	0	25 May 2036	USD
CUS:54251MAM6	Cl. M-7	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Oct 2008	25	0	25 May 2036	USD
CUS:54251MAN4	Cl. M-8	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	22	0	25 May 2036	USD
CUS:54251MAP9	Cl. M-9	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Aug 2008	17	0	25 May 2036	USD
MDY:809478286	Cl. P	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	1.0E-4	25 May 2036	USD

Permanent Subcommittee on Investigations
EXHIBIT #97c

MDY:809478247	Cl. R	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	0	25 May 2036	USD
MDY:809478252	Cl. R-CX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	0	25 May 2036	USD
MDY:809478277	Cl. R-PX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	0	25 May 2036	USD

Long Beach Mortgage Loan Trust 2006-10

Moody's Org ID:**709968839**

Closing Date:**09 Nov 2006**
Current Total Deal Size(Mil):**532.0**
Pay Frequency:**Monthly**

Market Segment:**Structured Finance**
Collateral Type:**HEL - Closed-End - Not High LTV**
Location of Assets:**UNITED STATES**

Trustee:Deutsche Bank National Trust Company
Primary Servicer:Washington Mutual Bank
Underwriter:**Lehman Brothers Inc., WaMu Capital**

Debt ID	Tranche	Rating Description	Current Rating	Watch Status	Last Rating Action	Rating Date	Face Amount(Mil) Original	Current	Maturity	Currency
CUS:54251YAR9	Cl. B	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Aug 2008	10	0	25 Nov 2036	USD
MDY:814997773	Cl. C	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	22	0	25 Nov 2036	USD
CUS:54251YAA6	Cl. I-A	PASS-THRU CTFS	Caa2	Possible Downgrade	Downgrade	20 Mar 2009	288	173	25 Nov 2036	USD
CUS:54251YAB4	Cl. II-A1	PASS-THRU CTFS	A2	Possible Downgrade	Downgrade	20 Mar 2009	212	0	25 Nov 2036	USD
CUS:54251YAC2	Cl. II-A2	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	95	86	25 Nov 2036	USD
CUS:54251YAD0	Cl. II-A3	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	157	158	25 Nov 2036	USD
CUS:54251YAE8	Cl. II-A4	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	54	55	25 Nov 2036	USD
CUS:54251YAF5	Cl. M-1	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	32	30	25 Nov 2036	USD
CUS:54251YAQ1	Cl. M-10	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	6	0	25 Nov 2036	USD
CUS:54251YAG3	Cl. M-2	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	30	0	25 Nov 2036	USD
CUS:54251YAH1	Cl. M-3	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	18	0	25 Nov 2036	USD
CUS:54251YAJ7	Cl. M-4	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	16	0	25 Nov 2036	USD
CUS:54251YAK4	Cl. M-5	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	16	0	25 Nov 2036	USD
CUS:54251YAL2	Cl. M-6	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	15	0	25 Nov 2036	USD
CUS:54251YAM0	Cl. M-7	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	14	0	25 Nov 2036	USD
CUS:54251YAN8	Cl. M-8	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	8	0	25 Nov 2036	USD
CUS:54251YAP3	Cl. M-9	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	8	0	25 Nov 2036	USD
MDY:814997774	Cl. P	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	1.0E-4	25 Nov 2036	USD
MDY:814997775	Cl. R	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	0	25 Nov 2036	USD

MDY:814997776	Cl. R-CX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	0	25 Nov 2036	USD
MDY:814997777	Cl. R-PX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	0	25 Nov 2036	USD

Long Beach Mortgage Loan Trust 2006-11

Moody's Org ID:**715048870**

Closing Date:**14 Dec 2006**
Current Total Deal Size(Mil):**793.0**
Pay Frequency:**Monthly**

Market Segment:**Structured Finance**
Collateral Type:**HEL - Closed-End - Not High LTV**
Location of Assets:**UNITED STATES**

Trustee:**Deutsche Bank National Trust Company**
Primary Servicer:**Washington Mutual Bank**
Underwriter:**Goldman Sachs & Co.**, **WaMu Capital**

Debt ID	Tranche	Rating Description	Current Rating	Watch Status	Last Rating Action	Rating Date	Face Amount(Mil) Original	Current	Maturity	Currency
CUS:542512AQ1	Cl. B-1	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Aug 2008	8	0	25 Dec 2036	USD
CUS:542512AR9	Cl. B-2	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Jul 2008	15	0	25 Dec 2036	USD
MDY:815088823	Cl. C	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	31	0	25 Dec 2036	USD
CUS:542512AA6	Cl. I-A	PASS-THRU CTFS	Caa2	Possible Downgrade	Downgrade	20 Mar 2009	408	250	25 Dec 2036	USD
CUS:542512AB4	Cl. II-A1	PASS-THRU CTFS	Ba3	Possible Downgrade	Downgrade	20 Mar 2009	332	15	25 Dec 2036	USD
CUS:542512AC2	Cl. II-A2	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	136	136	25 Dec 2036	USD
CUS:542512AD0	Cl. II-A3	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	243	243	25 Dec 2036	USD
CUS:542512AE8	Cl. II-A4	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	91	91	25 Dec 2036	USD
CUS:542512AF5	Cl. M-1	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	48	29	25 Dec 2036	USD
CUS:542512AG3	Cl. M-2	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	44	0	25 Dec 2036	USD
CUS:542512AH1	Cl. M-3	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	27	0	25 Dec 2036	USD
CUS:542512AJ7	Cl. M-4	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	24	0	25 Dec 2036	USD
CUS:542512AK4	Cl. M-5	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	23	0	25 Dec 2036	USD
CUS:542512AL2	Cl. M-6	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	22	0	25 Dec 2036	USD
CUS:542512AM0	Cl. M-7	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	19	0	25 Dec 2036	USD
CUS:542512AN8	Cl. M-8	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	17 Oct 2008	11	0	25 Dec 2036	USD
CUS:542512AP3	Cl. M-9	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	12	0	25 Dec 2036	USD
MDY:815088819	Cl. P	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	1.0E-4	25 Dec 2036	USD
MDY:815088820	Cl. R	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	0	25 Dec 2036	USD

MDY:815088821	Cl. R-CX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	0	25 Dec 2036	USD
MDY:815088822	Cl. R-PX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	0	25 Dec 2036	USD

From:	Collins, Dana [redacted]
Sent:	Tuesday, September 11, 2007 10:16 PM (GMT)
To:	McDaniel, Raymond [redacted] Clarkson, Brian [redacted] Mahoney, Christopher [redacted] Kimball, Andrew [redacted] Westlake, Lisa [redacted] Huber, Linda [redacted] Kriegler, Andrew J. [redacted] Almeida, Mark [redacted] Rotella, Perry [redacted] Kimon, Noel [redacted] Robinson, Claire [redacted] Dering, Jeanne [redacted] Laserson, Fran [redacted] Mirenda, Anthony (Tony) [redacted]
Subject:	MD Town Hall Meeting Survey Results
Attach:	886543f-att.doc;MD Town Hall Feedback - 9-07.doc

All,

To date, 31 participants have responded to our survey requesting feedback on yesterday's MD Town Hall Meeting (a roughly 30% response rate).

Some quick stats:

- 77% of respondents said that the meeting addressed the topics of greatest concern
- 94% of respondents found the answers during the Q&A either informative or extremely informative

Attached is a transcript from the meeting. Also attached is a document called **MD Town Hall Feedback - 9-07.doc** which summarizes the write-in comments related to these questions:

- Did you have questions following the meeting? If so, what are they?
- What topics discussed did you find most important to your area of the business?
- What else would you like management to address at Friday's company-wide Town Hall Meeting?
- How do you plan to relay the information from the meeting to your team?

You may also access these results by clicking this link:
[redacted]

Please let me know if you have any questions about this information.

Thanks,
Dana

Final Transcript

MOODY'S INVESTORS SERVICE: Managing Director's Town Hall Meeting

September 10, 2007/9:00 a.m. EDT

PRESENTATION

(Poor audio made transcription difficult.)

Raymond	First of all, thank you all for joining this morning. The purpose of this town hall, there are actually a couple of purposes, but we wanted to have a meeting with the management team specifically so that we can speak as candidly as possible about what's going on in the subprime market, with the structured finance market, with our own business, and our role and position around that. I'm certainly happy to talk about what we are doing at Moody's in terms of trying to control messages, the messages we're trying to communicate, and then also talk about some of the broader themes and concerns and anxieties that are going on in the marketplace itself, sort of a roundup. So we can talk at a Moody's specific level and at a market level both.

We do have some prepared slides that we'll probably depart from these as we go along because there are a number of messages that we just frankly didn't want to write down. If you have questions, certainly with this group, raise your hand. I'm happy to take questions as we go along. We'll also do some Q&A at the end, so if you have questions that you want to save, that's fine as well.

I'm going to kick this off with a couple of comments and then turn it over to Brian. But there are really a couple of themes that I think are probably most on your mind and you will, I'm sure, inform me if there are additional issues.

First of all, in terms of some principals that we're trying to follow, proactively participate in the discussion around what's going on in subprime and this broader credit crunch. An important part of what we have to do at this point is educate markets about what the ratings do and don't do. Now I'm sure you've all seen literally almost on a daily basis various critiques, criticism, observations about the credit rating agencies, how we do what we're doing, whether we're doing a good job or a bad job.

And it has frankly been difficult for us to control a lot of that messaging. We have had extensive outreach to the media, both the print and electronic media. I think we've had very good success with our experts, people like John Lanski and Mark Zandy. Chris Mahoney has been on at least the radio several times. I don't know if he's been invited to be on TV, but I think we've had very good outreach with our technical experts.

We've frankly been somewhat less successful in controlling messages about Moody's and getting our point of view into the marketplace, and it's not for lack of trying. We have reached out to all of the significant media: *New York Times*, *FT*, *Wall Street Journal*, *Bloomberg*, *Reuters*, etc.

And right now, the message that we are communicating about, one, the fact that we are independent and, two, that we are competent. It's not a message they really want to hear. It's not the editorial theme that they want to pursue. These stories are being written, in my opinion, largely around the facts, and we are having trouble getting some balanced commentary into the marketplace. That's the bad news.

The good news is, at a one-on-one level with regulatory authorities, with staffers and senate and house, I think we've had much, much better success. The regulatory meetings that I participated in last week in Europe went well. They were not hostile. They were not accusatory. The regulators were very much interested in our thoughts about solutions and looking for market based solutions. And warning us that one of the biggest challenges we face is whether or not this becomes a more purely political issue.

And cautioning us saying, we need you, Moody's, we need you, the ratings industry, to come up with your own solution, your own credible answers to solving what's going on in the subprime market and with the credit crunch because, if you don't, then it's going to move into the political sphere, and there's going to be blunt instrument kind of reactions. Overreaching regulation becomes or legislation becomes a risk. And the regulators were saying, frankly we'd rather you come up with a solution because it's going to be better than what the politicians can come up with. And in effect, inviting us to give them the tools to help respond to a lot of the accusations that are going on.

So among the things that we are doing is preparing a fairly detailed set of analysis or diagnosis of the current situation in a frequently asked questions format that will be made available for the regulatory authorities, particularly the Fenway Regulatory Authorities, and allow them to help us with the political side of this equation. So I think that's the more effective outreach that we have been doing to date, and a lot of what you're seeing in the paper is the side of this that has been the less effective outreach.

Now why has it been less effective? Well, Brian will give you probably a ten-minute harangue on why it's been less effective. He's thought about this much more deeply than I have. But I think, at a summary level, we have a number of either natural forces or situational forces that are not operating in our favor.

First of all, we are an umpire in the market, and umpires, at best, are not favored. They're considered a necessary evil to the game. Secondly, we are really not a very large or powerful industry. Moody's is a profitable company. It's a lucrative business, but it's not a large business, and the ratings industry is not a large industry. And there are forces around us that have motivation to find someone to blame. And so part of who is to blame can be attributed to who can we get away with blaming and where are the more powerful and less powerful players in the marketplace.

Why do folks need to blame someone? Well, if you're a hedge fund, for example, taking 2 and 20, and you're under-performing the S&P 500, you have to have some reason for explaining to people who have given you lots and lots of money why it was a bad idea that they gave you that money. You an either say, well, I wasn't very good at my job, or you can say, it's somebody else's fault. That's just an example of what I think we're facing.

We also have, I think, a real challenge as far as communicating what our ratings are measuring. What they are meant to do. What our role and function in the market is oriented for, and what it isn't. You can see that much of the criticism about our rating has revolved around the rating, these high rating assignments on structured securities have failed to capture the changes in price movements. The market value of these transactions has plummeted and the rating agencies got it wrong because they assigned investment grade, in many cases high investment grade ratings.

We can talk about the fact that we are measuring credit losses and not market value losses. But it is an issue that broadly the market does not want to hear because the market doesn't have another alternative for measuring value of these illiquid opaque instruments. So they default to using ratings, even if we say it's not the best tool to use or it's not a good tool to use, even if there isn't a better … so that kind of criticism comes up.

As far as what else we can do, we've been having those discussions. I'm of the opinion right now that we are probably best off continuing to emphasize the one-on-one with the regulatory authorities, with the major buy side institutions, with the investment banks and sponsors of the transactions that we rate to help look for solutions. Without those solutions or the debate playing out … I don't think that's a particularly helpful place for the discussion to go on.

What does that mean? Frankly, I think it means we are going to continue to have negative media. The subprime price is going to play out over some period of time, at a minimum another six months or so. We are not going to be able to control the fact that lots of mortgages have to reach that. We're not going to be able to control the fact that housing prices are in decline in many areas of the country. That people overreached, which is a nice way of saying lied in their mortgage application. And that they won't be able to either refinance or sell or afford their current mortgage, so they've got some interesting problems that are not going to play out quickly.

Looking at the subprime crisis specifically, I won't go through all of this, this is a summary of what we've been communicating, again to regulatory authorities. We had historically low rates. We had very easy credit conditions for a number of years. We had official and market based support for adjustable rate mortgages. It created what I think is an overdone condition for the U.S. housing. This was a condition that was supported by U.S. public policy in favor of home ownership. And as I said, once housing prices started to fall, we got into a condition in which people can't refi, can't sell, can't afford their current mortgage. That's why this is going to play out over some period of time.

Now I'm going to stop my comments there, and I know you're going to have questions that are more particular to what's the outlook for Moody's, what are we doing about this, how are we managing expenses, how are we thinking about hiring. All of those questions, I'm happy to talk about, but I want to let Brian and then Gene, Linda, talk about some of the other aspects around the current environment situation that we're facing, and then happy to talk about some of these more specific questions related to Moody's. So let me turn it over to Brian.

Brian Thanks, Ray. A couple things: The first thing is that we're doing a big town hall on Friday. It's extremely important for each of you to understand what it is we're doing and how we're doing it because the message is only going to get out from you. I'm going to be up here as a talking head. Ray is going to be a talking head, and Linda. We'll be up here talking about things. People are going to want to know what's going on, so you have to satisfy yourselves what's going on, so ask whatever questions you want. We'll try to answer them as best we possibly can.

Ray mentioned that there are different reasons for what's going on. I'm big in this conspiracy theory, to be perfectly honest with you. Anybody watch *Conspiracy Theory*, the movie? I can't believe people actually admit that. That's really….

There's a lot to that. I was actually talking to Ray this morning about that, and last night, and Saturday. Friday, I called him from Australia. The question is – one of the questions everybody asks is why does everybody hate us so much. I mean it's clear that they do. It's clear that we're hated in the marketplace. I'm sure that people are very frustrated with respect to what it is we do. I've got a number of theories.

Certainly none of them are … short sellers, the people that are actually shorting bonds. We know that. They're trying for desired outcomes.

There's the people that are shorting Moody's … looking to sort of make money by … our stock price.

But the theory that I've come up with lately is the fact that it's perfect. It's perfect to be able to blame us for everything. Part of what Ray said is the fact that we're incredibly small. Ray actually mentioned the fact that the entire rating industry revenues for a year don't even equal one quarter's operating income for Goldman Sachs is very telling to me.

The other reason is that by blaming us, you don't have to blame anybody else. If you take a look at the players in the marketplace, the politicians can't blame the borrower because that's their constituent. The borrowers did no wrong.

The investment bankers, well, you can't blame the investment bankers. They're big. They're powerful. They know what's going on. They've got clout, and they're also regulated.

You can't blame the mortgage brokers because, if you blame the brokers, then that means the state regulators sort of were asleep at the switch, and you certainly can't blame investors. Investors should be able to get whatever yield they want, whatever rating they want with respect to that. So we're very easy in the fact that no one controls us, which, by the way, drives people insane.

Just so you know, I spend a lot of time talking to folks in the market. I had a conversation with a big hedge fund a couple weeks ago. He came in with a list of securities he wanted me to downgrade. He had a list in his hand. He said, "I want you to look at these securities because they're rated too high." I said, "How many have you shorted?" He said all of them. It's true. It's the honest to God truth.

He said, "Do you want the list?" I said, "No, I don't want the list." I'm not trying to make light of this, but at the end of the day, the good news is it's all about money. That's what it's about. Everybody is trying to control money and everybody wants to blame people.

If you invested in a hedge fund and you wound up taking it back, it's a lot easier for the hedge fund managers to say, "I relied on the rating." And we know that's not true. One of the things that we're looking to do, and I don't mean to make light of any of this, I want you to understand exactly what's going on in the market. It's all about money.

When Ray was talking about the misuse of ratings, they're doing it intentionally. Now we feel as thought there are big steps that we have to take, and I'll talk about that in just a minute, but one of the things that we're doing is … is actually working on a market value rating system or symbol we can actually use. We're fairly certain that even if we get something that works, they're not going to use it.

Bank financial strength ratings, for example. We carved that out 12, 13 years ago because we didn't feel as though the alphanumeric system we had covered that, and people don't use it. I was involved in JDA. You talked about people, I said, well do you focus on the bank financial strength ratings? No. We use the alphanumeric.

We've talked to people about the fact that the ratings only represent credit risk. It had nothing to do with market value risk whatsoever. They don't care because it's easy to rely on.

Now it's a defensive move with respect to what we're doing. We feel as though we have to have a product out there because one of the questions that the regulators ask us, okay, you're on notice now that people are misusing your rating system. What are you doing about? And so we feel like we have to be able to provide that.

Now take a step back. Ray talked a little bit about what happens. At the end of the day, I think that we did an okay job in identifying the risk, but we didn't do a very good job of measuring the magnitude. I've been saying that in private meetings. Obviously I'm not going to say that to the press, but what happened was what we did, we talked about early on how we actually sort of changed our … level with respect to subprime mortgages, 30% over three years. We saw the risk coming. We identified the risk. We just missed the magnitude.

What's happening in the credit market completely swamped everything that was done from an analytical standpoint. And three things happened:

cheap credit, a decline in housing prices, and tightening credit. The only thing that we sort of controlled a little bit was the cheap credit and sort of the underwriting standards that sort of went lack. We should have done a better job of monitoring that.

But the housing price decline and the tightening of credit completely swamped everything else. If either one of those had remained, if housing prices still went up, or if cheap credit, the tightening of underwriting standards or loosening of underwriting standards was still around, there wouldn’t have been any problem because, at the end of the day, the bad underwriting, the cheap credit, and housing prices were there in ’03, ’04, ’05. What happened was that the music stopped in ’06.

What are we doing? We’re doing what we think we should be doing, and that’s monitoring the ratings on a going forward basis. We spent a lot of time in the last few months in defensive mode. That’s defending our position, defending the ratings, defending our process, defending what the ratings mean. Now we have to sort of figure out what we’re going to do. We’ve got to get into the solutions mode.

I will tell you that we have had meetings with investors. We've had meetings with issuers. We've had meetings with intermediaries, regulators, and they all come up with the same question – What are you going to do about this? How are you going to fix it? – because they don't have any idea.

Interestingly enough, what issuers want to do, and they've told us specifically is they want us to sort of tighten things up to a point where the market still has confidence in the ratings and in the products, but don't cost us any money. That's true. You guys have been at those meetings.

What investors want is they want total transparency. They want us to impose total transparency on the marketplace. One of the things that we've found that investors – there's no sort of uniform investor anymore. We've got buy and hold investors. We've got marked to market investor, and never between shall meet.

If we talk to the regulators and what Ray said was true, they all said, "How are you going to fix it? What are you going to do?" One of the things that we have to do, while we've done a lot of things with respect to tweaking and changing our methodology and standards, we've got to be more vocal and we have to be more decisive with respect to what we're doing.

The market is looking for something very visual for us to do. They want to see something. They want to see us take bold steps to cure the problem. And just so you know, we're all working on that.

Some of the other things that we're actually doing, there's really a three-pronged process. They said, "What are you doing?" The first thing I talked about were change in methodology, and that's what we're doing. We're certainly changing methodologies. We're on notice that a lot of things that we relied on before just weren't true. The problem is, what are you going to do. At the end of the day, we relied on reps and warrantees that no loans were originated in violation of any state or federal law. We know that's a lie. If none were originated in violation of any predatory lending law, we know that's a lie. So what are you going to do about it? We can't rely on what people tell us anymore, and so we've got to figure out, do we rely on third party oversight? We have to have post-closing audits. We've got to be very public about the things that we actually see.

The second thing is what I refer to as checks and balances. Ray didn't get into this, but regulators want to know two things from the rating agency, just two. They want to make sure that we're not corrupt, and they want to make sure that we do our job as well as we can do our job. And so we have to demonstrate not just inwardly, but outwardly, those two things.

Checks and balances, what we've talked about is how we've sort of broken the company in two parts. We've got Moody's analytics. We've got the ratings business. We have our credit function that now reports up to the board of directors from the credit standpoint administratively to me, and other things that we're actually doing, making sure that MDs aren't involved in fee schedules. That analysts aren't involved in fee discussions with respect to people.

We have to be very visible with respect to the things that we're actually doing. They want to see that. They don't want us to just tell them about our code of conduct.

Then the third thing that we've been talking about are new products that actually address the risks that aren't covered in the ratings. The thing is that we have to make pretty bold strokes for people to see what we're actually doing because they don't like status quo. They want to see something that they can say, okay, I see that. I mean some of the things have been suggested, an oversight board. Shouldn't there be a rating agency oversight board independent of what the rating agencies actually do? Maybe. Maybe that's something we should consider.

I will say that some of the regulators talked about what are you doing as an industry and, frankly, not a lot. They said, we don't want a Moody's solution, just like we don't want an S&P solution or a Fitch solution. What are the rating agencies doing as an industry, because actually at the FSA in Tokyo, which, by the way, was just like testifying for two hours except for the oath, it was. They said, we want to know what the industry is doing.

Let's say that you do everything you're supposed to, but yet people just go down the street, go to your competitors. What are you going to do about that? And so what they're looking for is they're looking for a solution to things that they kind of know. Nobody knows what we do and how we do it. What they do know is they know accounting firms, and that's what they're using. They're using that as a proxy for the ratings business, but some of those things we're going to have to consider and think about on a going forward basis.

I know we've only got an hour, and I know we want to have a lot of time for questions. I'll leave you with this though is that we're in this together in that how the rest of the company actually reacts will be a direct reflection on how you actually deal…. And what I mean by that is ask whatever it is you want to ask. We'll tell you whatever it is you need to know because, at the end of the day, the analysts and the staff are going to rely a lot more on what you're telling them than what we're telling them. And so don't be shy about what it is you want to know. If you want to know about hiring freezes, we'll tell you about hiring freezes. If you want to know about expenses, you want to know what we're seeing towards the end of the year, we're going to get into that.

If there are things that we don't cover that you want to know that are going to cause people to have angst and worry about what's going on, ask the question because what I don't want to have is everybody behind closed doors talking about the stuff that we can provide answers to. You're all managers. You'll need to run this like a business, and to the extent that we can sort of belay fears and get people the information, that's what we want to. It's okay to be nervous about the stuff you know, but the stuff that you don't know that we can provide you information for, just ask the question.

I didn't do any slides, did I?

Raymond — No, but we can skip … covered the stuff … so we'll skip ahead to—

We're going to go ahead. Just in the interest of time, we're going to go ahead up to the communication update, and I think Linda is going to talk to us about that. Then quickly, both communications and the regulatory side, we will try to do quickly so we can leave time for Q&A. Linda, to you.

Linda — After Gene speaks, I'm going to come back and talk a little bit also about the investor perspective, but in terms of the communication perspective, now that's fall and everybody is back from Labor Day, we think the right thing to do is a proactive and assertive media strategy, so we're not just sitting back and taking all this stuff as it happens. We're out there. We're talking to everybody. We're highly visible, and we're working through a number of different strategies.

The first tier is focus on key strategic media. What does that mean? Who are the decision makers and who can really understand what we're trying to say? And that's not such an easy thing to do. I've had people, when I try to explain what this company does, say to me, "What's a bond?" Those people are not going to be particularly helpful in getting our message across. We have to be very careful about….

Special comments as news hooks – journalists are looking for new things to write about, and we have to make sure that we are putting out there things that are interesting and new for the media, so we have to keep working on that, and I'll talk a bit more about that as we go forward here.

Continue reacting quickly to requests for information and commentary. On Friday, we got a call from the *Wall Street Journal*, on Friday, that they were contemplating writing a story about our … what was going to be examined in some of the regulatory hearings, and they wanted to get into … compensation and average compensation. We spent a lot of time on Friday going through what are the accurate numbers for this company from our public filings to make sure that we have it right. Oftentimes we have less than an hour to turn around very complicated points of view from people who already have a position that they want to take and it has to be done quickly and it has to be done well, and I think that the team is doing a pretty good job. It's a tough road….

As we said, concentrate on … media outlets in the next few weeks … with a second push in the fall. So in other words, we're going to do one wave now. We're going to do another wave later because we think the market may have … factors, which happen in the next few weeks. So after things settle down, we'll come back and we'll do it again. And we'll continue distributing special comments and material to people so that they understand what it is we're trying to do.

What are the special comments? You see here from illiquidity to liquidity, the path towards credit market normalization, which will be published this week. Chris and Pierre worked on that. Financial innovation in its … and then how fair is the blame on rating agencies the third week. So three very proactive pieces that are well thought out that are interesting to read that actually provide something for reporters….

We're going to do an op ed. piece targeted to the *Financial Times* because it has the most sophisticated view of what's going on. We've got to make sure that's written in clear language. Having trained as a journalist, some of the things that we write are opaque. Some of the acronyms that we use are very difficult … we have to do a better job boiling down our message to something that is completely understood.

And then frequently asked questions, as Ray talked about, we're working on those to be written primarily for the regulators, and then to be used in other forums as well as kind of….

The *Financial Times*, Julian Teskin interviewed Brian this week. We're doing an op ed. contribution … column, and then we're going to have Ray and the view from the top, which is the Friday Q&A. You probably saw David O'Reilly last week … Barclays a couple weeks ago. This is a very positive CEO forum that also is videotaped and it's on the FT Web site as well.

With the *Wall Street Journal*, Serena Eng is going to interview Brian … mid September, and for the *New York Times*, which is perhaps one of the more difficult media outlets, we will continue to send special comments to Gretchen Morgenson. Again, this may be, as Woody Allen says, the triumph hope over experience that we will keep at it. And we will invite various people to talk with us on a continuing basis. And we will consider an editorial and board meeting after the earnings, which will be October 24th. So those are the things that we have underway.

We keep at it. We stay focused. We stay energetic. We stay positive. And we've just got to keep walking through this every day and we can't let any one-day's press coverage have you overreact.

Broadcast and teleconferences with the media, we need to move more effectively into TV. We are putting together a TV station in … it will be ready in mid October. That will provide us with the opportunity to have a live feed onto CNBC, Bloomberg Television, and other TV outlets. We have to think more about who is going to do that, what we're going do, how we're going to handle it, but we will have the capability to do it. Some of you have commented that the SEC is more aggressive in terms of using television…. We need to think that through a little bit more. We'll be doing that in the next few weeks.

You see here the capital markets initiative, which increased our presence on … Bloomberg, and…. We'll consider Ray and Brian for those pieces, and you have seen very effective outreach, for example CNBC on Friday

… number came out. Mark Sandy participated very effectively with the group there, and he and Don … been very effective for us….

What are we doing also in terms of running the communication function? We have put together, under my oversight … ratings communications and also corporate communications. It's very important that we're coordinating globally as to what we're all doing and we all know what each other are doing daily because it changes hour-to-hour and moment-to-moment. We are looking for a new VP of … Richard continue to do what they're doing. Their teams continue to do what they're doing, but we think we might need somebody who has clout and perhaps experience with financial services…. Some of you will be looking to interview these candidates as they come through, and we hope to get that done quickly. We have a search firm doing that now. We're getting good response, and you'll be hearing more about that.

Externally, we're doing a communications audit led by a group called Selmen & Partners. This guy is well known in the media space and in the top 25 reporters and editors. What do they think about what we're doing? What do they think would be better? How could we handle this more effectively? What's our positioning? What's our competitive positioning and so on? That's the external piece.

On the internal piece, a number of you have been surveyed about what you think about ratings communications, how is that working, how is it working globally, what could we do better. We need your input. Everybody in this room is part of the solution and have to drive what we're doing going forward. We need your help with writing things. We need your help … observations and criticism. We need to know what you're hearing, and we need to have a two-way discussion about what's going on here.

Then on the next front, Gene is leading the regulatory piece, which fits in with what we're doing in communications, putting together one overview calendar of everything that's working together, so we can see what's happening when. With that, I'll turn it over to Gene.

Gene Thanks, Linda. I think fortunately for the group, Ray and Brian have covered most of the messages in the regulatory section, so I can go through this quickly. I thought I would at least lay out for you on one piece of paper, and we just have … one piece of paper.

Many of the observations, criticisms, misinformation that we're hearing, as we meet with regulators, with politicians, and I think as Ray said, meetings with regulators are generally very salient. They have some sense of what we do, of our role in the financial markets. Politicians are a little bit more challenging. Certainly one reason is there are a lot more of them in the U.S. We have about 500 politicians that we could potentially be dealing with in Washington whereas there may be five regulatory and policy making authorities.

But these are some of the things that we're hearing: the role and meaning of ratings, as Ray mentioned. There appears to be quite a lot of misunderstanding about what our ratings do and don't do. Accuracy of ratings, especially in the subprime area, didn't you get it wrong … questions about that? The ratings process and especially what they think of as due diligence. Are you skeptical enough when you are receiving information from issuers? What are you doing to verify that information, etc.?

Lots of questions about monitoring: What is our process? Is it robust enough? Do we have enough resources? Have our rating changes in the subprime area been timely enough?

Transparency, which I think is a particularly difficult criticism because we believe that we've made great strides in the last several years in increasing the transparency of our methodology for rating actions, etc. I think it turns out that maybe not enough people are reading what we publish, and some regulators that we meet with are actually surprised that we publish our methodology.

So one of the struggles I think we're going to have is thinking about how do we take all of this information that we have really published to focus on the technical experts and the practitioners in the market and how do we transform these things or at least supplement them with communications that all of the other constituents can understand, and that they'll actually take the time to read it.

Conflicts of interest is another big theme. The issuer pays model continues to be a subject of debate, although a very important point we've been making is that as long as rating agencies get paid by somebody who has a position in the capital markets that are going through conflict and the real question the people should be thinking about is how we manage the conflicts, not who pays us.

And there has been a lot of discussion about the so called iterative nature of structured finance, the fact that there may be some back and forth on structured finance transactions, as issuers or arrangers are presenting their transaction structures, and we're giving feedback on the rating implication, and doesn't this kind of interaction with an issuer compromise your independence. These are some of the issues that we're dealing with, and we are, as Linda mentioned, working on a set of FAQs that is targeted initially to regulators that will address all of these type questions we're getting.

Now I'll just very quickly go through with you the landscape and the key geographies in which we operate, so you can get a better understanding of what we're dealing with. Brian mentioned, we spent a lot of time in Washington meeting with the key congressional offices that deal with rating agencies and that's … members of the senate banking committee and house. It's the members of the financial services committee, so those are the people who are the influencers, the decision makers who are going to be crafting whatever legislation may, over time, come at us…. We've been spending a lot of time meeting with the congressional offices and a lot of it is educational, again explaining our role, explaining what happens in the subprime area, talking about what we are trying to do to enhance our processes.

But importantly, also advising. We find that in a lot of meetings, people ask us, what ideas do you have on how we can solve these problems. So we are trying very hard to be in the role of an advisor as opposed to being a target in a congressional hearing. I don't think we can completely escape being a target, but hopefully … a number of targets.

We've already participated in two hearings, and Warren Cornfield is no worse for the wear, I'm happy to report. He represented Moody's in both hearings. And there are probably going to be more hearings. There will be a hearing in the house. I believe it will be conducted by the subcommittee that's handling the subprime issues as opposed to the full committee, which we think is … subcommittee level. That hearing will probably be end of September, early October, based on what we're hearing at the moment.

And there will probably be another hearing in the senate in which rating agencies will participate as witnesses. So those are very important opportunities to get our messages across, but also to directly address some of the … that we're getting. And I think Warren would tell you, it's a little bit difficult sometimes to get our messages across in the hearings because often the members who are asking questions are happy to get their sound byte into the press and then move onto the next issue without ever focusing on the substance, so we're trying there.

And right now there is proposed legislation, both in the house and the senate, relating to subprime. At this point, the proposed legislation deals mainly with the mortgage lending process, as opposed to the securitization process or anything that has to do with rating agencies. There will probably be more legislative proposals that are offered by various members of these committees over the next few months.

At the SEC, as we all know, the ink is barely dry on the rating agency reformat, and the SEC has not yet approved … NRSROs under the new laws. That will be happening in late September. So the SEC is going through the process of reviewing rating agency applications, and we're still frankly talking with them on how to implement some of the rules with some of the record keeping requirements. But on the other hand, they're also focusing on the subprime issues, looking broadly at market participants, including rating agencies. And I should note that the SEC has always had infection authority over rating agencies … previously registered as an NRSRO under the investment advisor … so they can use the infection authority they have … have discussions with us, etc.

There's also another group involved, the president's working group on financial markets … potentially chaired by the heads of the SEC, the … the major policy making agencies that deal with the financial markets. President Bush has now asked them to review the subprime issue and its affect on the financial markets, including the role of securitization and the role of rating agencies, so there may be some additional meetings and questions that we get in that regard.

In Europe, I guess over the last few weeks were a flurry of press reports about a special investigation that has been initiated in Europe. And as you note on the last bullet point on this chart, and I think we've put this in an internal communication, there is no special investigation, contrary to the implications in the press reports. What's happening in Europe is that the European Commission for 2006 provisionally endorsed a self-regulatory model for rating agencies based on the … code. And although there's been an awful lot of attention on rating agencies, political as well as regulatory, at this point the European Commission, we believe, is refraining from further action. They're going to let their established processes work their course, so CESR, the Committee of European Securities Regulators is in the process of conducting their second annual review of rating agencies.

We've been working with them, responding to questions. They have previously announced they would specifically focus on structured finance. They published a survey back in June for any interested party to respond to. And they've since extended the survey deadline twice. I think it's expiring today, we hear because they've gotten very little in the way of responses. So we'll see what the responses to the market survey are when they're published on the CESR Web site.

We're going to be meeting with the CESR rating agency group in the beginning of October, as will each other rating agency that they're reviewing. And they're going to publish a report in April of 2008, and we would guess that the European Commission would hope to wait until CESR publishes their report before they decide what else they should be doing.

There has been talk in parliament about rating agencies. We have some national regulators who have gone on record criticizing rating agencies, but I think, more importantly, expressing concerns about transparency in the financial markets, and we were just sort of an add-on to the transparency….

So in Europe, we are really waiting until the CESR process is finished. We hope we will wait until then to see what the European Commission and other policymakers think about rating agencies at that point in time.

Japan, the financial regulator there, the FSA, announced earlier this year that they were considering greater oversight of rating agencies and that they would observe the U.S. process. We still think that's what they're doing. Certainly there's additional focus on subprime, a little more political pressure than there had been. But we believe they are still observing the U.S. SEC process and then deciding what….

I think that, as Ray said, the regulators tend – they don't want to overreact and implement new regulation without thinking about what it means and what the consequences will be. The politicians are a little bit harder … and we're still focusing on the one-on-one meetings, as Ray said, to try to get our story across in a non-public way, and in a way in which people have a chance to ask questions and understand.

IOSCO is another key part of this. IOSCO, earlier in 2007, did what I think of as a desktop review of rating agency compliance with their code. They essentially took any rating agency that had a published code of conduct and compared it with the IOSCO code. And they issued a consultation report with largely favorable conclusions. Based on what we've heard, they will not issue a final report until they conduct their review of rating agency's role in structured finance, which again they have announced earlier in 2007. So this is not precipitated by the subprime issue, but it certainly is good timing in their view.

And they're doing that review in conjunction with the BIS, the taskforce on the global financial markets. They're starting their review in mid September. We're having the first meeting is in Washington, and each rating agency will make a brief presentation on the structured finance process and rating agency's role in structured finance. And we hope that the IOSCO process will be a cooperative one, as was the process … IOSCO code was developed. And I think a big objective in the IOSCO process is to think about whether any modifications to the IOSCO code might be required to deal with the structured finance rating process as opposed to the fundamental process. So we hope we can participate in that process, as they're thinking about all this.

Then another thing that's happening is the G-7 meeting in October in Washington. An important topic of discussion again will be the transparency of the financial markets, and they have indicated that they will include a discussion of rating agencies. So a lot of what we're doing right now is pursuing dialog with all of these interested parties. We have the securities and financial markets, regulators. We have the finance ministries in advance of the G-7 meeting. We have the legislators and politicians, which are a little bit more difficult to reign in, and importantly, our senior business line and executive management have been very involved in this.

Members of our structured finance, senior management have been … looks very tired, but they've been to the SEC. They've been to congressional offices. Brian was in Japan, Australia. Ray and Brian were in Europe. …Kreegler and Don Carter were at the Ontario Securities Commission with me, as well as … Michael Kane, whatever he is. He's been traveling a lot. So we are getting the right people in front of these parties so that we can explain things from a perspective of how we operate our business and give them whatever information they might be interested in, as they’re asking their questions. So this is taking a significant investment in senior management time, but it’s certainly something we have do.

And importantly, as Brian said, one of our main objectives is to participate in … solution, which we think we’re making progress, but we certainly have a lot of work left for us to do. Now I’m going to turn the podium back over to Linda in our tag team. Should you tag me, Linda, before you come up?

Linda Investor relations update, Lisa Westlake is presently out in Singapore. She and I and various other people are speaking with investors in Asia. This week, we are hitting Singapore, Hong Kong where Jennifer will join us. We’re going to Soul, and then we’re going to Japan where Kay will join us, and we’ll be speaking with literally dozens of investors.

We’re interested in going to Asia because Asia investors tend to be longer-term focused. They ask us hard questions like what are going to do in the next three to five years, instead of what are you going to do in the next three to five minutes. U.S. investors are primarily interested in the next quarter. …going to Canada, going to Europe, which we're going to do again in the first week of October. It's very, very beneficial, and we've had very good success in leading the efforts to get international investors in our stock, which is very important to counteract the activity of the shorts, which I'll talk about more in a minute.

Now how is the Street viewing Moody's right now? People usually find these slides interesting. We have previews here from Goldman, Morgan Stanley, and William Blaire. Goldman has a balanced view that in a context, Peter Rapid says, of flowing new issue volume, uncertain credit market environment, and decelerating earnings growth. They don't see rush to own the shares, despite what they think is an attractive valuation and a solid business model, so Peter is a little bit on the fence here.

The next major conference that we have is September 19th. It's the Goldman conference here in New York where Ray will be doing a sort of Q&A, fireside chat format with Peter Rapid. Now that date, September 19th, is very important. It follows the Fed meeting by one day. So Ray is going to have to have support and interesting things to say about what is said and done the day before. So another example of how we have to be prepared to … very quickly.

Lisa Monaco from Morgan Stanley believes that we're well positioned, but that she has underestimated the near term impact on rating agencies, and she says that the next few quarters will be challenging, which I think is exactly correct.

Then lastly, getting onto the more bullish side, John Metts with William Blaire believes that this is an interesting valuation at this point. I like his quote particularly that we believe this too shall pass, and the fundamental story has not changed. And he sees that here an uncertainty provides an opportunity to buy a premier global franchise at what we believe to be a significant discount to intrinsic value.

So those are three different views. One is sort of a hold strategy. The second is that the next few quarters are going to be choppy. And the third is that the stock is on sale.

If you look at where people are in terms of sell, hold, buy, and strong buy, people are generally moving to the right, which is good. JP Morgan kind of moving back to the left to a hold strategy. You'll notice that Citibank is not on this chart. The Citibank analysts … hedge fund, which is something we're seeing more often. He's now with Steinhard Partners and is coming to see us this week from that perspective. UBS seems to have let go of its analysts. They've restaffed coverage. Analysts now have to do more and more and more names to find people who are inexperienced and not know sometimes neither financials nor media companies. Our new analyst at Citibank actually has covered tech stocks, so for Ray and me and Lisa, this is a really interesting challenge because we need to send our … people, bringing them up to speed on the…. We will be seeing new ratings coming out from Citi and from UBS relatively soon, and we're optimistic about that.

What's the full year guidance? At this point, the consensus on the Street, again we're missing Citi and UBS here because they're kind of out of the picture right at this moment – $2.58, you see that's within our guidance, which is good. The shaded area up there shows the range of guidance that we've put out. And this reflects the new guidance that we've put out as of August 1st. So you see the analysts are within our range, which is helpful. Previously, the analysts were ahead of us….

Now there's the stock price chart. This is challenging. It's troubling. It's not where I'd like to be. It's something we think about every single day. Right now this company has 31 million shares of stock shorted out of 266.9 million shares outstanding. That is an 11% short position. That's a very difficult situation to deal with, and it's one that we're very, very well aware of.

Lately, we started to see some investors come in, given the attractive stock price. It would be helpful if more of the equity analysts … on the stock that they're looking for some visibility as to what's going to happen in the near term, and that is really the challenge that we're faced with right now….

Here's the five-year stock performance, you see, and the capitalization of the company is now 12.4 billion shares. …that we have added some leverage to the balance sheet. You may have seen the 8-K filing; $500 million … we have brought back to the stock actively. We have a rather sophisticated share repurchase program, which boils down to when it's cheaper, we buy more, so we're working on that, and we've been thinking about a number of other things that we need to do to … help this situation, but it's one that we deal with every single day, and just so you can all rest assured, it's something that is a challenge … one that we are working on.

With that, I'll turn it back over to Ray and happy to take any questions.

Raymond — Good. Your first question is what's the outlook for the rest of the year and what are we doing to manage…? The third quarter is interesting for a number of reasons, but on the financial side, the current market crunch didn't really get traction until August. And August is historically a light month anyway, so what we've got, even for the third quarter, is a lack of visibility. A lot of what happens to Q3 is going to come down to how bad, frankly, September is.

We're fine early in the quarter, meaning July, but then with a very light August, in fact, and a light August for comparison purposes year-on-year, we just don't have a lot of visibility, and it's going to depend on how much September drags down what we saw early in the quarter coming out of July.

You saw or you will recall when we did our earnings call at the end of July, we made some fairly significant revisions to our outlook for the full year. We assume significant slowdown in some of the areas of the structured finance business, slowing activity in the leverage loan market and high yield market. We will have to see whether those reductions were sufficient. I do not expect right now that we're going to find that we were too pessimistic, but we may have been on target or we may have still been too optimistic. We won't know certainly until we get the September numbers….

Don't expect a big recovery in the fourth quarter. As I said before, the subprime mess is going to be an extended problem because of the resets that have to occur over the peak period over the next six months. So we're going to continue to have problems in the credit markets coming from the subprime markets to the extent that that creates a contagion effective…. So I don't anticipate that we're going to have a strong fourth quarter, and we did have a strong fourth quarter last year. So the question will be, did we take down our numbers enough in July, and we don't know yet. That's the honest answer.

As far as expense management, we have what I would call a soft hiring freeze in place now. Meaning that there is no hiring without specific approval from one of four people: Mark Almeida, Brian Clarkson, Linda or myself. And depending on how well that works, we may or may not have to go to a hard freeze.

What I encourage all of you to think about and do, if you are looking for people, is to look inside the organization. And for those of you who are in areas that are soft right now, think about whether you can make people available in other areas where we have needs. That is the first line of defense against us having to take more drastic action in keeping the activities that need to occur occurring. So I very much need you to speak with your friends in the room, as you have hiring needs or as you have excess resource and capacity, so that we're making use of the people who are already in the building to the best of our ability.

2008 I think is going to be challenging for us in part because the first half of 2007 was the strongest we had in five years. So there's not a fix that I think is available to us in the short run to put a lot of points on the board. I don't expect to put a lot of points on the board in the fourth quarter, and I think the first half of 2008 is going to be equally challenging. Again even if the recovery starts to come through in early 2008, it's because the comps are going to be very difficult, the year-on-year comps. I guess the good news is, the second half of 2008 probably should be much more promising … so there's the silver lining.

As far as how we will react to that from an expense management standpoint, the most honest answer I can give you is I don't know yet. We have to try to make … intelligent decisions about how much of a cyclical short-term downturn this is or whether there are secular adjustments to the business. There are some areas of the business, I mean for example the subprime mortgage business. Until Wall Street figures out a new name and a new coat of paint to put on subprime mortgages, you're probably not going to see a lot of subprime mortgages.

And so we have some areas that are either going to be in a longer cycle or secular downturn, but certainly not credit generally or a credit globally. I mean even in the U.S., I don't expect to see the broad credit crunch … a long period of time. The nature of credit crunches that we've seen in the past is that they are very painful, but fairly short lived. And then the market gets back to work. I suspect we will see that again.

To the extent that that is in fact the profile, we have a lot of motivation to make sure that we have the talent inside the building that's ready for that,

that we are positioned to take advantage of market recovery that will occur. We may have to make some adjustments at the margins in some businesses that may not participate in that recovery. But again, I think that's going to be at the margin.

We will manage expenses carefully. We have that obligation to do so. You have that obligation to do so. And it may involve – it certainly will involve non-personnel, non-compensation management, things like offsite parties, travel, and entertainment. All of those things are the first things we look at when we're managing our expenses. We are not going to be having any offsite for the rest of this year. We are not going to be having divisional or departmental holiday parties. We will try to protect the Moody's corporate wide holiday party, so that people can be thanked, frankly, in some sort of positive way for the hard work they've done in a difficult environment, but we'll see.

We may have to, as I said, continue with a hiring freeze for some period of time. We may have to allow attrition and not replace all of our turnover positions. Depending on how bad things are, we may have to look at whether we need to cut personnel, but there are a lot of things we're going to look at before we get to that point, and we're going to watch what's happening in the market, and not just what's happening today, but what we think is going to be happening in 2008 so that we are not caught short in a market recovery.

I'm not going to be caught short. That's just as bad as overspending in a downturn. So we're going to be intelligent about this. I need your help along the way because there is almost no visibility right now, and as you talk to the structured teams, what's in the market, what's going to happen the next six weeks. They're not stupid people, but they don't know. So we're dealing with that kind of … and we're just going to have to live with it.

What other questions do you have?

The only thing I wanted to add is the goal is not to starve the businesses. That is the goal in I've talked to a lot of the senior folks about what your needs are. You have needs with respect to specific talents or skill sets. Let us know. I mean it's a soft freeze. A good example is Russian banks. We okayed hires for that because we don't have that skill set within the company. What I am seeing is that not everybody is looking that hard yet with respect to who is inside the company, who is outside the company.

It's always easier to go outside and everybody thinks they need everybody they actually do. We need to break down the silos with respect to that…. You really need to do that, and I can't do this by myself, and neither can the SMB or even GMB. You've got to talk to each other to figure out what it is you actually need, whether or not we have it internal because we've got a lot of skill sets internally. For example, language skill sets, analytical skill sets. All you have to do is talk to people and figure out what it is you actually need. Again, you want to make sure that when you're talking to your staff that you're talking about things intelligently. We want to be as efficient as we possibly can be.

I had a town hall in Tokyo and they asked me. They said, "Are we going to be laying people off?" I was as honest as I possibly could be. I said that's the last thing we want to do. And the reason it's the last thing we want to do is that we've got a lot invested in the staff that we actually have to actually let them go and then try to hire them back and try to train them up again makes no sense whatsoever.

And I said, but that said, if 50% of our business goes away, we'll do whatever we have to do. And I think they were fairly satisfied with that, but you want to let people know we're trying very hard to make good, intelligent decisions. I got a call from somebody who is fairly senior. He says, can I still have an offsite. I said, sure, you can have an offsite if you want. You can't have any analysts though. The thing is that everybody has a budget. You have dollars you can actually spend. If you really think the offsite is better than having analysts, you're probably not the guy I want or the person I want running that business. …things you should be thinking about.

I was talking to Andrew, wherever Andrew is, about should we … hire people, should we be using headhunters? Get used to it. WE spend millions of dollars on headhunters each year. I'd rather spend it on analysts. If you're asking me how I want to run the business, I want every dollar going to analytical capacity first. Cookie parties, holiday parties, all that kind of other stuff, excess travel, I'd just assume set that aside until you have things come back to normal. So just together, focus on what we're actually doing to talk to each other. Some people actually do it very well, and other people don't. And you have to figure out a solution to them that makes sense.

What's most on your mind that we haven't addressed or haven't addressed to your satisfaction?

M The fact that maybe we finally have to come together with an industry advocate. Historically we've tried to maintain independence and each of us seems to have a different agenda possibly on minor points. Have you moved forward and reached out to our industry colleagues yet?

Raymond Yes. There has been some limited reach out. We need to probably do more. I think there are really two reasons why we have been so reluctant about this, this past…. One is it's a very small industry, and a small industry gets very different regulatory … antitrust grouping, so even what you can do in a large fragmented industry as far as business associations is more difficult to do in a concentrated industry. So we're very cautious about that, probably too cautious historically in terms of balancing the various risks….

The second thing is our industry doesn't really agree with each other very much about many important topics. Standard & Poor's, Fitch, and Moody's probably argue about as many issues for confronting our industry as we agree. So it may not be the most effective business association.

Above that though, if we're going to have or volunteer or construct some kind of oversight board, an industry based oversight board, you've got to come together as an industry in terms of making that decision. This is what Brian was talking about. We're getting a lot of commentary from regulators, especially outside the U.S., I think, that that would be a good idea. It demonstrates a bold move to have an oversight function like a – think of like public accounting oversight and without the regulators or the legislators having to actually do something. What they can do is bless something we have done.

And so if we're going to go with that kind of a bold move, which we are talking about ourselves internally, we've got to get the industry together and have that kind of discussion because there's no way Moody's can create an oversight board…. Yes. Nothing is off the table right now, and even some things we've been very reluctant about in the past, I think we have to go down that….

Other questions? Yes, Greg?

Greg Actually, I was interested, Ray, to hear your belief that the first thing in the minds of people in this room is the financial outlook for the remainder of the year. Maybe a represent a subset of the group that doesn't speak with a whole, but my thinking is there's a much greater concern about the franchise. Every one in this room is a long-term investor, for sure. This slide speaks to the value of that. It's disheartening, for sure, every day to be faced with what's going on in the press, to see what's gong on with the stock price.

By far though, I think that the greater anxiety being felt by the people in this room and certainly the greater anxiety being … by the analysts is what's going on with the ratings and what the outlook is and what the unknowns are about the quality of the retains, specifically the severe ratings transitions we're dealing with an rating transitions from a very high level, and uncertainty about what's ahead on that, the ratings accuracy. We've spoken to it obliquely, but it would be helpful if maybe you or anyone could speak to what's going on as far as rating methodology, management, what we should anticipate ahead.

Raymond — No. I'm happy to do that. We were talking on our way into this meeting saying, our expectations, so the two things that would most be on people's minds are what's the financial outlook and the expense management outlook for the company, and then what is the business condition of the company. And I will try to answer this question, but John may not like this. But I plan to send around to all of the MDs later this week the FAQ document that we have created and are in the final stages of tweaking.

This FAQ document does not talk about the financial performance or outlook of the company at all. It is focused on the professional practice of the business, our position of the business, what we think we've done right, what we think, not that we've done wrong, because John says we've done nothing wrong, but what we can improve. I think is going to be, one, a candid, and two, thoughtful piece that you can turn around and use in conversation with analysts, issuers, investors, etc. …a very complete, I think very robust set of thoughts around the professional practice side of the business….

That being said, our business position I think is still extremely strong, and we may come out of this in a stronger position than we went into it. First of all, people talk about, I mean one of the things that is most … most upsetting to me and probably to all of you is all of the speculation about … the industry is corrupt. They've worked with the bankers. They assign high ratings. They do it because they get paid more money, etc.

A couple of things: One, you notice no one, no one has a specific accusation to make. There is not one in the media, and not just of us, of anyone in the industry having actually engaged in a corrupt practice. What they assume is that it must be bad somewhere. We don't know where, but it must be bad somewhere.

The reason they think that, I don't know. Maybe because they're all bad and they assume that we must be because they are. They're not going to find anything at Moody's in terms of corrupt or bad actions. I feel very confident of that. Again, looking for silver lining, remember we had the New York attorney general's office in here 18 months ago and what they were looking at was residential mortgage backed securities, and they went away. It's not as thought we haven't had the books and records and e-mails and deal documents and all of that scrutinized. We have.

We also have, I think, a fairly sophisticated regulator in the SEC that doesn't buy what it reads in the paper. These people understand us to a level that is much better than what you see in the media, and so I don't think we are going to be facing a situation where we have bad actions that are going to become public or that cause us additional regulatory heartache or anything of that….

And so that leaves the question of, okay, coming out of all of this, if we are not corrupt, have we demonstrated the proper independence? Can we make that visible? And are we competent? And the question around competence is this gets back in part to the market education piece. Are the ratings doing what we say they're doing, measuring credit loss effectively? I think what we're going to find is that we had a very unusual, unexpected performance vintage for a part of the structured finance market and that, because of the nature of structured security, they are homogeneous assets packaged together, put into limited operating vehicles. You know what? If there's a problem, they all are going to perform in the same direction at the same time and you can't avoid that. Not because the ratings are bad or good, but because the assets all move in a herd.

That's why 2002, 2003, 2004 all I think materially outperformed in the mortgage backed area our expectations. You can look at it that way. We engaged in massive type 2 error for three years in a row in the mortgage backed securities area.

In structured finance, what happened? You look at the security by year, by vintage. You don't do that in corporate finance. Nobody talks about the 2004 bonds issued in the corporate finance area or the financial institutions area, and so what you're doing is disaggregating the structured securities market into a much more fragmented or slight set of securities than you had on the corporate side. Deployments in the structured finance market is going to be much, much better if you look at it the way you look at corporate bond ratings, which is what's outstanding. What are the defaults for everything that's outstanding? If you take the last ten years worth of residential mortgage backed securities and the issuance that's still outstanding and you look at the problem area, performance isn't going to look that different than what you see in the corporate area, but that's not how people are looking at it right now, so that's one of the things we have to deal with.

Our performance is going to, I believe, reveal to be much better than market prices would imply currently, and yet the 2006 … is going to be worse than our expectations. It's going to create a lot of pain for us, as we work through that. Brian, I don't know if you want to add anything to … question.

Brian — I think you were talking about specifically with respect to the ratings … basis. I think that was the other part of this question. And we've got a separate monitoring team set up by Nick … who is monitoring all the ratings, all the '06 vintage on a going forward basis. Frankly we don't know and the reason we don't know is because, as Ray said, we're in the middle of reset.

We are talking to all the servicers to figure out what their plans are. I can say that what we're hearing so far is not all that encouraging with respect to what they plan on doing. If in fact they're going to perform worse than we currently think, we will continue to downgrade securities. As Ray said, they do move together.

What we found so far, and this may not bear out towards the end, but we found out is that we have a barbell affect. You've got the '06 vintage that I would still say the majority of the securities in the '06 vintage are performing within expectations. What we are seeing is at the other end of the barbell, we've seen some pretty horrific performers.

The best example is Long Beach where, if you take a look at their '05 vintage, which is tracking 4%, 5%, their '05 vintage, which you know is – I don't know if the volume is with respect to this – tracking at about 4%

loss. Their '06 vintage is tracking at 16% to 17% loss. If you take a look at the pool, they look pretty close if you look at all the pool factors.

There's a lot of fraud that's involved there, things that we didn't see. I mean when we'd be able to do … forward basis, we're going to talk. We're taking a look at our methodologies and our approaches. We're sort of retooling those to make sure that we capture a lot of the things that we relied on in the past that we can't rely on, on a going forward basis.

But the take home is, if it's worth … and the quick answer is we don't know how it's going to be two to three years from now. We have to take a look at the next six months to see how the resets are going to come in.

Now that doesn't mean the losses have to come in for us to take action. If in fact we see that there's not going to be a lot of modification as the resets come in and losses are coming in, we'll project that out and make assumptions….

Raymond — It's actually quite interesting that we're being asked to figure out how much everybody lied. That's really what we're being asked to do. I mean if all of the information was truthful and comprehensive and complete, we wouldn't have an issue here. And if all of the information was inaccurate, there would be no information. There would be no securities market.

What we're really being asked to do is figure out how much lying is going on and bake that into a credit … which is a pretty challenging thing to do. I'm not sure how you tackle that from a modeling standpoint.

Other questions? Yes.

W …with regulators and with investors. How about issuers?

Raymond I have not been focused on the communications initiative with issuers, but I think that that has been handled much more comprehensively directly at the group level. I don't know if … or Claire or anybody wants to comment on that. But for example, the servicer survey, talking to all of the services in the market and arrangers, talking to the bankers, the issuers about what their expectations are for issuance, that level of conversation is certainly going on. I don't know if you mean something different like asking them how much they've been lying to us or something like that.

Yes. First of all, we have been doing some of that, even at a more generalized level. One major rating advisor on the Street contacted Chris and was looking for some … feedback. And I think we will be taking that, again probably working off of this FAQ document, and getting some more macro points of view out into these guys’ hands, again because to the extent that we’ve got some … out there, we want them to have the tools to answer the criticisms.

This is actually why we drafted the FAQ was because we got an invitation from some regulatory authorities in effect saying we think we can help on some things, but we need the terminology and we need your points of view if we’re going to be able to help. I think that’s very similar with rating advisors and with some of the more influential banks … but really the intermediary community especially.

M You just mentioned that people out there are looking for us to measure when people are lying. Have we considered turning that into a business, effectively measuring the incentive? It seems to me that this problem is the incentive structure where people are incentivized to lie.

Brian We think we can make a business out of measuring how much people lie for the incentives.

Raymond No. Brian was saying, in effect we're going to have to, and whether that's part of the existing business, and obviously when we talk out in the market, we don't say gee we need the liars. But what we say is look it's the same thing we said…. We've got to be more skeptical. We've got to doubt what we're hearing more aggressively than we might be inclined to, but it is difficult to try to calibrate how much information is good information and how much is bad, especially if people – I mean it's one thing to say, they're only giving us the positive story. We understand that … but if they're breaking the law, which they are doing, I mean they are violating reps and warrantees. There is a body of thought that lying to a rating agency in contemplation of a security … is a violation of federal securities law. People are doing that, and so it is going to be a challenge.

I think the way it gets handled most practically is you recalibrate for how bad you think the information is and add credit enhancement to that, at least in the structured finance area. It's a practical solution to a conceptual or philosophical problem that it's not the most satisfying answer, but it may be the only answer available.

W …include those incentives in our own ratings of the credit of the underlying, I think one of the things that he's thinking about is exposing some of those incentives on a going forward basis to say, we're rating this and here are some of the incentives that are behind it at each point in the process of creating that product. Is there a market for that? Is there somebody out there who would want to know that, because we're in a position of being able to see that along the way?

M Yes. Please.

Raymond The thing that I would add is, we've mentioned this before, the silver lining is when you have this type of market disruption, there's always an opportunity to do something different. What happens is, as long as things are going extremely well, no one cares. You may or may not know, but the last few years, we tried to put some products out into the marketplace that sort of dealt with this issue, transaction government assessment for structured finance when you take a look at the contracts themselves and the protections that are there, and you sort of opine with respect to how good they are, how safe they are, how many there are. No one cared.

We talked about trustee ratings. We thought that was something that made sense. Are the trustees doing what they should do? Do they have a fiduciary responsibility? No one cared.

And so what happened was, it was a slippery slope. As you see markets that are robust, an example would be what happened recently in commercial mortgages, or more importantly what happened with subordinated traunches in residential mortgages in '04 and '05. What happened in '04 and '05 with respect to subordinated traunches is that our competition, Fitch and S&P, went nuts. Everything was investment grade. It didn't really matter. It's all going into CBO.

We virtually rated, what, 20%, Michael?

Michael — Twenty-five.

Raymond — Twenty to twenty-five percent of that market. We tried to alert the market. We said we're not rating it. This stuff isn't investment grade. No one cared because the machine just kept going.

In commercial mortgages recently, we actually sort of increased our credit enhancements. We lost 50% of our coverage with respect to that, and so this is an opportunity for us to say, okay, what is it that we're going to need to see on a going forward basis? What are the things, the checks and balances that weren't in place that are in place now? Some of the things that we're thinking about are things like third party oversight, a post-closing audit. This is the time to make things stick.

The same thing happened after Enron. After Enron, we were able to sort of take a fresh look at the marketplace and say these are the things that, on a going forward basis, we're going to have to see … rating. We have to be very visible about it. We have to be very decisive about it. We have to be very open about it.

In some cases, it may be that because of the lack of robustness or truth in the information we're getting, we're going to have to say no. We can't rate this until we start seeing these things. I think that's what the market expects from us. Yes, there is an opportunity. We just have to figure out how to get there and make sure that we're letting the regulators know this is what we're doing. Yes. Things like transaction government assessment, trustee rating, post-closing audit, getting due diligence information in-house. We can actually say now we have to have that without anybody sort of saying, we don't really care anymore. The market….

W My question is, given the stock price, given where it is right now, are we concerned about a takeover?

Raymond Linda…. We actually were – I at least was more concerned about a takeover when we were up around $18 billion, $19 billion and the market…. There was a lot more money available for takeovers in that market. And the difference between the $12 billion market cap and a $19 billion market cap for the folks that would think about taking us over is pocket change.

But one of the interesting correlations here has been that as our market cap has come down, the ability to leverage has come down. And so someone is still going to have to write a very sizeable check if they want to have a takeover of Moody's, and we still have a very concentrated holding. Our top ten investors hold about 50% of the stock, not quite, but almost 50% of the stock.

That doesn't mean you can't persuade a couple big investors that they want to sell, but they are certainly, I mean as our board would, I would think our big investors would say, "Look. It's interesting that you want to take Moody's over at 45, but we're going to look at where the stock has traded over the last two years … think about what the value, the intrinsic value of this firm is, and you can add a premium onto that." That would be my guess in terms of how both the board and large investors would react. It's not a point in time. It's what do we think the intrinsic value is. Where is it going to be two years from now?

Although not being a public company wouldn't be all bad.

M — We've always been very successful in any court, any legal battles we've had where people have tried to sue us. In this present environment, is there a new kind of argumentation being used in any potential lawsuits that's different than the kind that we've faced in the past?

Raymond — Yes. Well the arguments on the structured finance side would be that because the process is more iterative, and because frankly people think we do some things we don't do … advisory function, that just really doesn't hold water, but because there's more interaction, we occupy a role that is not as readily analogous to a publishing, financial publisher with the traditional first amendment protection. That's the argument.

The response to that is it's still the same process. We are still putting opinions about the future … market, and those opinions are being made available to the general public on matters of public interest, which is exactly what the first amendment is designed to protect. So I think we still have very good responses.

There have been some other things like are we an underwriter. Well, that's an easier issue to tackle. You know, just under black letter wall. What is the definition of an underwriter? And if you've got a named underwriter in a transaction, you go looking for other parties who are not named underwriter, and declare them underwriters, and there's significant bodies of case law saying we don't do that. We always have underwriters in the securities that Moody's rates, so a lot of the noise around this I think is just that, noise. And then there's the component of our ability, which I think is the more real component of this. Our ability demonstrates that opinions issued to the public are maters of public interest are the same on all sides of the business. That's the argument that we're going to have to make. Is that a fair statement … summary?

M …issues…. What is this underwriter theory, which as Ray more politely than I would have been, is basically … from a securities law point of view, but the other issue is a legitimate issue just because we've been so fortunate to have virtually no … in the area of structured finance ratings. …supplied the same analysis they've applied in the public finance sector, in the corporate sector for structured ratings. We think any differences are legally insignificant and we believe they will, but it's just a matter of some court will decide, hopefully not any time soon, but it hasn't been decided yet.

Raymond Hopefully we won't find out.

M Hopefully we'll never find out.

Raymond Others?

M When do we expect going forward from regulatory authorities as far as at the team MD level? Do we expect to have the SEC coming in and interviewing lots of people or just what kind of involvement should we be expecting?

Raymond I guess I at least am not sure. Gene or John may have a little better idea on this, but the SEC can kind of do what it wants, and I would imagine that, for example in the subprime area, they're going to want to dig a lot deeper than they are in this sector right now just because of what's happening in subprime. So I would expect it will get down to team MDs and analysts, especially if they find anything interesting. Why was this deal rated this way compared to this deal? What were the differences? They're going to want to go to the person who actually knows what they're talking about. So I think in some areas, we will see that kind of reach down, but not everybody in the company. They just don't have the resources to do that, even if they wanted to.

Yes. Please.

W I like that. I think as Ray said before, the SEC, the division of market regulation is … SEC that has historically had purview over rating agencies and they will continue to have that purview under the new regulations. And there are a few people within the division of market regulations who some of them have been there since the NRSO designation was first created in 1975. So they have individually a 30-year history of dealing with rating agencies. So there are people in the division of market regulations who have a fairly good understanding of what we do. And, as Ray said, very importantly, they tend to ignore all the noise in the media, whereas the politicians, for example, feed on what's in the media.

But in terms of inspection kinds of resources, today they really don't have any resource … specialized in rating agencies. When we've had SEC inspections in the past and we have had them from time-to-time, they've been the generalized investment advisor inspection people from the division of the Office of Compliance Inspections and Examinations, and the division of market regulations is working to hire a few people to specialize in rating agencies. I don't know if they've gotten there yet. So we can expect that, over time, their intent is to develop more expertise in rating agencies … we'll have to help them, as we've helped them in many other areas in the past.

But I think it's important in terms of the review that the SEC … specifically said that their objective is not to second-guess ratings. It's to look at the ratings process, the integrity of the process, how rating agencies manage conflicts of interest. And as Ray said, that will necessarily involve discussions with people, but it's not to say you rated this a Baa and we think it should have been a Ba1. Why is that? It's more, how did you undertake the process … consistent in how you're dealing with issuers, etc.

M I'm just answering every question that I think is meaningful. You joked a little bit about maybe it wouldn't be so bad to be a private company. If you think about the distraction, I guess, a necessary distraction that senior management has to dedicate towards public reporting and all that kind of stuff, and on one hand how supremely jealous people probably are terrific performance financially. Yet, at the same time, those people have an ax to grind with us are … when they see that terrific performance, right, as far as how they're getting just a little too much out of me. Is it feasible that it would be one of the past? Like you said, maybe it was a bold move. Maybe we have to do something different to remove ourselves from being the punching bag for our industry at the moment because neither of our competitors have transparent performance reporting. And again, it just seems a possible likelihood or opportunity.

Raymond Well, as far as a management buyout, unless someone is much wealthier than I am, it's not that feasible. In terms of whether any of our large shareholders might be interested in increasing their stake, that's a phone call away. They don't need us to invite them to take a larger stake. They just have to express their interest, and then it's a matter that the board has an obligation to consider if they express that kind of interest.

So far, they have not expressed that kind of interest. I think they're satisfied. I mean they're very stable large shareholders. But we haven't gotten any inquiries about how about we take another … company.

Besides, if we weren't public, then the senior management wouldn't have all these jobs to do. We'd be unnecessary.

I want to thank you very much for your -- Yes. I will thank you for your patience this morning and then let Brian talk to you. I do want to say though, what you take out of this room and what you go and talk to your teams about, your analysts, your support … about is what Brian was saying earlier today. You're really the main communication channel. We'll do an all employee town hall meeting, but what they hear from you … whether you are feeling positive or not positive, how you are explaining our business position, all of that primarily what they think is going to come from you. You're the best antidote to the media attention, the negative media attention that we are getting because I don't think it's likely we're going to start getting a lot of … stories about Moody's coming up and congratulating us on the great work we do. So you are our main conduit for that and I very much appreciate what effort you can make on that side.

First of all, tell it like it is. I don't think you have to shy away from telling people the truth. Be as candid as you can. Where you don't know, tell them you don't know. If the questions are something that should come up and we should try and address as a team, let me know. Let someone else know. And I think people will appreciate it. I certainly appreciate it when I feel like I'm getting a straight story, and I imagine that's going to be true throughout the organization. Brian, do you want to—

Brian — Yes. I just wanted to echo a couple things that Ray said. Most everyone in this room has a benefit of experience, and I think the one take home message that actually was, I think, in your presentation is that this too shall pass. Chris, how long have you been with the company?

Can you give Chris the microphone?

And I think it's important. I don't want to downplay what's going on now. It's very serious from a market standpoint. It's very serious from a company standpoint. Chris, how many crises have you seen since you've been at Moody's in 22 years? I'm serious.

Chris — Probably ten.

Brian — Name some of them.

M — How many were…?

Chris — Quite a few.

Brian — Just give us a quick rundown on some of that.

Chris — Well we downgraded all of the Money Center Banks twice, three times really, which wasn't too popular. Chester destroyed the U.S. life insurance industry, which wasn't too popular. We had, of course, JDA. We had Enron, WorldCom, the telecom bubble, Virgin Energy, East Asia. Oh my goodness. I forgot about East Asia. Yes. About every three years.

M — (Inaudible.)

Chris Yes. That was a little minor item.

Brian Yes. The … investigation, and that's downplaying it. The issue is that most of you in this room have a benefit of multi-crises at Moody's Investors Service. Most everyone else doesn't. Most of the people that report to you don't have that sort of experience. They haven't been through it. And this is real for them. And I can remember the Department of Justice investigation towards … pled guilty to a single count of obstruction of justice. There were administrative assistants crying in the hallway because they thought that our company was done with because they don't know.

And I think it's very important not to be very cavalier about it. We can laugh about the fact that we've had lots of crises, but a lot of people that report to you have never been through this before. And I will tell you that in all the crises I've been through, this is the worst I've ever seen from a press standpoint. I've never seen press this bad before. And I realize the motivations are different. But at the end of the day, you have to take that into consideration when you're talking to your people. I will tell you, you should be candid, but you should also take it from the position this is the first time they've ever seen it, and for a lot of people it actually is.

The other thing I want to say is that if there's something that we're missing, if there's something that you're hearing in your meetings, and I encourage you all to have meetings with your teams and listen to what they have to say. If there's something that we're not conveying, if there's something that we can communicate, let us know. We're happy to do that.

…suggested, outside of the structured finance group, if you want somebody from … talk about what happened in subprime or what's going on, that makes perfect sense. The more information you have, the better off you are. We've got to communicate. So if there's something we need to be doing or something we should be telling people, whether it be inside, outside, let somebody know because we'll get through it. We'll get through it just like we've gotten through everything else that we've done. We have to make sure that we restore confidence internally and externally. And so we have to do this together. That's really all I have.

Thank you, all.

Moody's MD Town Hall Feedback - September 2007

Did the meeting address the topics of greatest concern to you as an MD? If no, please elaborate:

- Franchise risk. Also how stresses are affecting competitors and what that means for us, both good and bad.
- Greg Bauer's question on ratings -- right question, weak answer. The premise of the question was valid as well: many Moody's associates will care more about ratings quality than about short-term financial impact, communication planning or regulatory mgmt.
- Generally, but Greg Bauer's question about "what's still to come" on rating actions should be addressed more proactively up front -- even if the answer is we don't know but we are working hard to stay on top of it. What can we expect in terms of additional rating actions in this area?
- Intermediary outreach.
- Multi-notch downgrades in Structured Finance (SIV's and others) - what exactly were reasons for that and what are lessons? Doesn't an Aaa rating also imply a certain low migration risk?
- Perspective on rating transitions: '07SFG vs. historic SFG and CFG. Every time I see an Aaa downgrade, I wonder if our transition stats are way higher in this credit crunch than "normally".
- Really no discussion of why the structured group refused to change their ratings in the face of overwhelming evidence that they were wrong.
- JDA and now sub prime both illustrate that the market wants more out of our ratings than we are providing. They want assets which are rated the same to behave in broadly the same way. If an Aaa rated asset is trading at 80 cents to the dollar it can not be the same as an Aaa rated asset that always trades close to par. Are we intending to refine our methodology to incorporate elements of market risk in our ratings such as: how long has the asset class existed, how liquid is it and how much experience do we have with regard to its behavior under market stress?

Did you have questions following the meeting? If so, what are they?

- Are there lessons from Enron/WorldCom that we can point to about how we communicate our role in the capital markets?
- Would like more information on legal implications of the situation
- How much of the planned IT investment will go forward, how much can be deferred without crippling our ability to communicate, send bills etc? Also, what about the Rebranding?
- I think a key issue is how far we can go in accepting part of the blame for having missed something on the sub prime market and then for making massive (5 or more notches)downgradings while adjusting our methodologies constantly but without consultation. It would really help to be able to say that we accept the critic as fair on some isolated issues. After all we say we provide opinions, we don't say we always provide the "right" one.
- Competition
- Very bad transmission over the phone meant that many presentations could not be fully heard, and among the questions asked only those of Greg Bauer (when using microphone I believe) were understood. Linda Huber and Jeanne Dering were hardly audible as they may have been too far away from the microphone.
- How will EPIC wok this year? How likely is it for MD to be paid less than SVPs?

- Who is going to accept responsibility within Moody's for the lack of oversight of structured ratings group?
- In speaking with our largest investors, what have you heard in terms of their confidence in our franchise and their likelihood to hold their positions?
- Yes, mainly how to interpret some of the comments from the perspective of Moody's Analytics.
- Better discussion of the risks of a change in the "issuer pays" model, and how Moody's is addressing that risk.
- When building the expense budget for 2008, if expense reductions are deemed appropriate will all businesses be impacted equally as a percentage, or will budget assumptions be built with an eye towards contribution to revenue and forecasted growth?

What topic(s) discussed at the meeting did you find most important to your area of the business?

- Expense outlook, What we are doing to "fight back", What we are doing about legal and regulatory issues.
- Plan for communicating to external and internal stakeholders; plan to mitigate op-inc impact by managing expense; commitment to protecting current headcount and cutting it only as "the last thing you want to do" (quoting B. Clarkson)
- expense related discussions and media out reach strategy
- Expense budget, Media strategy, Stock price, Sub prime: what went wrong
- Public relations initiative, financial outlook, legal issue, regulatory status
- Our preparedness to engage and present our views.
- What is our short term communication plan both internally and externally?
- What steps are we taking to address the wider issues relating to what the market expects from our ratings and rating agencies in general?
- Company outlook short and medium term
- Decisions and orientation regarding business operations: spending, hiring, the qualitative read on revenue performance, etc.
- Soft hiring freeze, expense reductions.
- Long-term outlook, hiring freeze
- Reception with Media vs. Regulators vs. Politicians, and our need to propose a solution.
- Regulators' will to control rating agencies
- That we will invest where there are opportunities. I appreciate the fact that we will think about the best course of action for our company rather than a knee jerk reaction to market developments. I am encouraged by the multi-phased plan to address the current challenges and senior management's open-mindedness on how we should react.
- Accuracy of the SFG ratings
- How this situation may provide the opportunity to change how we do our business.
- Regulatory issues
- Regulation related
- Plans for the future
- The discussion concerning the reaction of the regulators to the current situation and management's strategies for communicating with media, investors and Congress. Also the comments with respect to resource and expense management.
- Near-term actions (hiring freeze, layoffs, etc.) Moody's is taking because of the market downturn.
- Media outreach

- I would like to see more specific discussion about how we might address the perceived conflict in structured finance ratings-- what specific steps might be possible for us?
- Need for very conservative expense management.
- The overall view of how Moody's as a company is responding to the sub prime crisis was probably more important than any business unit specific topic.
- Discussion of the regulatory environment. Explanation of rationale for expense reduction.
- Generally, I thought the most important topics were:
  1. The active management outreach to the press and regulators, and the latters' responses.
  2. The outlook for MCO
  3. The perspectives comparing this to past "crises" for the firm.

What else would you like senior management to address at Friday's company-wide Town Hall Meeting?

- Very little discussion on non-US markets.
- Exercise price of options.
- In the context of the soft hiring freeze, what analysts should expect as regards promotions and raises.
- Needs a positive, non-reactive, upbeat component, both for internal and external consumption: something like "we are in the investor protection business, that business rests on faultless ethics and world-class analytics. We are proud of our track record in the markets we have served over the last 100 years..." It sounds basic but it needs saying; the reason to say it inside Moody's is to create the echo outside -- the main audience is outside.
- Recognizing that our ratings are credit ratings and nothing more, what really went wrong with Moody's sub prime ratings leading to massive downgrades and potential more downgrades to come? We heard 2 answers yesterday: 1. people lied, and 2. there was an unprecedented sequence of events in the mortgage markets. As for #1, it seems to me that we had blinders on and never questioned the information we were given. Specifically, why would a rational borrower with full information sign up for a floating rate loan that they couldn't possibly repay, and why would an ethical and responsible lender offer such a loan? As for #2, it is our job to think of the worst case scenarios and model them; why didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both. Moody's franchise value is based on staying AHEAD OF THE PACK on credit analysis and instead we are in the middle of the pack. I would like more candor from senior management about our errors and how we will address them in the future.
- More information on regulatory status
- I think the management should try to boost a bit the morale -- saying again that although we're not perfect; our company makes a worthwhile contribution to capital markets.
- The issue of staff retention came up in the Q/A, but it would be useful for senior management to discuss the soft hiring freeze, budget constraints and staff retention directly (it is helpful for people to hear that staff reduction would only be an absolute last resort and that senior management understands the value of our personnel, etc.).
- Do we feel that the reason that aspects of the press are being so critical is not because we are not communicating with them well enough but that they are just not satisfied with our response?

- Maybe how the corporation intend to respond the to the challenge raised by the regulators for providing solutions (in committee, senior management, working groups etc)
- Who can talk about our involvement in Sub-prime, etc? Is it limited to just a few, and the rest should refrain from any comment to the press, or should many more be authorized and trained to deliver our message to many constituents. A game plan for analyst/MD participation (or not) in delivering the message would be helpful.
- How we intend to communicate our views to key intermediaries (and by extension the issuer community).
- Appreciation for the efforts of the analysts - especially in the areas that have been hardest hit by the crisis.
- Give more detail on hiring policy, i.e. preference of internal hirings, what is policy for areas which still exhibit significant growth in new rating mandates (emerging markets).
- Please ensure that speakers have microphone on their tie/dress so it can be hear more clearly.
- Emphasis that senior management believes that the analysts in these areas did their best in rating the transactions and that they believe that the accusations in the press about conflicts of interest are baseless
- More comparison of this "crisis" to other challenges in the company's history
- Better discussion of the risks of a change in the "issuer pays" model, and how Moody's is addressing that risk. Also would be good to specifically discuss staffing issues.
- Downgrade of triple A rated CDO tranches
- Compensation, effects of low stock price on keeping people

How do you plan to relay the information from Monday's meeting to your team?

- Share some of the points from today's presentation at our group's next team meeting.
- one on one discussions
- I gave a basically upbeat summary at my weekly staff meeting.
- staff meetings and one-on-one meetings
- Team meeting.
- In-person meeting with the whole team followed up by one-on-ones where relevant.
- Nothing to relay.
- During regular team briefings. Informal discussion group on all topics raised
- I will address each team staff meeting this week and stress the long term fundamental strength of the franchise and encourage all to ask me questions
- Appropriate content will be relayed at team meetings.
- Has already been added as an agenda item in my team meeting set for 9/11. Will specifically encourage everyone to attend Friday Town hall.
- Meetings and one-on-one
- We are meeting tomorrow 9/10 to relay the information and to give our analysts time to think up the questions they would like to ask on Friday.
- implore them to participate in the town hall meeting and reinforce thoughts at our next team meeting
- Holding small meetings (3-4 person a time) with all the team members. This will give more opportunity to ask questions.
- Via team meeting after they have heard Friday's meeting.
- Ray is personally meeting with my team tomorrow (coincidental).
- I have regular team meetings where I will relay the information (but will wait for Friday's townhall)
- We will likely have a team meeting to discuss some of the points made

STANDARD &POOR'S

Global Credit Portal
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July 11, 2007

S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced

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(**Editor's Note:** In a previous version of this release, dated July 10, 2007, the amount and percent of affected collateral, noted in the second paragraph, were misstated. A corrected version follows.)

NEW YORK (Standard & Poor's) July 11, 2007--Standard & Poor's Ratings Services said today it placed its credit ratings on 612 classes of residential mortgage-backed securities (RMBS) backed by U.S. subprime collateral on CreditWatch with negative implications (see list below).

The affected classes total approximately $7.35 billion in rated securities, which represents 1.3% of the $565.3 billion in U.S. subprime RMBS rated by

Permanent Subcommittee on Investigations
EXHIBIT #99

Various U.S. First-Lien Subprime RMBS Classes Downgraded

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(**Editor's Note:** This press release is being republished to facilitate access to the ratings list and the releases mentioned in this article.)

NEW YORK (Standard & Poor's) July 12, 2007--Standard & Poor's Ratings Services today addressed the July 10, 2007, CreditWatch actions on 612 U.S. residential mortgage-backed securities (RMBS) backed by U.S. first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006 (originally stated to represent $12.018 billion in rated securities and later corrected to $7.35 billion). Furthermore, Standard & Poor's also today addressed the CreditWatch actions taken before July 10, 2007, involving 70 classes of RMBS backed by first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006.

Table 1

U.S. First-Lien Subprime RMBS July 12, 2007, Ratings Lowered And Off CreditWatch Negative (cont.)					
46602WAP9	IXIS Real Estate Capital Trust 2006-HE2	B4	CCC	BBB-	Watch Neg
46602UAN8	IXIS Real Estate Capital Trust 2006-HE3	B3	BB-	BBB-	Watch Neg
46602UAP3	IXIS Real Estate Capital Trust 2006-HE3	B4	BB-	BBB-	Watch Neg
46602UAQ1	IXIS Real Estate Capital Trust 2006-HE3	B5	B	BB+	Watch Neg
46626LFY1	J.P. Morgan Mortgage Acquisition Corp. 2006-FRE1	M10	BB	BB+	Watch Neg
46626LFZ8	J.P. Morgan Mortgage Acquisition Corp. 2006-FRE1	M11	B	BB	Watch Neg
46626LKA7	J.P. Morgan Mortgage Acquisition Trust 2006-NC1	M10	BB	BB+	Watch Neg
46626LKB5	J.P. Morgan Mortgage Acquisition Trust 2006-NC1	M11	B	BB	Watch Neg
46629NAR4	J.P. Morgan Mortgage Acquisition Trust 2006-RM1	M10	B	BB+	Watch Neg
46628SAS2	J.P. Morgan Mortgage Acquisition Trust 2006-WF1	M8	B	BBB-	Watch Neg
46628SAU7	J.P. Morgan Mortgage Acquisition Trust 2006-WF1	M9	B	BB+	Watch Neg
46626LHL7	JP Morgan Mortgage Acquisition Corp 2006-FRE2	M10	BB	BB+	Watch Neg
46626LHM5	JP Morgan Mortgage Acquisition Corp 2006-FRE2	M11	B	BB	Watch Neg
542514PE8	Long Beach Mortgage Loan Trust 2005-3	M8	BB	BBB	Watch Neg
542514RU0	Long Beach Mortgage Loan Trust 2006-1	M7	BBB	A	Watch Neg
542514RV8	Long Beach Mortgage Loan Trust 2006-1	M8	BBB	A-	Watch Neg
542514RW6	Long Beach Mortgage Loan Trust 2006-1	M9	B	BBB+	Watch Neg
542514RX4	Long Beach Mortgage Loan Trust 2006-1	M10	B	BBB	Watch Neg
542514RY2	Long Beach Mortgage Loan Trust 2006-1	M11	CCC	BBB-	Watch Neg
542514UA0	Long Beach Mortgage Loan Trust 2006-2	M6	BBB	A	Watch Neg
542514UB8	Long Beach Mortgage Loan Trust 2006-2	M7	BB	A-	Watch Neg
542514UC6	Long Beach Mortgage Loan Trust 2006-2	M8	B	BBB+	Watch Neg
542514UD4	Long Beach Mortgage Loan Trust 2006-2	M9	B	BBB	Watch Neg
542514UE2	Long Beach Mortgage Loan Trust 2006-2	M10	B	BBB-	Watch Neg
542514UF9	Long Beach Mortgage Loan Trust 2006-2	B	CCC	BB	Watch Neg
542514US1	Long Beach Mortgage Loan Trust 2006-3	M6	BBB+	A+	Watch Neg
542514UT9	Long Beach Mortgage Loan Trust 2006-3	M7	BBB	A	Watch Neg
542514UU6	Long Beach Mortgage Loan Trust 2006-3	M8	BB	A-	Watch Neg
542514UV4	Long Beach Mortgage Loan Trust 2006-3	M9	B	BBB+	Watch Neg
542514UW2	Long Beach Mortgage Loan Trust 2006-3	M10	B	BBB	Watch Neg
542514UX0	Long Beach Mortgage Loan Trust 2006-3	B	CCC	BBB-	Watch Neg
54251MAM6	Long Beach Mortgage Loan Trust 2006-4	M7	BBB	A	Watch Neg
54251MAN4	Long Beach Mortgage Loan Trust 2006-4	M8	BB	A-	Watch Neg
54251MAP9	Long Beach Mortgage Loan Trust 2006-4	M9	B	BBB+	Watch Neg
54251MAQ7	Long Beach Mortgage Loan Trust 2006-4	M10	B	BBB+	Watch Neg
54251MAR5	Long Beach Mortgage Loan Trust 2006-4	M11	B	BBB-	Watch Neg
54251MAS3	Long Beach Mortgage Loan Trust 2006-4	B	CCC	BB+	Watch Neg
54251PAN7	Long Beach Mortgage Loan Trust 2006-5	M8	BB+	BBB+	Watch Neg
54251PAP2	Long Beach Mortgage Loan Trust 2006-5	M9	BB	BBB+	Watch Neg
54251PAQ0	Long Beach Mortgage Loan Trust 2006-5	M10	B	BBB	Watch Neg
54251PAR8	Long Beach Mortgage Loan Trust 2006-5	B-1	B	BBB-	Watch Neg
54251PAS6	Long Beach Mortgage Loan Trust 2006-5	B-2	CCC	BB+	Watch Neg

Table 1

U.S. First-Lien Subprime RMBS July 12, 2007, Ratings Lowered And Off CreditWatch Negative (cont.)					
54251RAP8	Long Beach Mortgage Loan Trust 2006-6	M9	BBB	BBB+	Watch Neg
54251RAQ6	Long Beach Mortgage Loan Trust 2006-6	M10	BB	BBB	Watch Neg
54251RAR4	Long Beach Mortgage Loan Trust 2006-6	M11	B	BBB-	Watch Neg
54251TAR0	Long Beach Mortgage Loan Trust 2006-7	M11	B	BBB-	Watch Neg
542514SN5	Long Beach Mortgage Loan Trust 2006-WL2	M9	BB-	BBB-	Watch Neg
542514SP0	Long Beach Mortgage Loan Trust 2006-WL2	B1	B	BB+	Watch Neg
542514SQ8	Long Beach Mortgage Loan Trust 2006-WL2	B2	CCC	BB	Watch Neg
542514SR6	Long Beach Mortgage Loan Trust 2006-WL2	B3	CCC	BB-	Watch Neg
542514TF1	Long Beach Mortgage Loan Trust 2006-WL3	M9	BB	BBB-	Watch Neg
57643LMJ2	MASTR Asset Backed Securities Trust 2005-FRE1	M9	B	BBB-	Watch Neg
57643LMK9	MASTR Asset Backed Securities Trust 2005-FRE1	M10	CCC	BB+	Watch Neg
57643LKV7	MASTR Asset Backed Securities Trust 2005-HE2	M10	BB	BBB-	Watch Neg
57643LKW5	MASTR Asset Backed Securities Trust 2005-HE2	M11	B	BB+	Watch Neg
57643LMY9	MASTR Asset Backed Securities Trust 2005-NC2	M9	BBB	A	Watch Neg
57643LMZ6	MASTR Asset Backed Securities Trust 2005-NC2	M10	BBB-	A-	Watch Neg
57643LNA0	MASTR Asset Backed Securities Trust 2005-NC2	M11	BB+	BBB+	Watch Neg
57643LNB8	MASTR Asset Backed Securities Trust 2005-NC2	M12	B	BBB+	Watch Neg
57643LPV2	MASTR Asset Backed Securities Trust 2006-FRE1	M6	BBB-	A-	Watch Neg
57643GAL1	MASTR Asset Backed Securities Trust 2006-FRE2	M6	BBB-	A-	Watch Neg
57643GAM9	MASTR Asset Backed Securities Trust 2006-FRE2	M7	B	BBB+	Watch Neg
57643GAN7	MASTR Asset Backed Securities Trust 2006-FRE2	M8	B	BBB	Watch Neg
57643LRD0	MASTR Asset Backed Securities Trust 2006-HE1	M-9	BBB	A	Watch Neg
57643LRE8	MASTR Asset Backed Securities Trust 2006-HE1	M-10	BBB-	A-	Watch Neg
57643LRF5	MASTR Asset Backed Securities Trust 2006-HE1	M-11	BB	BBB	Watch Neg
57644UAA3	MASTR Asset Backed Securities Trust 2006-HE2	M10	CCC	BB+	Watch Neg
57644UAM7	MASTR Asset Backed Securities Trust 2006-HE2	M6	BBB	A	Watch Neg
57644UAN5	MASTR Asset Backed Securities Trust 2006-HE2	M7	BB	BBB+	Watch Neg
57644UAP0	MASTR Asset Backed Securities Trust 2006-HE2	M8	B	BBB	Watch Neg
57644UAQ8	MASTR Asset Backed Securities Trust 2006-HE2	M9	B	BBB-	Watch Neg
57645JAQ2	MASTR Asset Backed Securities Trust 2006-HE3	M11	CCC	BB	Watch Neg
55275BAQ0	MASTR Asset Backed Securities Trust 2006-NC2	M10	BB	BB+	Watch Neg
55275BAR8	MASTR Asset Backed Securities Trust 2006-NC2	M11	B	BB	Watch Neg
57644TAL2	MASTR Asset Backed Securities Trust 2006-WMC2	M6	BBB	A	Watch Neg
57644TAM0	MASTR Asset Backed Securities Trust 2006-WMC2	M7	BB	BBB+	Watch Neg
57644TAN8	MASTR Asset Backed Securities Trust 2006-WMC2	M8	B	BBB	Watch Neg
55291KAQ0	MASTR Asset Backed Securities Trust 2006-WMC3	M10	B	BB+	Watch Neg
59020US97	Merrill Lynch Mortgage Investors Trust 2005-HE2	M6	BBB+	A-	Watch Neg
59020UT21	Merrill Lynch Mortgage Investors Trust 2005-HE2	B1	BBB	BBB+	Watch Neg
59020UT39	Merrill Lynch Mortgage Investors Trust 2005-HE2	B2	B	BBB	Watch Neg
590210AP5	Merrill Lynch Mortgage Investors Trust Series 2006-AHL1	B3	B	BBB-	Watch Neg
59021AAL2	Merrill Lynch Mortgage Investors Trust Series 2006-FM1	B1	BB+	BBB+	Watch Neg
59021AAM0	Merrill Lynch Mortgage Investors Trust Series 2006-FM1	B2	BB	BBB	Watch Neg

January 30, 2008

S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings

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NEW YORK (Standard & Poor's) Jan. 30, 2008--Standard & Poor's Ratings Services today announced that it has placed on CreditWatch with negative implications or downgraded its ratings on 6,389 classes from U.S. residential mortgage-backed securities (RMBS) transactions backed by U.S. first-lien subprime mortgage collateral rated between January 2006 and June 2007. At the same time, it placed on CreditWatch negative 1,953 ratings from 572 global CDO of asset-backed securities (ABS) and CDO of CDO transactions.

The affected U.S. RMBS classes represent an issuance amount of approximately

Announcement:

Moody's Downgrades Subprime First-Lien RMBS

New York, July 10, 2007 -- Moody's Investors Service today announced negative rating actions on 431 securities originated in 2006 and backed by subprime first lien mortgage loans. The negative rating actions affect securities with an original face value of over $5.2 billion, representing 1.2% of the dollar volume and 6.8% of the securities rated by Moody's in 2006 that were backed by subprime first lien loans.

Of the 431 rating actions taken today, Moody's downgraded 399 securities and placed an additional 32 securities on review for possible downgrade. One of the downgraded securities remains on review for possible further downgrade. The vast majority of rating actions taken today impacted securities originally rated Baa or lower. The 239 securities originally rated Baa on which action was taken represented 19% of the total number of Baa ratings issued in 2006; the 185 securities originally rated Ba on which action was taken represented 42% of the total number of Ba ratings issued in 2006; and, the 7 securities originally rated A on which action was taken represented 0.6% of the total number of A ratings issued in 2006. No action was taken on securities rated Aaa or Aa.

Rating Actions Reflect Rigorous Review of All 2006 Subprime RMBS Deals

Nicolas Weill, Chief Credit Officer of Moody's Structured Finance Group, said, "Moody's has been closely monitoring all subprime RMBS securities as part of our ongoing ratings process, and we began taking rating actions on securities issued in 2006 and backed by poorly performing pools of subprime mortgage loans in November 2006. Over the past three months, Moody's has surveyed servicers, originators, intermediaries and other market participants to get their perspective on the drivers of the 2006 vintage performance and their expectations about future losses. Based on our analysis of pool performance, we undertook a rigorous examination of all 2006 subprime RMBS deals -- including deals backed by both first lien and second lien loans. The rating actions announced today -- as well as those announced on June 15 -- are the result of that review."

Overview of Factors Driving Rating Actions

Recent data shows that the first lien subprime mortgage loans securitized in 2006 have delinquency rates that are higher than original expectations. Those loans were originated in an environment of aggressive underwriting. This aggressive underwriting combined with prolonged, slowing home price appreciation has caused significant loan performance deterioration and is the primary factor in these rating actions. In addition, Moody's analysis shows that the transactions backed by collateral originated by Fremont Investment & Loan, Long Beach Mortgage Company, New Century Mortgage Corporation and WMC Mortgage Corp. have been performing below the average of the 2006 vintage and represent about 60% of the rating actions taken today.

Additional Findings From Moody's Review of 2006 Subprime RMBS First Lien Deals

Moody's has noted a persistent negative trend in severe delinquencies for first lien subprime mortgage loans securitized in 2006. For example, the 90+ day delinquency rate for loans securitized in 2006 has increased from 7.9% in March 2007 to 10.8% in May 2007. However, losses have remained relatively low, with the May cumulative loss rate reaching only 0.30%.

As part of the recently completed review of all 2006 subprime RMBS, Moody's said it examined the portion of each pool that was severely delinquent -- that is, over 90 days past due, in foreclosure or held as "real estate owned" -- and assessed the amount of credit enhancement available to the rated tranches in the form of subordination and excess spread. "Early defaulting borrowers often exhibit distinct characteristics: they are more likely to be first-time home buyers, speculators, or are over-leveraged or have 80%-20% first-second lien loan combinations," said Weill. Consequently, the early defaulters may exhibit different behavior than other borrowers in the pool. Those borrowers may face other challenges in the next few months when rate and payment resets take effect, especially in the absence of effective loan modifications.

In analyzing loans that are severely delinquent, Moody's said it considered a number of scenarios based on various assumptions about the percentage of currently delinquent loans that would eventually default (the "roll rate") and the expected severity of loss given default. The roll rates used were: for over 90 days delinquent: 50%, 75% and 90%; for those loans in foreclosure and held as real estate owned: 95% and 100%. While these roll rates are higher than those that have been realized historically, Moody's believes that these loans, with their high vacancy rates and high "no contact" rates, are more likely to default than other subprime loans.

The severity rates Moody's assumed ranged from 25%-30% (in particular, for deals with strong coverage from mortgage insurance), to 40% (for most originators), to 50% for originators whose mortgage assets are revealing particularly high severe delinquency rates.

For the portion of each pool that is not severely delinquent, Moody's increased its original loss expectations for the pool by a stress factor of 20% which is consistent with the increased loss expectations that the rating agency published in its March 2007 report: "Challenging Times for the US Subprime Mortgage Market."

While we considered both the projected losses associated with the seriously delinquent loans (the "pipeline losses") as well as the projected losses associated with the remaining portion of the pool, we gave more weight to the pipeline losses.

Moody's invites you to participate in a teleconference on Thursday, 12 July 2007 at 10:00 EST / 15:00 BST (local London time) to discuss these actions. The call will be hosted by Richard Cantor, Team Managing Director, Credit Policy Research Group; Nicolas Weill, Team Managing Director and Chief Credit Officer, Asset Finance; and John Park, Senior Vice President, Derivatives Monitoring. Details of the call are as follows:

US and Canada +1 800.795.1259

All Others: +1 785.832.0301

Passcode: moodys

For details on the conference call, as well as Moody's published research on the subprime market, go to www.moodys.com/subprime. Please contact Moody's Client Service Desk at +1.212.553.1658 with any other questions.

A press release detailing the specific securities whose ratings were affected has been released and is available on moodys.com.

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Issuer: J.P. Morgan Mortgage Acquisition Corp. 2006-WMC1

Cl. M-11, Downgraded to Ba3 from Ba2

Issuer: J.P. Morgan Mortgage Acquisition Corp. 2006-WMC2

Cl. M-10, Downgraded to B3 from Ba1

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-9, Downgraded to Ba3 from Baa3

Cl. M-11, Downgraded to Caa1 from Ba2

Cl. M-7, Downgraded to Baa3 from Baa1

Issuer: J.P. Morgan Mortgage Acquisition Corp. 2006-WMC3

Cl. M-10, Downgraded to Ba3 from Ba1

Cl. M-9, Downgraded to Ba1 from Baa3

Issuer: J.P. Morgan Mortgage Acquisition Trust 2006-NC1

Cl. M-10, Downgraded to B1 from Ba1

Cl. M-9, Downgraded to Ba1 from Baa3

Cl. M-11, Downgraded to Caa1 from Ba2

Issuer: Long Beach Mortgage Loan Trust 2006-1

Cl. M-10, Downgraded to B3 from Ba1

Cl. M-9, Downgraded to B1 from Baa3

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-11, Downgraded to Caa1 from Ba2

Cl. M-7, Downgraded to Baa3 from Baa1

Issuer: Long Beach Mortgage Loan Trust 2006-2

Cl. B, Downgraded to Caa3 from Ba2

Cl. M-8, Downgraded to B2 from Baa2

Cl. M-9, Downgraded to B3 from Baa3

Cl. M-7, Downgraded to Ba2 from Baa1

Cl. M-10, Downgraded to Caa1 from Ba1

Cl. M-6, Placed on Review for Possible Downgrade, currently A3

Issuer: Long Beach Mortgage Loan Trust 2006-3

Cl. B, Downgraded to Caa2 from Ba2

Cl. M-8, Downgraded to B2 from Baa2

Cl. M-9, Downgraded to B3 from Baa3

Cl. M-7, Downgraded to Ba2 from Baa1

Cl. M-10, Downgraded to Caa1 from Ba1

Cl. M-6, Placed on Review for Possible Downgrade, currently A3

Issuer: Long Beach Mortgage Loan Trust 2006-4

Cl. M-10, Downgraded to B3 from Ba1

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-11, Downgraded to Caa2 from Ba2

Cl. M-7, Placed on Review for Possible Downgrade, currently Baa1

Issuer: Long Beach Mortgage Loan Trust 2006-5

Cl. M-10, Downgraded to B3 from Ba1

Cl. B-1, Downgraded to Caa2 from Ba2

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-7, Placed on Review for Possible Downgrade, currently Baa1

Issuer: Long Beach Mortgage Loan Trust 2006-6

Cl. M-10, Downgraded to B1 from Ba1

Cl. M-11, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-7

Cl. M-10, Downgraded to B2 from Ba1

Cl. M-11, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Ba1 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-8

Cl. M-10, Downgraded to B1 from Ba1

Cl. M-11, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-9

Cl. B, Downgraded to B2 from Ba2

Cl. M-10, Downgraded to Ba3 from Ba1

Cl. M-9, Downgraded to Ba1 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-WL2

Cl. B-1, Downgraded to Ba3 from Ba1

Issuer: Long Beach Mortgage Loan Trust 2006-WL3

Cl. B-1, Downgraded to Ba3 from Ba1

Issuer: MASTR Asset Backed Securities Trust 2006-AM2

Cl. M-11, Downgraded to B2 from Ba2

Issuer: MASTR Asset Backed Securities Trust 2006-AM3

Cl. M-11, Placed on Review for Possible Downgrade, currently Ba2

Issuer: MASTR Asset Backed Securities Trust 2006-FRE1

Cl. M-6, Downgraded to Baa3 from A3, placed on review for possible further downgrade

Cl. M-8, Downgraded to Caa2 from B3

Cl. M-9, Downgraded to Ca from Caa3

Cl. M-7, Downgraded to Caa1 from Ba1

Cl. M-5, Placed on Review for Possible Downgrade, currently A2

Issuer: MASTR Asset Backed Securities Trust 2006-FRE2

Cl. M-8, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Caa1 from B2

Cl. M-11, Downgraded to Ca from Caa3

Cl. M-7, Downgraded to Ba1 from Baa1

Cl. M-10, Downgraded to Caa3 from Caa1

Issuer: MASTR Asset Backed Securities Trust 2006-HE1

Cl. M-11, Downgraded to B2 from Ba2

Cl. M-10, Downgraded to Ba2 from Ba1

Issuer: MASTR Asset Backed Securities Trust 2006-HE2

Cl. M-9, Downgraded to B2 from Baa3

Cl. M-8, Downgraded to Ba3 from Baa2

Moody's: $10.3 Billion in US CDO Downgrades During October

Posted By PAUL JACKSON On November 9, 2007 @ 7:06 pm | No Comments

Moody's Investors Service said today that it downgraded 1.9 percent of the total outstanding US CDO market rated by the agency, for a total of $10.3 billion across 273 tranches of 131 deals.

As of October 31, a total of 734 tranches from 227 SF CDO deals or approximately US$47.5 billion (8.8% of Moody's rated CDOs by dollar volume) remained on review for downgrade. According to a new report issued by the agency, the October actions bring CDO downgrades for calendar year 2007 to roughly US$13 billion in 338 SF CDO tranches from 173 deals.

The majority of the downgrades this year were on the volatile 2006 vintage SF CDOs (271 tranches totaling US$8.8 billion), although there were also downgrades on 45 tranches totaling US$2.9 billion from 2007 vintage SF CDOs, Moody's said.

"The recent rating actions were driven primarily by the extraordinary scope and magnitude of downgrades among the recent vintage RMBS securities backing these SF CDOs," explains Yuri Yoshizawa, Moody's group managing director for US derivatives. Moody's has taken negative ratings action on roughly $77 billion first- and second-lien subprime RMBS assets from the 2006 vintage to date. Baa-rated RMBS securities from this vintage, which comprised the vast majority of the underlying assets for mezzanine SF CDOs, were subject to average downgrades of approximately seven notches.

For more information, visit http://www.moodys.com [1].

US Residential Mortgage
Special Report

The Impact of Poor Underwriting Practices and Fraud in Subprime RMBS Performance

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Related Research
- "Drivers of 2006 Subprime Vintage Performance," dated Nov. 13, 2007.
- "Resilogic: US Residential Mortgage Loss Model — Amended," dated Aug. 14, 2007.

Summary

Residential mortgage-backed securities (RMBS) issued in 2006 and 2007, backed by pools of subprime mortgages, are substantially underperforming initial performance expectations, resulting in ratings downgrades and heightened risk of principal loss. As anticipated in Fitch's rating criteria, falling home prices are a fundamental source of poor performance. However, the 2006 subprime vintage performance is remarkable for the magnitude of early mortgage defaults. Fitch attributes a significant portion of this early default performance to the rapid growth in high-risk "affordability" features in subprime mortgages. The interaction of home price declines and high risk products in 2006 vintage subprime performance is analyzed in Fitch's special report "Drivers of 2006 Subprime Vintage Performance," dated Nov. 13, 2007. In addition to the inherent risk of these products, evidence is mounting that in many instances these risks were not controlled through sound underwriting practices. Moreover, in the absence of effective underwriting, products such as "no money down" and "stated income" mortgages appear to have become vehicles for misrepresentation or fraud by participants throughout the origination process.

Fitch believes that much of the poor underwriting and fraud associated with the increases in affordability products was masked by the ability of the borrower to refinance or quickly re-sell the property prior to the loan defaulting, due to rapidly rising home prices. With home prices now falling in many regions of the country, many loans that would have paid off in prior years remain in the pool and are more likely to default. BasePoint Analytics LLC, a recognized fraud analytics and consulting firm, analyzed over 3 million loans originated between 1997 and 2006 (the majority being 2005–2006 vintage), including 16,000 examples of non-performing loans that had evidence of fraudulent misrepresentation in the original applications. Their research found that as much as 70% of early payment default loans contained fraud misrepresentations on the application.[1] For additional information on measuring fraud within the industry, refer to Appendix A on page 9.

As Fitch sought to explain the poor performance of this vintage, we examined the impact of high risk collateral characteristics and rapidly declining home values. The underperformance was not fully explained by these factors, suggesting that other factors such as fraud might be playing a significant role. This was supported by the results of a file review conducted by Fitch on a small sample (45 loans) of early defaults from 2006 Fitch-rated subprime RMBS, many of which had apparently strong credit characteristics such as high FICOs, as outlined in the Characterics table on page 2.

November 28, 2007

Fitch's review of these files indicated that these loans suffered in many instances from poor lending decisions and misrepresentations by borrowers, brokers and other parties in the origination process. High risk products, which require sound underwriting and which are easy targets for fraud, account for some of the largest variances to expected default rates. It is not possible to confidently make a broad statement of how pervasive these problems are across the range of originators and issuers in Fitch's rated portfolio based on such a small sample of loans. However, given the combination of our review of historical loan performance, the pervasive problems indicated in the file review, and the findings of third-party reviews, Fitch believes that poor underwriting quality and fraud may account for as much as one-quarter of the underperformance of recent vintage subprime RMBS.

Characteristics of Small File Sample

# of Loans	45
Average FICO	686
Average Combined LTV Ratio	93
% California Properties	49
% Low/No Doc	69
% 2nd Lien	60

LTV – Loan-to-value. Source: Fitch.

In order to better understand the nature and impact of poor underwriting and fraud on subprime RMBS performance, Fitch analyzed a targeted sample of early defaults from 2006 Fitch-rated subprime RMBS. Fitch's findings from this review include:

- Apparent fraud in the form of "occupancy misrepresentation." The borrower's stated intent was to occupy the property, but there is evidence in the loan files that this did not occur, and that it is likely that occupancy was never the true intent of the borrower.
- Poor or lack of underwriting relating to suspicious items on credit reports. The loan files of borrowers with very high FICO scores showed little evidence of a sound credit history but rather the borrowers appeared as "authorized" users of someone else's credit.
- Incorrect calculation of debt-to-income ratios.
- Poor underwriting of "stated" income loans for reasonability of the indicated income.
- Substantial numbers of first-time homebuyers with questionable credit/income.
- In one instance, acknowledgement by the borrower of being the "straw buyer" in a property flipping scheme.

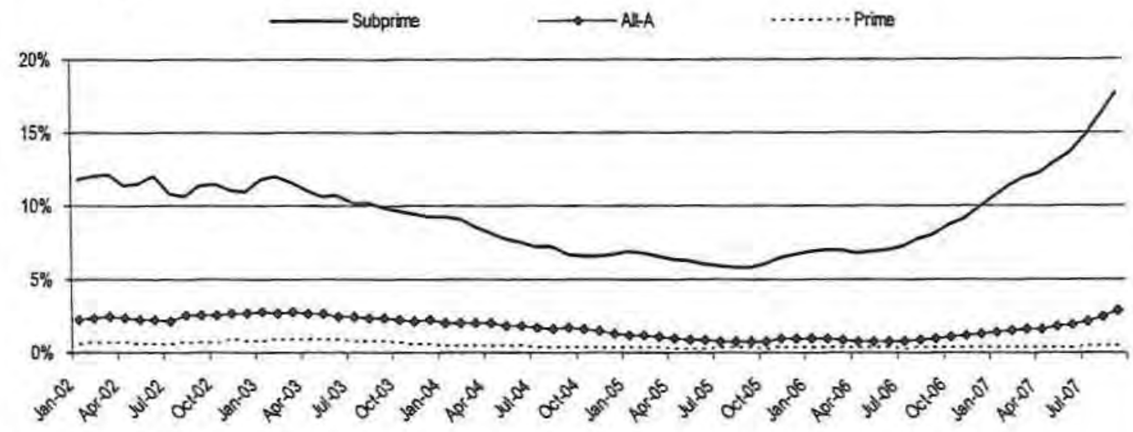
Fitch recognizes that, even in good quality pools, there will be some loans that default. However, when some pools of subprime mortgages have very high projected default rates, it is important to understand the impact that loans originated with poor underwriting practices and fraud can have. Moreover, Fitch intends to utilize the insights from its review to improve the RMBS rating process. Fitch believes that conducting a more extensive originator review process, including incorporating a direct review by Fitch of mortgage origination files, can enhance the accuracy of ratings and mitigate risk to RMBS investors. Fitch will be publishing its proposed criteria enhancements shortly. Additionally, a more robust system of representation and warranty repurchases may be desirable.

In order to better detect and prevent poor underwriting and fraud, a combination of technology and basic risk management is needed before, during and after the origination of the loan. In this report, Fitch discusses some of the more obvious examples of evidence of fraud found in loan files, along with some of the steps that could identify the fraud at the earliest possible stage, ideally before the loan is funded. There are several effective fraud indication tools available today to the originator/issuer and servicer; however, it is important to acknowledge that no process or tool can identify all instances of misrepresentation or fraud.

Lack of Disciplined Underwriting Increases Defaults and Allows Fraud

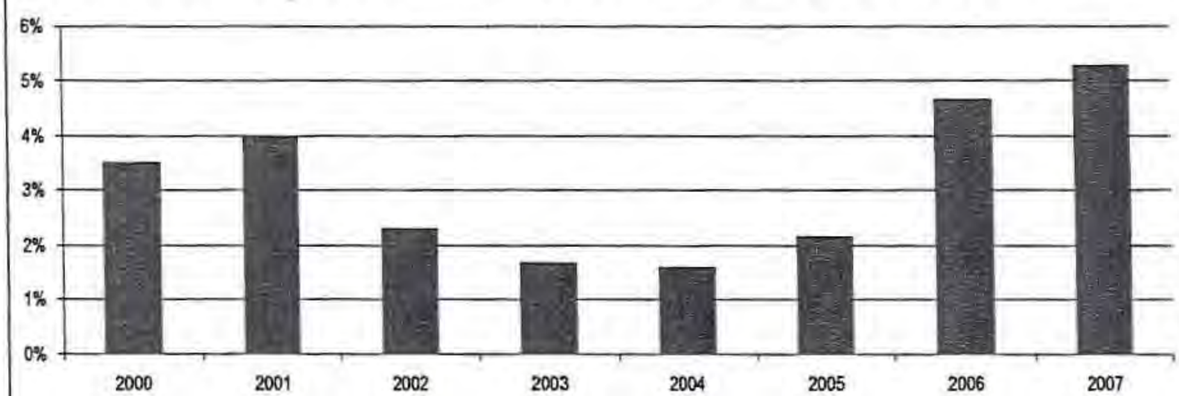
Increased risk caused by operational weaknesses oftentimes is not apparent in the collateral characteristics, but rather, manifests itself in the pool performance. As detailed in Fitch's criteria report, "ResiLogic: US Residential Mortgage Loss Model — Amended" dated Aug. 14, 2007, Fitch derives base frequency of foreclosure and loss severity, and therefore expected base case loss amounts, using each loan's disclosed risk attributes. These attributes include loan-to-value (LTV), combined loan-to-value (CLTV) and FICO scores, which are historically the primary drivers of default risk, with loan purpose and occupancy as secondary drivers of default risk. However, additional risk caused by inaccurate data and/or fraudulent or misrepresented factors could materially affect the performance of

60+ Delinquency By As Of Date
(As Percentage of Outstanding Balance)



Source: Fitch Ratings: Loan Performance.

Percentage of Securitized Pool Balance 90 Days Delinquent Before Age 6 Months (EPDs)



Source: Fitch Ratings: Loan Performance.

pools. Losses are more likely to be low if the originator consistently applies underwriting policies and guidelines, and has adequate quality control procedures, sufficient technology, and/or has risk management processes that are well developed and applied. For example, an inadequate appraisal quality review program is a significant risk factor since the valuation determines LTV. In most cases, the lack of an appropriate valuation at origination may not be evident until the borrower defaults on the loan or attempts to sell/refinance the property.

There is a distinction between inaccurate data provided by the originator/issuer to investors, and others who rely on the data, including Fitch, and data, which is technically accurate, but does not actually reflect the true credit risk due to poor underwriting, quality control, or property valuation. Fitch believes that data, which is correct but inaccurately reflects the credit risk (e.g., stated income was not reasonable), is a larger component of underperformance than data integrity issues (e.g., debt-to-income ratios [DTI] were incorrectly stated on tape). Therefore, increasing data reverification on securitized transactions, while potentially beneficial, will not address the more material risk and will result in increased costs and reduced efficiencies for consumers and securitizations. Fitch believes that the rating agencies could add value by assessing the rigor and integrity of underwriting and valuation processes and controls, as part of their originator/issuer reviews.

There has been a significant increase in the defaults and EPDs in 2006 and 2007 vintage subprime securitizations as outlined in the two charts on page 3. In Fitch's research to determine the causes for high defaults in recent vintage pools, several factors began to emerge which indicated that the underlying loans did not perform consistently with their reported risk characteristics. To gain a better understanding of the situation, Fitch selected a sample of 45 subprime loans, targeting high CLTV, stated documentation loans, including many with early missed payments. In particular, we selected loans that were primarily purchase transactions having a higher range of FICO scores (650 to 770), because high FICO scores and purchase transactions are historically attributes which generally reduce the risk of default. Fitch's analysts conducted an independent analysis of these files with the benefit of the full origination and servicing files. The result of the analysis was disconcerting at best, as there was the appearance of fraud or misrepresentation in almost every file.

While we realize this was a very limited sample, Fitch believes that the findings are indicative of the types and magnitude of issues, such as poor underwriting and fraud, which are prevalent in the high delinquencies of recent subprime vintages. In addition, although the sample was adversely selected based on payment patterns and high risk factors, the files indicated that fraud was not only present, but, in most cases, could have been identified with adequate underwriting, quality control and fraud prevention tools prior to the loan funding. Fitch believes that this targeted sampling of files was sufficient to determine that inadequate underwriting controls and, therefore, fraud is a factor in the defaults and losses on recent vintage pools. Additionally, Fitch continues to attempt to expand its loan sample to provide further validation of its findings and will provide additional commentary as applicable.

In light of our findings, Fitch believes that it is important to reassess the risk management processes of originators and/or issuers for product being securitized going forward.

While prime originators are not immune to fraud schemes, the subprime sector has exhibited the most vulnerability to them. Undoubtedly, flat or declining home prices and the loosening of program guidelines remain the main drivers of defaults and therefore losses within the subprime sector. However, Fitch believes that poor underwriting processes did not identify and prevent and, therefore, in effect, allowed willful misrepresentation by parties to the transactions, which has exacerbated the effects of declining home prices and lax program guidelines. For example, for an origination program that relies on owner occupancy to offset other risk factors, a borrower fraudulently stating its intent to occupy will dramatically alter the probability of the loan defaulting. When this scenario happens with a borrower who purchased the property as a short-term investment, based on the anticipation that the value would increase, the layering of risk is greatly multiplied. If the same borrower also misrepresented his income, and cannot afford to pay the loan unless he successfully sells the property, the loan will almost certainly default and result in a loss, as there is no type of loss mitigation, including modification, which can rectify these issues.

Research Results

The files reviewed by Fitch's analysts contained common features that Fitch believes contributed to default on these loans. Although the loan programs under which these loans were underwritten allowed for several high risk features, the files indicated a lack of underwriting review for basic reasonableness and credibility. It is important to note that while most of these issues could have been noted and investigated at the time of origination, others, such as occupancy and property condition, only became obvious as the servicer performed its functions.

Some general examples of these findings are below.

- Borrower balance sheet and assets did not support income as stated
  - No indication in file of reasonableness test or attempt to obtain additional information.
  - Some verbal employment checks provided by borrower (self-employed) or related individual (spouse).
- DTI ranged from 44%–57%
  - Some exceptions were made to programs, but for many the amounts used for calculation did not include other debts and/or tax/insurance/homeowners' association (HOA) dues which could have been determined from information within the files.
- Credit Reports

- FICO scores based on "authorized" accounts or joint accounts, where the borrower is utilizing someone else's credit.
- No notation as to research on fraud or other alerts shown on credit reports.
- No notation as to research on inconsistent social security numbers, date or birth, or AKAs from application to credit reports.
- No research in the files on reported unresolved derogatory credit, including judgments, liens, etc.

- Seller concessions and other closing items
  - No indication of review performed on HUD-1 Settlement Statement for consistency with contract in file, allowable amounts paid for borrower, or funds to borrower (including purchase transactions).
  - No indication in file of review of borrower identification or signature.
- No consideration for payment shock, NSFs, or overdrafts
  - No indication in file of review of borrower's ability to sustain materially higher payments (assets or deposits did not indicate borrower had excess liquidity).
  - No notation as to research on NSFs, or overdrafts shown in bank statements.
- Incomplete documentation
  - Occupancy form signed by borrower but box declaring occupancy rarely checked.
  - Missing "final" version of closing documents.

Characteristics by percentage of the 45 files reviewed included (loans may appear in more than one finding):

66%	Occupancy fraud (stated owner occupied — never occupied), based on information provided by borrower or field inspector
51%	Property value or condition issues — Materially different from original appraisal, or original appraisal contained conflicting information or items outside of typically accepted parameters
48%	First Time Homebuyer — Some applications indicated no other property, but credit report showed mortgage information
44%	Payment Shock (defined as greater than 100% increase) — Some greater than 200% increase
44%	Questionable stated income or employment — Often in conflict with information on credit report and indicated to be outside "reasonableness" test
22%	Hawk Alert — Fraud alert noted on credit report
18%	Credit Report — Questionable ownership of accounts (name or social security numbers do not match)
17%	Seller Concessions (outside allowed parameters)
16%	Credit Report — Based on "authorized" user accounts
16%	Strawbuyer/Flip scheme indicated based on evidence in servicing file
16%	Identity theft indicated
10%	Signature fraud indicated
6%	Non-arms length transaction indicated

Fraud has grown significantly over the past few years in volume and complexity. Fitch believes that there are many things that originators/issuers could do to prevent misrepresentation and fraud, as discussed below.

Originator's/Issuer's Role in Identifying Fraud and High Risk Loans

As the mortgage lending industry continues to make the mortgage process faster and less expensive, the occurrences of fraud continue to grow. For example, advances in personal computer capabilities enable individuals to produce documents to support fraudulent data, which are often hard to distinguish from true originals. In addition, access to databases has enabled perpetrators to alter pertinent loan documentation and information or create falsified loans where there is no borrower or property.

In many instances, misrepresentations and altered documentation are evident in the physical files, and most lenders provide underwriters and other personnel with training to identify red flags that may indicate fraud. Many lenders have an individual or group to research and resolve situations where fraud is suspected. Often, loans containing misrepresentations have multiple problems that can be detected through a strong validation and reverification process.

Mortgage fraud has increased in recent years to an extent that The Federal Bureau of Investigation (FBI) has reported the cost to the mortgage lending industry is between $946 million and $4.3 billion in 2006 alone.[2] Because fraud is becoming so prevalent, Fitch expects lenders to aggressively monitor for fraud, research and resolve suspected cases, and take appropriate actions against the source(s) of the problem. This includes the repurchase of loans by third parties, the removal of these parties from further business dealings, the dismissal of employees involved and, where appropriate, legal action.

Some of the primary areas of mortgage fraud are discussed below, along with the originators' actions which could identity these situations. It is important to keep in mind that for several of the situations mentioned here, there are widely available tools that can be purchased which increase the originators' ability to quickly identify potential problem loans.

Broker-Originated Loans

Broker-originated loans have consistently shown a higher occurrence of misrepresentation and fraud than direct or retail origination. In most instances, the broker will be the only direct contact with the borrower, and often is in the position of gathering most, if not all, required information on the borrower, including in some cases the selection of the appraiser. In this role, they have the ability, if inclined, to adjust or amend the stated facts, with or without the borrower's knowledge, to allow the loan request to fit within the parameters of lender guidelines.

Certainly not all brokers would engage in these activities; however, it is imperative that lenders actively research the identity and history of individuals applying for inclusion in lending programs, as well as maintain a regular update on all brokers. Lenders are expected to actively monitor the approval/reject record, repeat/amended submissions, and performance/default record for loans from each broker. In addition, if problems are detected, the lender is expected to aggressively research the cause, and if misrepresentation or fraud is indicated, to withdraw the broker's approval and, if appropriate, pursue legal actions. Finally, to prevent a repeat of this activity, the lender can provide the broker's name and identification information to The Mortgage Banker's Association's (MBA) Mortgage Asset Research Institute (MARI), which maintains a list of reported brokers that may be accessed by other lenders.

Stated Income

Stated income programs were initially reserved for high net worth individuals, who were self-employed and did not want to disclose all their business dealings but had assets that supported the income stated and strong credit profiles and credit scores. As the mortgage industry grew, originators expanded their programs to include salaried borrowers, and then on to the subprime sector.

Lenders who use reasonableness tests for income during the underwriting process, as well as initiate further research if the stated amounts appear inflated, can mitigate the risk inherent in stated income products. If the borrower profile does not support the income levels indicated, either by assets or liquidity (bank or savings accounts), the reasonable assumption would be that the income could be inflated. In addition, if lender guidelines require a verbal statement of employment, care should be exercised to determine that the individual providing the statement is an unrelated, independent source.

Originators often use the Internet to help confirm employment and the reasonableness of the income based on job title and geographic location. Most lenders know and have the ability to use the various sites and programs which provide this type of "reasonableness" check, and when stated income falls outside these parameters by an established variance, further research would be warranted.

FICO Inflation

FICOs present a consistent statistical assessment of the borrower's creditworthiness and risk profile; however, credit scoring is limited by the accuracy of the data contained within the credit bureau file. The confidence that originators place in FICOs may be diminished, and the perceived risk of the loan may be altered, when information provided within the report is not taken into consideration. Therefore, if the credit report provides conflicting information regarding Social Security Numbers, birth dates, addresses, indications of the use of multiple names, fraud alerts (known as HAWK Alert), etc., the lender should perform additional research.

Another concern with FICO score accuracy involves companies, typically Internet-based, who sell a means to artificially inflate a borrower's FICO. It has been estimated, as well as claimed by these services, that the use of a single "borrowed" account from a good consumer, reflected on the credit report as an "authorized user" account, will increase a FICO score by 50 to 75 points. Multiple authorized user accounts have the possibility of inflating a poor credit borrower's FICO by as much as 200 points. While this practice is not technically illegal for the service provider, many feel that the borrower who utilizes another person's good credit to inflate their score for the purpose of misleading a lender is committing fraud.

However, the industry is starting to limit the use of authorized user accounts or "piggyback credit." For example, Fair Isaac Corp. indicated that it was taking steps to ensure credit scores are not artificially enhanced by using borrowed credit by modifying the formula for its FICO score. The newest FICO model (version FICO 08) will ignore authorized user accounts. In addition, TransUnion LLC expanded its offerings to help the financial industry by identifying consumers who may have added authorized user relationships to their credit files to artificially enhance their credit standing.

Because of the effect of authorized users and other credit "improvement" schemes available today, lenders who review all information on a proposed borrower's credit report will be able to better determine the full indication of a borrower's credit risk profile. Specifically, if a lender uses a "high" FICO as a compensating factor for layered risk or risk outside stated program guidelines, the need to determine the accuracy of this tool is materially increased.

Property Valuation Accuracy

Risks associated with appraisals are varied and costly. Based on the past unprecedented home price appreciation in some markets and recent regulatory investigations, there is widespread concern regarding the number and severity of inflated valuations used to determine LTV. The availability of stated value refinances, inappropriate use of alternative valuations, and high production volume pressures on appraisers contributed to this problem. The effect of flat or declining home values, currently evident on a national scale, is most sharply felt in some of the same markets affected by the most inflated valuations, making current assessments of appropriate valuations more difficult. As a result, lenders are expected to exercise additional caution when determining values, and therefore LTVs to use in their risk assessments.

Fitch believes that a comprehensive valuation program uses a combination of full appraisals, automated valuation models (AVMs), and review appraisals. AVMs can be used to check and verify the appropriate valuations of appraisals at a relatively low cost. They are especially useful in the selection of properties for re-appraisal or appraisal review as part of a comprehensive quality control program. In addition, most lenders have procedures for reviewing appraisals referred by underwriting or quality control that use either in-house certified review appraisers or adequately monitored third-party review appraisers.

Lack of Underwriting

The high volume of mortgage applications over the past few years, coupled with the consumer's demand for more rapid responses to those applications, led to use of automation via Automated Underwriting Systems (AUS) and the use of validators to ease heavy underwriter workload. The borrower application information, often provided by the broker, is typically subject only to a cursory validation process. The cost savings benefit of using less experienced employees must be offset by controls to mitigate the likelihood that critical data points or red flags that could materially affect the underwriting decision or pricing may be overlooked.

Policies should address how the lender is evaluating risk layering, disposable income and payment shock. In addition, compensating factors are often used to override or offset loan characteristics that do not meet stated program guidelines. However, typically a single compensating factor would not offset multiple layers of risk. Therefore, to determine acceptable and predictive levels of risk, exceptions, upgrades, and overrides to established underwriting and loan programs should be carefully documented, monitored and disclosed.

Audits and Quality Control

To mitigate and control the extensive risks associated with originations, a lender needs an active, dynamic, and systemic quality control and internal audit program. An independent quality control program can provide an objective assessment of credit risk and compliance to the company's loan product and underwriting guidelines, as well as identify deteriorating asset quality. Pre- and post-funding quality control programs assess the underwriting decision, re-verify documentation, and provide constructive feedback to management.

■ Representations and Warranties (Reps & Warranties) in RMBS

In RMBS transactions, reps and warranties are given by the originator, issuer or other appropriate party, covering several areas, including the legality of the mortgage loan, the lien status, and condition of the property. In addition, some of the reps and warranties address compliance with the originator's underwriting standards and a smaller number of transactions have specific reps and warranties for fraud. However, there are several challenges to relying on reps and warranties to remove loans from RMBS deals for a breach due to underwriting or misrepresentation/fraud.

For many subprime loans, the program guidelines allowed the originator to base qualification on features such as stated income. Assuming that the originator's underwriting standards did not require the verification through another means, or that a "reasonableness test" be conducted, the failure to perform these steps would not be an exception to their underwriting standards. Therefore, if the borrower or broker misrepresented the actual income, it is fraud on their part, but is it a breach of the reps and warranties? The same question would apply to borrowers who have artificially enhanced their FICO.

Most pooling and servicing agreements that Fitch reviewed indicate that any party to the transaction (typically, the issuer, servicer, master servicer, or trustee) who becomes aware of a suspected breach to the reps and warranties should provide notice to the trustee (or in some all other parties). However, unless there is a reason that research is conducted to specifically look for a breach, finding potential breach situations typically requires an awareness and identification by the servicer while conducting their functions. Directions as to the process after notification are somewhat varied, but in general, if a breach is determined, the trustee will facilitate the request for repurchase of the loan from the transaction. Fitch believes that risk management firms that track potential repurchase candidates and monitor the repurchase process can enhance the effectiveness of representations and warranties. However, in today's environment, one of the situations which could occur would be that the original provider of the reps and warranties is no longer in existence or has filed bankruptcy.

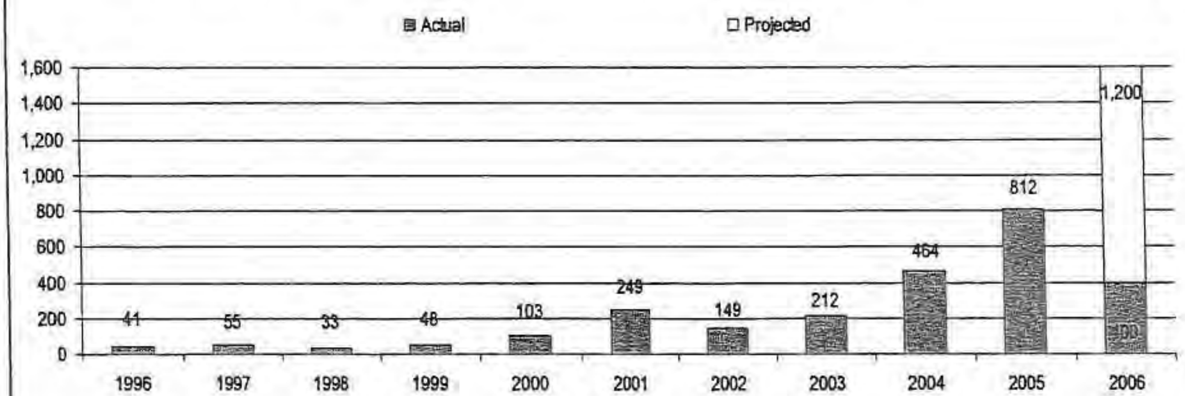
Appendix — Measuring Fraud Within the Industry

Difficulties in Measuring and Reporting Fraud

Although most information available today on mortgage fraud indicates a strong increase in the amount and complexity of fraud in the industry, there is not a clear mechanism in place today to adequately identity and track these instances.

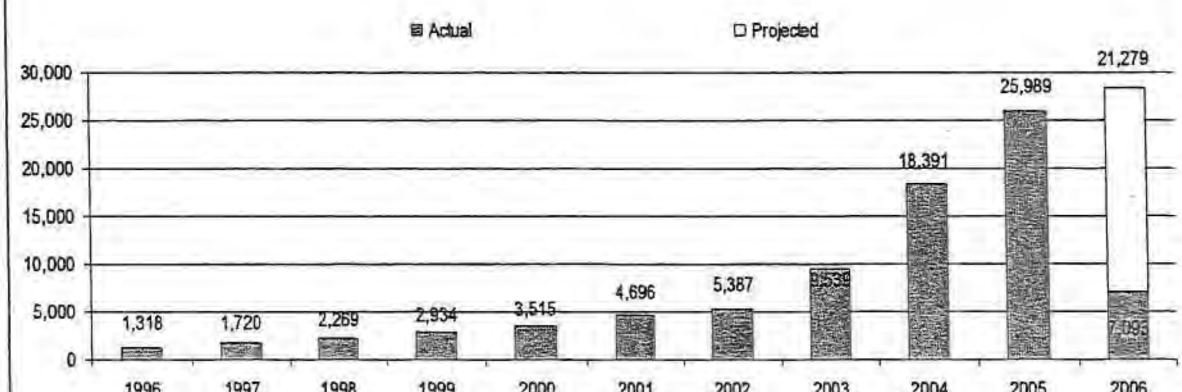
One source for this information is the US Department of the Treasury, Office of Inspector General's Financial Crimes Enforcement Network (FinCEN), which was established in 2001 to advise and make recommendations on matters relating to financial intelligence and criminal activities, including mortgage loan fraud. In the most recent Suspicious Activity Report (SAR) dated November 2006, the bureau reported a 14-fold rise in mortgage fraud-related suspicious activity reported between 1997 and 2005.[3] However, the first quarter of 2006 is the most recent data available currently.

SAR Narrative Reports of Strawbuyers in Suspected Mortgage Loan Fraud



Source: Financial Crimes Enforcement Network Regulator Policy and Programs Division: Mortgage Loan Fraud; an Industry Assessment based upon Suspicious Activity Report Analysis, November 2006.

Mortgage Loan Fraud Reporting Trend



Source: Financial Crimes Enforcement Network Regulator Policy and Programs Division: Mortgage Loan Fraud; An Industry Assessment based upon Suspicious Activity Report Analysis, November 2006.

It is important to realize that the SARa are typically only filed by federally chartered or federally insured institutions. Since the majority of the subprime mortgage loans are originated by entities that are not federally chartered or insured, the number of potential fraud instances could easily be multiplied two to three times.

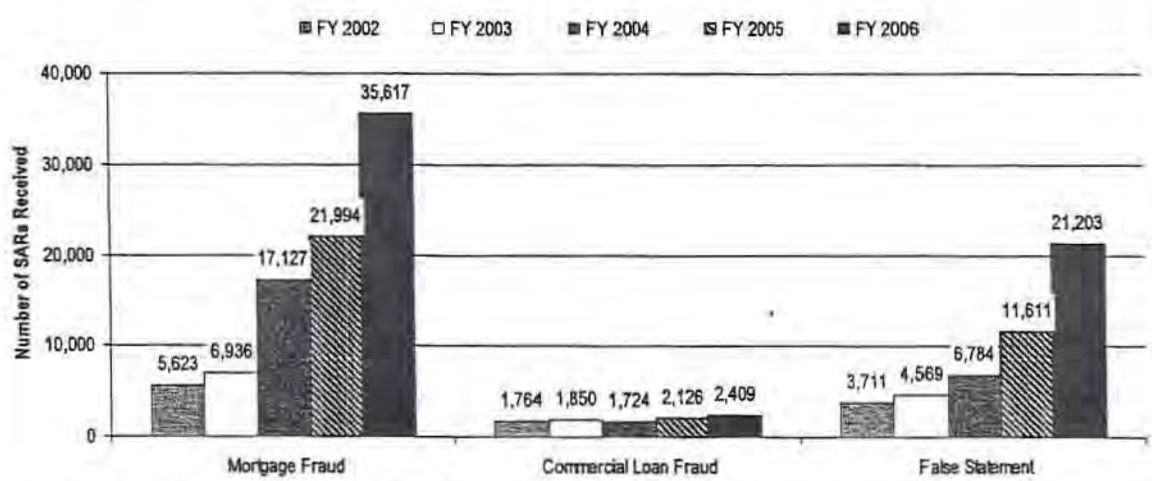
Another widely acknowledged source for mortgage fraud information, MARI provides an annual report on mortgage fraud activity. Although the MBA has access to a wider range of information from its membership, the information is provided as an index for the states and metropolitan areas, and without access to the raw data behind the indexes, comparison and trending is limited. However, MARI has indicated that its records show a 30% increase in loans with suspected mortgage fraud in 2006, with the most common type of fraud being employment history and claimed income. The report went on to show that while 55% of overall fraud incidents reported to MARI were application fraud, the percentage of subprime loans with application fraud was higher at 65%. In addition, for appraisal/valuation fraud the overall was 11%, with subprime at 14%. The report also makes a projection with regard to the cases of fraud in subprime, indicating that it will likely take three to five years to uncover most of the fraud and misrepresentation in the 2006 book of business.[4]

The FBI reports the actual number of convictions for mortgage fraud has increased 131% from 2001 to 2006. As shown in its report for 2006, the FBI investigated 818 cases and obtained 263 indictments and 204 convictions of mortgage fraud criminals. The agency also reports that in 2006, for mortgage fraud, it accomplished $388.9 million in restitutions, $1.4 million in recoveries, and $231 million in fines.[5]

However, the timing of reported fraud cases must be considered when attempting to determine the increasing trend of occurrence within the FBI numbers. While some fraud cases can be identified at the time of origination, most will not be noted until later in the servicing process. This may occur when the servicer notes a first or early payment default; a borrower cannot be contacted or traced; inspection of the property identifies vacancy, tenants, or conditions that are not as noted on the appraisal; or possibly when, during contact with the borrower or other parties in the transaction, there is an admission of misrepresentation. Also, with regard to the FBI reported convictions, it should be noted that there may be a considerable span of time from the identification and investigation phase of these cases to pending and final conviction. This delay, combined with the difficulty in identifying the vintage of loan origination, makes specific trending using this data complicated at best.

There are providers of advanced technology tools to identify fraud or misrepresentation available in the industry today. Some of these providers also report their findings in summary or on certain features of fraud. This

Number of Violations of Mortgage-Related Fraud SARs



Source: FBI Financial Crimes Report to the Public Fiscal Year 2006 information is helpful to the industry; however, the information provided by these vendors will be limited to the data provided to them from their clients. Notwithstanding this limitation, because these companies are typically actively looking for fraud in new production files, the statistics they provide may well be the most up to date information available upon which to monitor trends.

Endnotes

[1]White Paper, "Early Payment Default – Links to Fraud and Impact on Mortgage Lenders and Investment Banks," 2007 BasePoint Analytics LLC.

[2]Federal Bureau of Investigation, "Mortgage Fraud: New Partnership to Combat Problem: March 9, 2007."

[3]Mortgage Loan Fraud, An Industry Assessment based upon Suspicious Activity Report Analysis, November 2006, Financial Crimes Enforcement Network, Regulatory Polity and Programs Division, Office of Regulatory Analysis, US Department of the Treasury.

[4]Ninth Periodic Mortgage Fraud Case Report to Mortgage Bankers Association, April 2007, Mortgage Asset Research Institute, LLC., a ChoicePoint Service.

[5]"Financial Crimes Report to the Public Fiscal Year 2006, October 1, 2005 – September 30, 2006," Federal Bureau of Investigation.