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2005 US CDO Review - Looking Ahead to 2006 - Record Year Follows Record Year (Moody's Special Report)

Richard Michalek

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2005 U.S. CDO Review; Looking Ahead to 2006 Record Year Follows Record Year

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ACTIVITY SUMMARY

Full Year: 2005

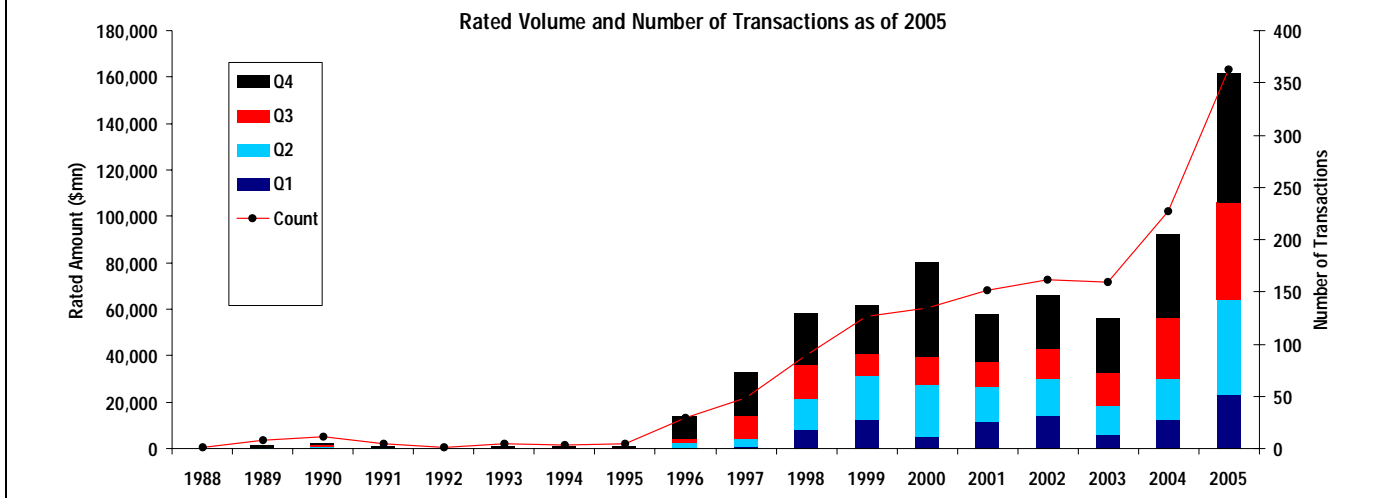
In the final two quarters of 2005, Moody's rated more volume in very nearly the same number of transactions as all transactions for the entire year of 2004.¹ For the year, the 363 U.S. CDO transactions rated by Moody's was up over 60% from the number rated in 2004, and the total rated volume of approximately \$162 billion was more than 73% larger than last year's volume. See *Figure 1*.

Our annual report 12 months ago described the year 2004 as "a record-breaking year" but the outlook for 2005 was skeptical of sustaining that growth. What a difference a year makes.

¹ The year 2004 saw 227 Moody's-rated U.S. CDO transactions, with rated volume of approximately U.S.\$93 billion. In Quarters 3 & 4 of 2005, 207 U.S. transactions, having volume of just over U.S. \$97 billion were rated by Moody's.



Figure 1
U.S. CDO Transaction Volume Growth in 2005



This amazing growth was contained in three dominant transaction types. In descending order of number, resecuritization CDOs (Resecs), synthetic CDOs (Synthetics) and collateralized loan obligations (CLOs) together accounted for more than 89% of the 363 transactions rated during the year. Of those three, Synthetics (inclusive of Resecs synthetically executed) made the largest gain over 2004, increasing their share of the total number of rated issuance by more than 10%.² From the remaining transaction types, market value (MV) CDOs, trust preferred shares (TRUPS) CDOs and small-to-medium enterprise (SME) CLOs stood out, and together with emerging market (EM) CDOs and high yield (HY) CBOs, represented the remaining 11% of the year's activity.³

The source of all of this activity remains open to debate. Greater familiarity and more standard documentation have contributed to the sustained rise in synthetic activity, while interest rate driven refinancings have provided ample product for real estate resecuritizations.

Meanwhile, CLO investors and structurers discovered/popularized "second-lien loans" to support the already consistent demand for CLOs, a "default-free" product. Last year's extraordinary demand for CDO product may be the result of all of the above, but additional demand may also represent (i) the return of some of the HY CBO investors who experienced some of the corporate high yield sector's losses in the stressed credit environments of 2001 and 2002, and (ii) the reinvestment of some of the redemption funds coming from the those well performing 1999 and 2000 vintage CBOs that ended their reinvestment period in late 2004 and 2005.⁴

Rating Activity

Rating activity for the year reflected the generally benign and stable credit environment and with strong uptrend in upgrades (associated with amortizing transactions that have outlasted their reinvestment periods), supports the speculation that redemptions may be one of the sources of demand for new product.

For 2005, CDO downgrades led upgrades at a ratio of less than 2 to 1 at the tranche level, and less than 5 to 3 at the deal level. In comparison, Moody's downgrades led upgrades in 2004 by more than 8 to 1 at the tranche level and 5 to 1 at the deal level. Nearly three times as many tranches were upgraded in 2005 as compared to 2004. See the section *CDO Rating Actions*, below.

Fourth Quarter 2005

The fourth quarter of 2005 was surprisingly busy, outstripping even the optimistic projections we made at the end of the record-setting third quarter. The fourth quarter's number of rated transactions was up more than 11% from the record number of transactions rated in the third quarter 2005, while the total rated volume for the fourth quarter was up 35% from the rated volume for the third quarter of 2005.

² In 2005, CLOs and Resecs maintained, but did not increase, their 2004 share of total number of deals.

³ Corporate HY CBOs, the original dominant transaction type using derivative credit exposure technology, has all but disappeared from view: Moody's rated only 1 HY CBO in 2005. High yield corporate credit risk is now synthetically transferred or found in buckets within CLOs or in CDOs buying CDOs (CDO²'s).

⁴ In 2000, CDO issuance topped U.S.\$80 billion. While aggregated statistics regarding redemptions have not been recorded to date, anecdotal evidence supports the conclusion that redemptions are by far the primary source of CDO ratings withdrawals. In 2005, 314 tranches from 112 deals representing nearly U.S.\$39 billion in volume had their ratings withdrawn.

Year-over-year, the fourth quarter of 2005 has set a very high threshold, up approximately 42% (by number of transactions) from the same period in 2004. The rated volume for Q4 2005 topped the volume rated during last year's comparable period by more than 57%. See the *Transaction Mix* section below for a breakdown of quarter-over-quarter results according to transaction type.

ACTIVITY OUTLOOK FOR 2006

The forward calendar for the first quarter of 2006 suggests another strong quarter. In fact, comparing the current pipeline with the pipeline from 12 months ago suggests that we haven't quite finished with our "record breaking" activity. But over the longer term, there remains some cause for caution. Synthetic activity, in particular, appeared to stall during the fourth quarter of 2005, producing just over half of the number of deals rated in the third quarter. This moderation in the synthetic sector was masked by the continued robust activity in CLOs (up 36% over Q3 2005) and especially in the end-of-year burst of cash Resecs (more than doubling the number of cash Resecs rated in the third quarter).

Although we expect a rebound in synthetic activity during the coming months, the steadily increasing concentration in the three dominant CDO types bears watching. Activity in any one type of CDO can be affected by exogenous events. For example, in early summer of 2005, the rating revisions in the auto sector generated problems for correlation traders and hedge books, with a knock-on effect to structurers looking for spreads for their new synthetic CDO structures.

Similarly, "affordability" products have multiplied in the residential real estate arena, pumping up supply and generating new structural innovations at the resecuritization level in order to deal with some of the retail features. CLOs have rapidly embraced "second lien" loans to a degree where they are now an assumed element, and may drive some issuances.

The other source of caution stems from the obvious: all of the growth over the last three full years has occurred during a period of improving credit. Default rates on corporate credits have been on the decline for the past four years, only turning up again in the last quarter of 2005. Recently released economic data suggests the business and consumer spending in the U.S. may be taking a pause as well.⁵ If the economy begins to sputter, and defaults accelerate past the currently anticipated projections, memories of 2001 and 2002 may loom large. A new chairman of the Fed may similarly give any potentially hesitant investors a reason to "wait and see". And, as always, new alternative investments may come to the fore in 2006, siphoning off investor interest.

Still, the calendar of possible redemptions has been filling up, as 2006 represents the end of the reinvestment period for the majority of those deals issued in 2000. With newly released funds in the hands of experienced investors, creative structurers will face good demand. Also, we look forward to strong and increasing interest in synthetic ABS Resecs as the introduction of the ABX index provides investors with another investment option, potentially useful when ramping-up full capital structure CDOs, and offering additional flexibility to investors seeking alternate sources of exposure to ABS credit. For synthetic ABS investors already familiar with the increasingly standard "pay as you go" templates, we see increased activity as more resecuritization deals tap the execution and timing advantages of synthetics and as more cashflow CDOs add pay as you go credit default swaps and CLNs to their synthetic "buckets". Finally, the current arbitrage opportunities in ABS resecuritizations argue for continued robust supply of this CDO type.⁶

As for CLOs, we eagerly await further development of standardized documentation for synthetic CLOs from the International Swaps and Derivatives Association (ISDA). It will be important to watch the market's reaction to ISDA's efforts in light of the growth seen in 2005 in synthetic ABS Resecuritizations after template documentation for ABS credit default swaps was finalized. Also, given the interest in the historically observed default and recovery rates for leveraged loans and speculative grade issuances, CLO structurers and managers may have additional choices if meaningful adjustments to asset ratings and loss severities for given defaults are made effective in 2006.⁷

Cautiously, we are expecting a very strong first half of 2006, and overall we project 2006 activity to equal or slightly surpass the record levels achieved in 2005, with continued increased concentration in ABS resecuritizations (both cash and synthetic) and CLOs.

5 See, Porter and Bajaj, "U.S. Economy Slowed Sharply at End of 2005", New York Times, January 28, 2006, reporting on the US Department of Commerce's Bureau of Economic Analysis "advance" fourth quarter estimates for gross domestic product.

6 See the discussion of asset and liability spreads in the section titled *Relative Arbitrage Opportunities*, below.

7 See, "[Request for Comment on: Probability-of-Default and Loss-Given-Default Ratings for Non-Financial Speculative-Grade Corporate Obligors](#)", Moody's Rating Methodology, January 2006.

TRANSACTION MIX IN 2005

In *Figures 2A, 2B* and *2C*, we set out each deal type's proportion of each quarter's total activity, by number and by volume. *Figure 2C* presents the same data in tabular format and includes annual summary percentages.

The steady growth of CLOs and expansion of volume of Resecs particularly stand out, as does the diminishing proportion of synthetic arbitrage transactions (exclusive of synthetic resecuritizations).

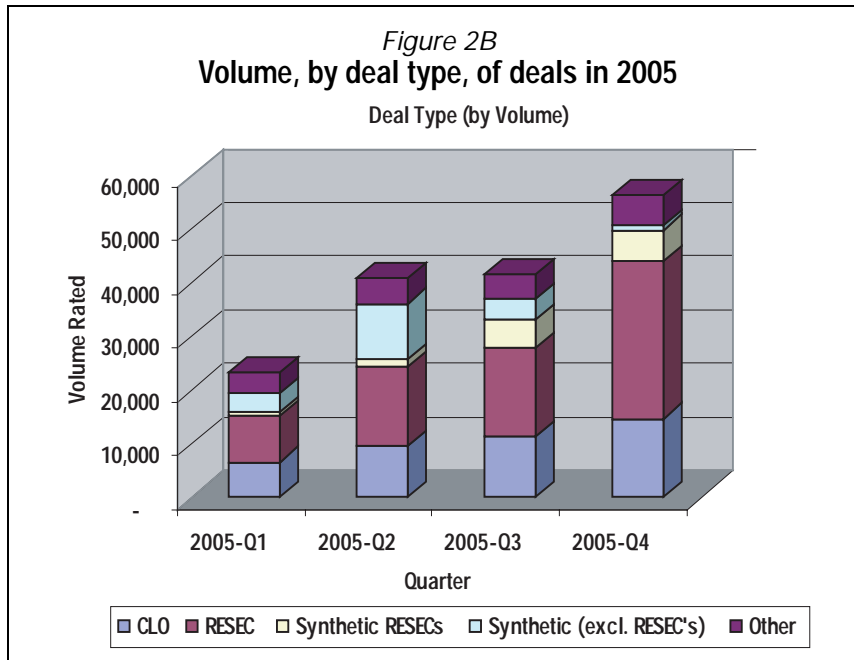
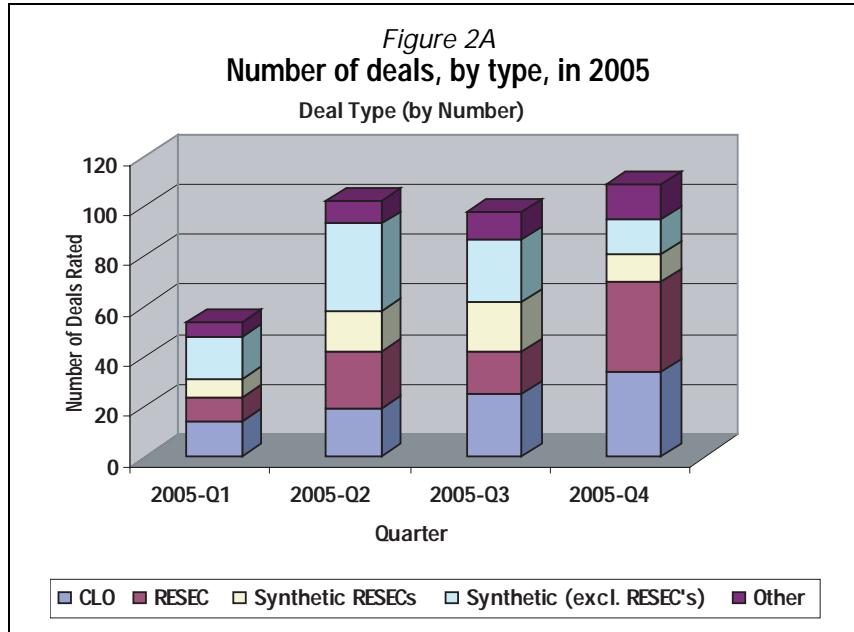


Figure 2C

	CLO		RESEC		Synthetic RESECS		Synthetic (excl. RESEC's)		Other	
	% by Num	% by Vol	% by Num	% by Vol	% by Num	% by Vol	% by Num	% by Vol	% by Num	% by Vol
2005-Q1	26%	28%	19%	37%	13%	3%	31%	15%	11%	17%
2005-Q2	19%	24%	23%	36%	16%	3%	34%	26%	9%	11%
2005-Q3	26%	27%	17%	40%	20%	13%	26%	9%	11%	11%
2005-Q4	31%	26%	33%	52%	10%	10%	13%	1%	13%	10%
2005 (YR)	25%	26%	24%	42%	15%	8%	25%	12%	11%	12%

Quarterly Mix

Fueled in part by a healthy widening of ABS asset spreads, both the number and volume of cash resecuritizations surged in the fourth quarter of 2005, with 42% of the year's total number of cash Resecs coming in the fourth quarter. The proportion of overall activity represented by synthetic transactions (both corporate synthetics and synthetic resecuritizations) in the fourth quarter decreased dramatically from the high levels set in the third quarter, with about 1.5% of the quarter's total rated volume coming from corporate arbitrage synthetic transactions.

Of the 47 total Resecs rated in Q4 2005, 36 were done in cash form, while 11 were synthetically executed. CLOs were the next most popular in the quarter, with 34 transactions having rated volume of nearly U.S. \$15 billion. Twenty-five Synthetic CDOs received a Moody's rating in the fourth quarter, of which 14 were synthetic arbitrage CDOs *other than* resecuritizations.⁸

Despite the reduced total of synthetics rated in the quarter, the proportion of U.S. synthetic CDOs consisting of synthetic resecuritizations remained nearly constant: in each of the third and the fourth quarters such proportion stood at 45% of the number of synthetic CDOs rated in such quarter.

Among the remaining CDO types, the five new MV CDOs represented more than a doubling of last quarter's two deals, while TRUPs CDOs fell back slightly (from six deals in Q3 2005 to four deals in Q4). Middle market loan deals, the SME CDOs, held steady with four deals in each of the last two quarters.

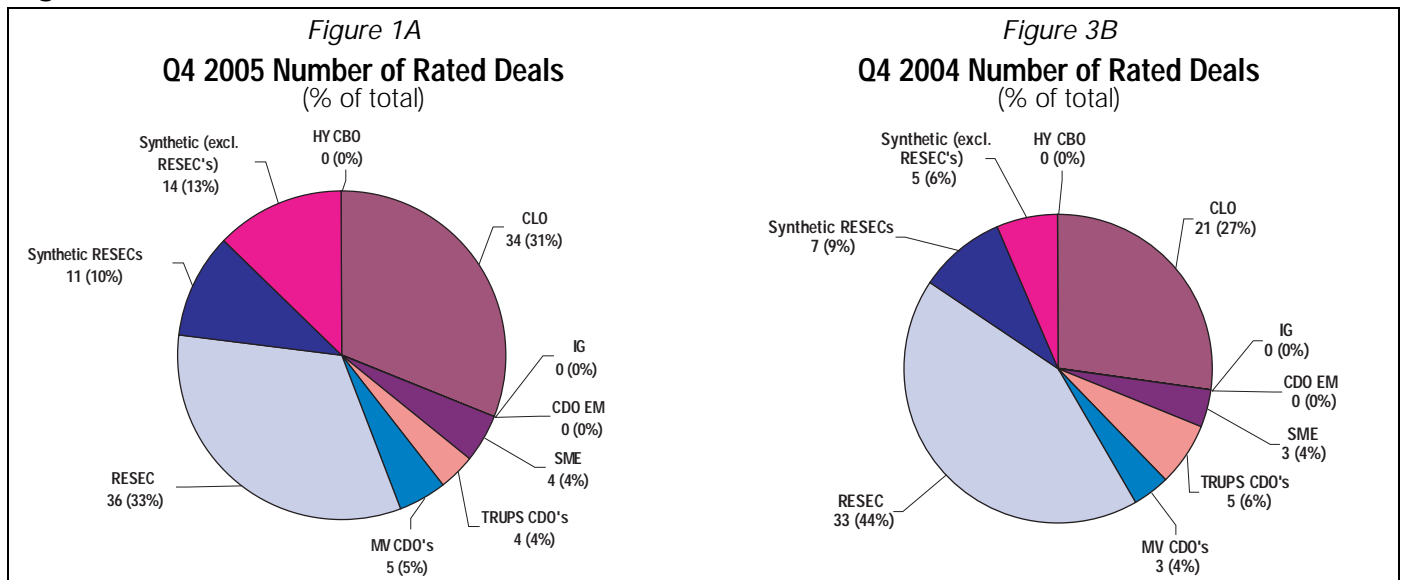
Q4 2005 vs. Q4 2004

The trend seen in the increased thirst for Synthetics, Resecs and CLOs in Q4 2005 is most startling when compared to the same deals rated in the fourth quarter of 2004. During the last quarter of 2004, 40 Resec deals, in both cashflow and synthetic form were rated while 47 were done in the fourth quarter of 2005. Similarly, 21 CLOs were rated in Q4 2004 while 34 were rated in Q4 2005. Arbitrage synthetics and synthetic resecuritizations comprised 15% of all deals rated in the fourth quarter of 2004 but 23% in the fourth quarter of 2005. In terms of rated volume, Resecs continued to dominate, but more were done in the synthetic form than ever before.

As noted above, there continues to be steady interest in MV CDOs, Trups CDOs and SME CDOs. On a comparable quarter view, we saw 5 MV CDOs in the fourth quarter of 2005 and only 3 in the fourth quarter of 2004. We rated 4 SME CDOs in Q4 2005 and only 3 in Q4 2005. In contrast, we saw one less TRUPs CDO in the fourth quarter of 2005 than in 2004.

One constant: Moody's rated no HY CBOs, EM CDOs or investment grade corporate (IG) CBOs in either Q4 2004 or Q4 2005.

Figures 3A and 3B: Q4 Rated Deals[†]



[†] Number and percentages reflect that category's actual number and proportion of total number of rated transactions in that quarter.

⁸ These included deals referencing corporate and municipal securities, but excludes CDO² included in Resecs.

Relative Arbitrage Opportunities

The relative arbitrage opportunities have remained almost constant for the past two years. Compared to an (arbitrarily assigned) index dated from January 2001, the five distinct types of CDO transactions have basically maintained their ordinal relationships with each other since the fourth quarter of 2003. Since the first quarter of 2003, Resecs have, as at their "hypothetical" closing, promised the greatest return on equity, followed by HY CLOs, then HY CBOs, then Synthetic CDOs, and finally, IG CDOs.⁹ (See Figure 4)

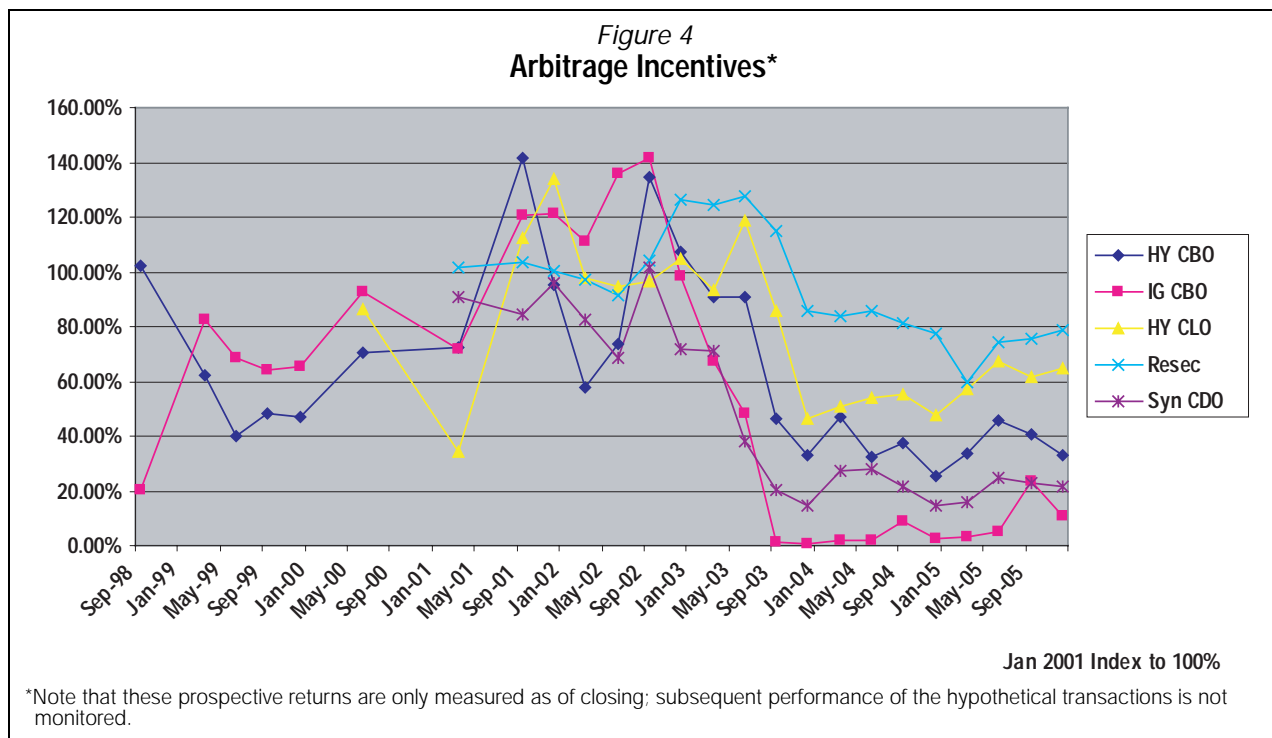
With few exceptions, spreads narrowed on all CDO liabilities over 2005. On the asset side, year-end to year-end, spreads generally widened with certain important exceptions: senior adjustable rate mortgages, senior floating credit cards, senior CLO paper and emerging market debt.¹⁰

Quarterly Movements in Spreads

Over the fourth quarter, the arbitrage opportunity strengthened for structured finance resecuritizations as asset spreads for structured product widened more than structured finance CDO liabilities.¹¹ Spreads on adjustable rate RMBS at the Baa level widened out about 75%, while home equity loans widened about 40% at the Baa level, and mezzanine CMBS also widened somewhat (10%-15%). Single-A rated adjustable rate mortgages (ARMs) held steady, highest rated ARMs actually saw some spread tightening, as did spreads on Aaa rated CMBS. Leveraged loans also saw spreads widen at the Ba level.

On the liability side, the Resec arbitrage was preserved as liabilities on mezzanine structured finance CDO liabilities widened only 30%-35%, and held fairly steady at the senior level. Synthetic CDO liabilities held fairly steady across the priority spectrum, and at a notable discount from the structured finance CDO liabilities.

For CLOs, the Aaa liabilities did not move and the non-Aaa senior liabilities widened only slightly, maintaining the prior quarter's arbitrage opportunities.



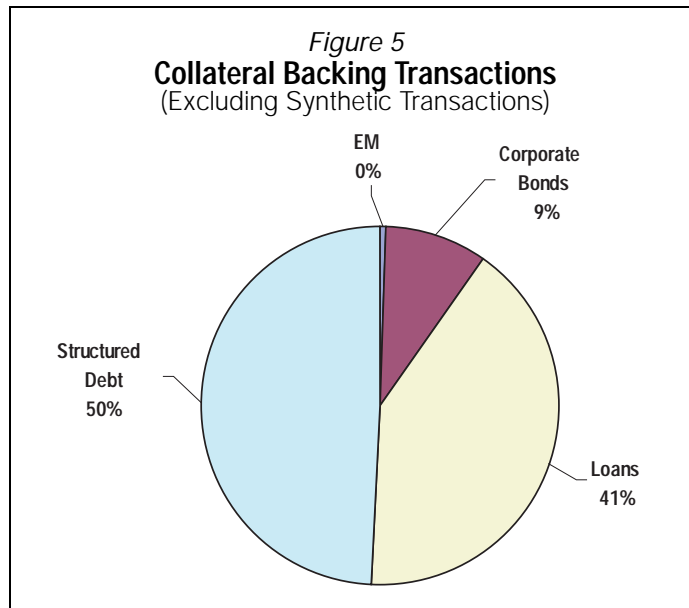
9 Prospective relative returns to CDO equity holders for *newly structured* (hypothetical) transactions based on binomial calculations assuming a typical liability structure and collateral profile for each of the CDO types and asset sectors, using then-prevailing asset/liability pricing and swap spreads.

10 JPMorgan ABS Weekly Spreads 12/30/2005

11 Ibid.

COLLATERAL MIX

In keeping with the trend that emerged over the last two quarters of 2005, and consistent with the increased interest in Resecs, loans and structured finance securities accounted for 91% of the collateral pool backing US transactions.¹² Specifically, structured finance securities made up 50% of the collateral pool backing the rated transactions, and loans comprised 41% of such pool. Corporate bonds (and a *deminimus* amount of EM collateral) accounted for the remaining 9%. (See Figure 5)



NEW DEVELOPMENTS IN 2005

Noteworthy developments in 2005 included the expanded implementation of Moody's CDOROM™ as a modeling tool for synthetic transactions and for determining asset correlations when using the correlated binomial methodology, now required for all Moody's rated cashflow Resecs.¹³ The deployment of CDOROM™ played a significant part in our ability to meet the market's demand for ratings timely enough to meet even brief "windows of opportunity" in Synthetics and ABS Resec markets.

The steady rise of interest rates over the year, together with a very high percentage of floating rate U.S. property loans, led to an uncomfortable uncertainty in real estate markets. As ABS Resecs became highly concentrated in real-estate related collateral, our focus shifted to the impact of "affordability products" on the various CDO structures (e.g. option ARMS leading to negatively amortizing securities backed by negatively amortizing loans) and the presence of non-trivial available funds caps in floating rate RMBS.

In Resecs, beyond the extraordinary rise in volume of cash and synthetic CDOs backed by structured finance product, the most interesting and challenging development came with the introduction of "hybrid" structures. The hybrid CDOs include features of both cashflow structures (i.e., cash-purchased assets, a "priority of payments" waterfall, overcollateralization tests and funded notes) and synthetic structures (i.e., synthetically referenced assets and funded and unfunded liabilities).

Synthetically executed Resecs came to dominate the volume of synthetic transactions in part because investors and structurers are coming to accept the ISDA template documentation - at least as a starting point - for credit default swaps referencing ABS collateral. It remains to be seen whether similar template documentation will be successful for credit default swaps synthetically referencing leveraged loans.

Leveraged super-senior tranches in synthetic CDOs also made their ratings debut in 2005, as historically tight spreads found elsewhere in the CDO capital structure increased the relative value of these super-senior exposures. Broader participation in these structures will depend on resolving some difficult marked-to-market volatility issues, and the related thresholds for required funding.

¹² Excludes Synthetic CDOs from the collateral analysis.

¹³ For a full description of our Correlated Binomial methodology, see the Rating Methodology Report "[Moody's Correlated Binomial Default Distribution](#)" Witt, August 2004.

2005 will also be remembered for the market's increasing interest in "operating" vehicles organized for the limited purposes of selling credit protection on CDO bespoke tranches, synthetic ABS CDO tranches and corporate and synthetic single name credit default swaps. We continue to see interest in these credit derivative product companies (aka structured financial operating companies), and expect further expansion of the types of credit protection offered in 2006. With all of the ABS CDO issuance on the books and ramping up, we anticipate seeing several new ventures come to market in 2006.¹⁴

Among the "other" CDO types, the return of interest in the MV CDOs in 2005 was complemented by the introduction of Moody's Multi-Asset Market Value CDO model.¹⁵ The year also saw three REIT TRUPS CDOs rated, and we expect to see that number double in 2006. The traditional bank/insurance TRUPS CDO will likely include a basket of REITs as a near standard feature.¹⁶

Finally, the coming year will see the market's incorporation of the ABX.HE index within the trading tools available to investors with exposure in sub-prime RMBS.

CDO RATING ACTIONS AND LIST OF RATED TRANSACTIONS IN Q4

Rating activity for the year reflected the generally benign and stable credit environment and also demonstrated one of the sources of new activity. Moody's downgraded 95 (non-pari-passu) tranches within 46 deals while upgrading a total of 51 (non-pari-passu) tranches within 33 deals over the year. The sharp increase in upgrades reflected the accelerated pace of structural amortization as more deals, especially HY CBOs from the 2000 vintage, completed their reinvestment periods.¹⁷ The HY CBOs accounted for 52% of the upgrade activity in 2005. In comparison, in 2004, 140 tranches were downgraded and only 17 tranches were upgraded.

This relative stability across the two years is reflected in the rating activities in the corporate sector: in December of 2004, the upgrade-to-downgrade ratio was approximately 0.7:1 and by the end of 2005 the ratio stood at 0.78: 1.¹⁸ Meanwhile, the U.S. trailing 12 month corporate default rate fell to 0.97% from 1.2% in 2004, while the speculative default rate fell to 2.2% from 2.8% in 2004.

Q4 2005

Moody's downgraded only 19 tranches within 10 deals in the fourth quarter of 2005, while upgrading 17 tranches within 10 deals. Moody's also placed 14 tranches within 12 deals on watch for possible downgrade, while placing 27 tranches within 14 deals on watch for possible upgrade. Of the deals put on watch for possible upgrade during the fourth quarter of 2005, 79% were HY CBOs.

14 See Moody's reports: "Rating Methodology: [A Framework for Understanding Structured Financial Operating Companies](#)", Chen, April 2005, and "[Periodic Reporting for Moody's Rated Credit Derivative Product Companies](#)", Michalek, December 2005.

15 See Moody's Special Comment: "[Introducing MVCDO™ -- Moody's Multi-Asset Market Value CDO Model](#)", Crousillat, May 2005.

16 For further information on our rating methodology for TRUPS CDOs, see the soon to be released special report "Moody's Approach to Rating U.S. REIT CDOs".

17 See footnote 4 above.

18 [Moody's Rating Actions, Reviews and Outlooks: Quarterly Update - Fourth Quarter 2005](#), Praveen Varma and Richard Cantor.

Figure 6

CDO Rating Actions During Q4 2005*

Transaction	Tranche	Initial deal rating date	Previous Rating	Date of Action	New Rating	Downgrade or Upgrade
Halyard CBO I Limited	\$136.70M Floating Rate Global Notes	24-Mar-98	Baa3	13-Oct-05	Baa2	U
PPM America Structured Finance CBO I Ltd.	\$256.50M Class A-1 Floating Rate Notes	29-Jun-00	Ba2	18-Oct-05	Caa1	D
Solstice ABS CBO, Ltd.	\$50.00M Class B Second Priority Floating Rate Notes	19-Apr-01	A3	18-Oct-05	Baa3	D
Solstice ABS CBO, Ltd.	\$12.50M Class C Mezzanine Floating Rate Notes	19-Apr-01	B2	18-Oct-05	Ca	D
Solstice ABS CBO, Ltd.	\$9.75M Class 1 Pass-Through Fixed Rate Notes	19-Apr-01	B3	18-Oct-05	Ca	D
Capital Guardian ABS CDO I, Ltd.	\$14.10M Class C Mezzanine Secured Floating Rate Notes	28-Feb-02	Baa2	20-Oct-05	B1	D
Capital Guardian ABS CDO I, Ltd.	\$15.00M Preferred Shares	28-Feb-02	Ba3	20-Oct-05	Ca	D
Signature 6 Limited	\$13.00M Part. 2 Combination Notes	18-Dec-01	Baa2	21-Oct-05	Ba2	D
Trainer Wortham First Republic CBO II, Limited	\$23.00M Class A-2L Floating Rate Notes	28-Feb-02	A2	31-Oct-05	Baa2	D
Trainer Wortham First Republic CBO II, Limited	\$10.00M Class A-3L Floating Rate Notes.	28-Feb-02	Ba3	31-Oct-05	Caa2	D
Trainer Wortham First Republic CBO II, Limited	\$18.00M Preferred Shares	28-Feb-02	B3	31-Oct-05	C	D
Trainer Wortham First Republic CBO II, Limited	\$7.60M Class B-1L Floating Rate Notes	28-Feb-02	Caa3	31-Oct-05	C	D
FC CBO IV Limited	\$273.00M Class A Floating Rate Notes	15-Aug-00	Aa3	3-Nov-05	Aaa	U
Harbourview CDO III, Limited	\$311.25M Class A First Priority Notes	24-Apr-01	Aa3	9-Nov-05	A1	D
Harbourview CDO III, Limited	\$22.50M Class B Second Priority Notes	24-Apr-01	Ba1	9-Nov-05	Caa3	D
Talon Funding I, Ltd.	\$402.50M Class A Floating Rate Notes	27-Apr-00	Aa3	9-Nov-05	Baa3	D
Talon Funding I, Ltd.	\$31.25M Class B Floating Rate Notes	27-Apr-00	Ba2	9-Nov-05	Caa3	D
Battery Park CDO, Limited	\$161.00M Class I Senior Secured Rate Notes	22-Dec-99	Aa2	10-Nov-05	Aaa	U
Battery Park CDO, Limited	\$15.00M Class II-A Senior Secured Notes	22-Dec-99	Baa3	10-Nov-05	A3	U
Battery Park CDO, Limited	\$21.00M Class II-B Senior Secured Notes	22-Dec-99	Baa3	10-Nov-05	A3	U
Fortress CBO Investments I, Limited	\$20.00M Class B Collateral Notes	22-Jul-99	Aa2	11-Nov-05	Aa1	U
Fortress CBO Investments I, Limited	\$62.50M Class C Secured Notes	22-Jul-99	A2	11-Nov-05	Aa3	U

* Includes actions on *pari-passu* tranches and multiple actions within the quarter.

Figure 6 (Continued)

CDO Rating Actions During Q4 2005

Transaction	Tranche	Initial deal rating date	Previous Rating	Date of Action	New Rating	Downgrade or Upgrade
Fortress CBO Investments I, Limited	\$17.50M Class E Fixed Rate Secured Notes	22-Jul-99	Baa2	11-Nov-05	A3	U
Fortress CBO Investments I, Limited	\$32.50M Class D Secured Notes	22-Jul-99	Baa2	11-Nov-05	A3	U
Fortress CBO Investments I, Limited	\$17.50M Subordinated Certificates	22-Jul-99	B2	11-Nov-05	Ba2	U
Capital Guardian ABS CDO I, Ltd.	\$70.00M Class B Second Priority Senior Notes	28-Feb-02	Aa3	15-Nov-05	Baa2	D
Capital Guardian ABS CDO I, Ltd.	\$14.10M Class C Mezzanine Secured Floating Rate Notes	28-Feb-02	B1	15-Nov-05	Ca	D
Clearwater Funding CBO 98-A LLC	\$31.50M Class B Secured Senior Subordinated Notes	24-Jul-98	Baa3	22-Nov-05	B3	D
Stein Roe & Farnham CLO I Ltd.	\$33.50M Class B Second Priority Floating Rate Term Notes	25-Aug-99	A1	22-Nov-05	Aa1	U
Clydesdale CBO I, Ltd.	\$47.00M Class B Senior Secured Fixed Rate Notes	25-Mar-99	Caa1	23-Nov-05	Ba2	U
Sycamore CBO (Cayman) Ltd.	\$140.00M Class A-1 Senior Secured Floating Rate Notes	15-Jul-99	A1	23-Nov-05	Aaa	U
Sycamore CBO (Cayman) Ltd.	\$41.00M Class A-2 Senior Secured Fixed Rate Notes	15-Jul-99	A1	23-Nov-05	Aaa	U
Sycamore CBO (Cayman) Ltd.	\$37.00M Class A-3 Senior Secured Fixed Rate Notes	15-Jul-99	Ba1	23-Nov-05	Aa1	U
Delano Company	\$31.50M Class B-1 Third Senior Secured Floating Rate Global Notes	16-Jun-98	B1	30-Nov-05	Caa2	D
Delano Company	\$47.00M Class B-2 Third Senior Secured Global Notes	16-Jun-98	B1	30-Nov-05	Caa2	D
Acacia CDO 2, Ltd.	\$16.50M Class C Mezzanine Secured Floating Rate Notes	13-May-03	Baa2	14-Dec-05	A3	U
Hampden CBO Ltd	\$14.50M Class B-1 Floating Rate Notes	28-Mar-01	Baa2	16-Dec-05	Ba1	D
Hampden CBO Ltd	\$19.00M Class B-2 Fixed Rate Notes	28-Mar-01	Baa2	16-Dec-05	Ba1	D
Zermatt CBO Limited	\$215.25M Class A Senior Secured Floating Rate Notes	2-Sep-98	A3	16-Dec-05	Aa2	U
Zermatt CBO Limited	\$51.00M Class B Senior Secured Fixed Rate Notes	2-Sep-98	Caa3	16-Dec-05	Caa1	U
Titanium CBO I Limited	\$58.75M Class B Floating Rate Notes	25-Oct-00	A3	29-Dec-05	Aa3	U

Figure 7

LIST OF U.S. CDOs RATED BY MOODY'S DURING Q4 2005

Closing Date	Issuer	Rated Volume (\$MM)	Manager	Agent
10/04/05	ACAS Business Loan Trust 2005-1	830	ACAS Capital Strategies	Wachovia Securities
10/04/05	Pine Tree I: USD 4,000,000 SECURED FLOATING RATE CREDIT LINKED NOTES DUE 2012, SERIES 2005-2	4	[static pool]	Calyon
10/04/05	PINE TREE III: USD 4,000,000 SECURED FLOATING RATE CREDIT LINKED NOTES DUE 2012, SERIES 2005-4	4	[static pool]	Calyon
10/06/05	Duane Street CLO 1	323	Diamai Ahmad Capital LLC	Morgan Stanley
10/11/05	Signum Rated II Limited	20	HFR Asset Management LLC	Goldman Sachs International
10/12/05	Emporia Preferred Funding I, Ltd.	383.67	Emporia Capital Management, LLC	Merrill Lynch
10/12/05	Magnolia VI Series 2005-2	60	Caywood-Scholl Capital Management	CSFB
10/12/05	Stone Tower CDO II LTD.	285	stone Tower Debt Advisors LLC	Bear Stearns
10/13/05	CLOSpoke 2005-II, Ltd.	17.79	[static pool]	Morgan Stanley Capital Services Inc.
10/13/05	Gleneagles CLO Ltd.	809	Highland Capital Management	Banc of America Securities
10/19/05	Carlyle Loan Investment Ltd.	300	Carlyle Investment Management, L.L.C.	Lehman Brothers
10/19/05	Zais Investment Grade Limited VII	365.5	ZAIS Group LLC	Citigroup
10/20/05	Ares IIR CLO Ltd.	227.5	Ares Management IIR, L.P.	Lehman Brothers
10/20/05	Black Diamond CLO 2005-2 Ltd.	944	Black Diamond Capital Management	Bear Stearns
10/20/05	G Street Finance Ltd.	1491.9	Wharton Asset Manager	Goldman Sachs & Co.
10/20/05	GSC Partners CDO Fund VI, Limited	359	GSC Partners	UBS Securities LLC
10/20/05	SUMMER STREET 2005-1, LTD.	380	GE Asset Management	Citigroup Global Markets
10/25/05	Golub Capital Loan Trust 2005-1	227.55	Golub Capital Incorporated	Wachovia Capital Markets
10/25/05	Lexington Capital Funding, LTD.	485	Maxim Advisory LLC	Merrill Lynch
10/25/05	Orient Point CDO, Ltd.	1489.25	Fortis Investment Management USA, Inc.	Merrill Lynch
10/25/05	Porter Square CDO III, Ltd.	380	TCW Asset Management Company	Credit Suisse First Boston
10/26/05	Anchorage Crossover Credit Finance, Ltd.	280	Anchorage Capital Group	JPMorgan Chase Bank
10/26/05	Moselle CLO S.A.	344.42	INVESCO Institutional (N.A.), Inc.	Bear Stearns

Figure 7 (Continued)

LIST OF U.S. CDOs RATED BY MOODY'S DURING Q4 2005

Closing Date	Issuer	Rated Volume (\$MM)	Manager	Agent
10/26/05	Stanfield Bristol CLO, Ltd.	461.25	Stanfield Capital Partners LLC	J.P. Morgan Securities Inc.
10/27/05	Castle Garden Funding	782	CSFB Alternative Capital.	CSFB
10/27/05	Goldman Sachs HY SSR III Credit Default Swap Reference ID # NUUQ510EC 42%-100% US \$580,000,000 Tranche	580	[static]	Deutsche Bank
10/27/05	Static Residential Trust 2005-B, Ltd.	940	[static pool]	Deutsche Bank
11/01/05	Eurocredit Opportunities I PLC	384.544	Intermediate Capital Managers Limited	Deutsche Bank
11/01/05	Klio III Funding, Ltd.	3970	Bear Stearns Asset Management Inc.	Citigroup Global Markets
11/02/05	Abacus 2005-5	120	Goldman Sachs	Goldman Sachs & Co.
11/02/05	Lafayette Square CDO Ltd.	501	BlackStone Debt Advisors L.P.	Citigroup Capital Markets Inc.
11/03/05	KKR Financial CLO 2005-2, Ltd.	920	KKR Financial Advisors II, LLC	JPMorgan Securities
11/03/05	Tremonia CDO 2005-1 PLC	1000	Collineo Asset Management	Wachovia Securities
11/04/05	Diogenes CDO I	378.4	State Street Global Advisors	Deutsche Bank Securities Inc.
11/08/05	Pine Mountain CDO, Ltd	381.3	Smith Breeden	Deutsche Bank AG
11/09/05	Babson CLO Ltd. 2005-III	520	Babson Capital Management LLC	Wachovia Securities Inc.
11/09/05	Duke Funding IX, Ltd.	2500	Duke Funding Management LLC	UBS Investment Bank
11/09/05	Harch CLO II Limited	372	Harch Capital Management, Inc.	Goldman Sachs & Co.
11/10/05	Altius II Funding, Ltd.	1500	Aladdin Capital Management, LLC	CSFB
11/10/05	Cent 10 CDO Limited	369	RiverSource Investments, LLC	Morgan Stanley & Co. Incorporated
11/10/05	Sedona 2005-2 Series 18	27.5	[static]	Bear Stearns
11/14/05	Adirondack 2005-2 Ltd.	1535.73	Clinton Group, Inc.	Goldman Sachs & Co.
11/15/05	Katonah VII CLO Ltd.	327.5	Katonah Debt Advisors LLC	Goldman Sachs & Co.
11/16/05	BlueMountain CLO Ltd.	460	BlueMountain Capital Management L.P.	Banc of America Securities LLC
11/16/05	Raffles Place Funding, Ltd.	998	UOB Asset Management Limited	Citibank, N.A.
11/17/05	York Enhanced Strategies Fund, LLC	325	York Enhanced Strategies Management, LLC	Morgan Stanley
11/18/05	Symphony CLO I, Ltd.	381.5	Symphony Asset Management LLC	Citigroup Global Markets
11/18/05	TIERS Floating Rate Credit Linked Trust, Series 2005-14	41	[static pool]	Citigroup Capital Markets Inc.

Figure 7 (Continued)

LIST OF U.S. CDOs RATED BY MOODY'S DURING Q4 2005

Closing Date	Issuer	Rated Volume (\$MM)	Manager	Agent
11/22/05	Gale Force 1 CLO, Ltd.	374	GSO Capital Partners LP	Merrill Lynch
11/22/05	OWS CLO I, LTD	295	BNY Capital Markets, LLC	Institutional Credit Partners LLC
11/23/05	Sedona 2005-2 Series 19	10	[static]	Bear Stearns
11/28/05	M-2 SPC Series 2005-A	10	Principal Global Investors, LLC	UBS Warburg
11/28/05	M-2 SPC Series 2005-B	2.1	Principal Global Investors, LLC	UBS Warburg
11/28/05	Skybox CDO, Ltd.	762	[static pool]	JPMorgan Chase
11/29/05	Ayersome CDO I, Ltd.	379.5	General Re-New England Asset Mgmt., Inc.	Lehman Brothers
11/29/05	ING CLO I Ltd.	374	ING Investment Management	Lehman Brothers
11/29/05	Verde CDO Ltd.	1000	Lehman Brothers Asset Management LLC	Lehman Brothers
11/30/05	Crystal River CDO 2005-1, Ltd.	130.25	Hyperion Crystal River Capital Advisors	Wachovia Capital Markets, LLC
11/30/05	Pinetree CDO Ltd.	288	Deerfield Capital Management LLC	UBS Securities LLC
11/30/05	TIERS Florida Floating Rate Credit Linked Trust, Series 2005-15	15	[static pool]	Citigroup Capital Markets Inc.
12/01/05	Buckingham CDO II Ltd.	1285.9	Deerfield Capital Management LLC	Barclay's Capital
12/01/05	E*Trade ABS CDO IV, Ltd.	293	E*Trade Asset Management	Merrill Lynch
12/01/05	Hereford Street ABS CDO I, Ltd.	1185.6	Massachusetts Financial Services Company	Wachovia Securities
12/01/05	Latitude CLO I Ltd.	277.8	Lufkin Advisors, LLC	Banc of America Securities LLC
12/01/05	Mercury CDO II, Ltd.	992	Fund America Management Corporation	Banc of America Securities LLC
12/01/05	Morgan Stanley Investment Management Croton, Ltd.	277.5	Morgan Stanley Investment Management, Inc	Morgan Stanley
12/06/05	Ambassador Structured Finance CDO, Ltd.	986	Deutsche Investment Management Americas Inc.	Wachovia Securities
12/06/05	Clydesdale CLO 2005, Ltd.	459.5	Nomura Corporate Research and Asset Management Inc	Credit Suisse First Boston
12/07/05	ABSpoke 2005-X, Ltd.	17.052	Jones Day	Morgan Stanley
12/07/05	North Street Referenced Linked Notes, 2005-8 Limited	233.85	UBS Principal Finance Group	UBS Investment Bank
12/07/05	Northwoods Capital V Limited	466.4	Angelo, Gordon & Co., L.P.	JPMorgan Chase
12/07/05	Summit Lake CLO, Ltd.	293.9	Jefferies Capital Management, Inc.	Bear, Stearns & Co. Inc.

Figure 7 (Continued)

LIST OF U.S. CDOs RATED BY MOODY'S DURING Q4 2005

Closing Date	Issuer	Rated Volume (\$MM)	Manager	Agent
12/08/05	Lenox CDO, Ltd.	230	Dynamic Credit Partners LLC	Merrill Lynch
12/08/05	Liberty CLO, Ltd.	827	Highland Capital Management, LP	Citigroup Capital Markets Inc.
12/08/05	MKP CBO V, Ltd.	678.75	MKP Capital Management, L.L.C.	RBS Greenwich Capital
12/13/05	Broderick CDO 1, Ltd.	991	Seneca Capital Management	Merrill Lynch
12/13/05	Granite Ventures II Ltd.	329	Stone Tower Debt Advisors LLC	Citigroup Capital Markets Inc.
12/13/05	M-2 SPC Series 2005-D	5	Principal Global Investors, LLC	UBS Warburg
12/13/05	Marquette Park CLO Ltd.	284	Deerfield Capital Management LLC	RBS Greenwich Capital
12/14/05	Benazzi CDO 2005-1, Ltd.	100	[static pool]	Barclays Capital
12/15/05	Alesco Preferred Funding IX, Ltd.	607	Cohen Bros. Financial Management, LLC	Merrill Lynch
12/15/05	Highgate ABS CDO, Ltd.	740.779	Vanderbilt Capital Markets	Royal Bank of Canada Capital Markets
12/15/05	M-2 SPC Series 2005-E	15	Principal Global Investors, LLC	UBS Warburg
12/15/05	Preferred Term Securities XX, Ltd.	535.25	[static]	FTN Financial Capital Markets
12/15/05	Sherwood Funding CDO II, Ltd.	476	Church Tavern Advisors, L.L.C.	Morgan Stanley
12/15/05	Summer Street 2005-HG1, Ltd.	1100	GE Asset Management	Lehman Brothers
12/15/05	Tricadia CDO 2005-4, Ltd.	237	Tricadia CDO Management, LLC	Bear Stearns
12/20/05	AMMC CLO V, Limited	277.5	American Money Management Corporation (AMMC)	Lehman Brothers
12/20/05	Barrington CDO Ltd.	1000.2	Dynamic Credit Partners LLC	Dresdner Kleinwort Wasserstein
12/20/05	Camber 5 Ltd.	474.75	Cambridge Place Investment management LLP (CPIM)	Citigroup
12/20/05	IXIS ABS CDO 1 Ltd.	486.5	IXIS Securities North America Inc.	Bear Stearns
12/20/05	M-2 SPC Series 2005-C	3	Principal Global Investors, LLC	UBS Warburg
12/20/05	Mountain Capital CLO IV Ltd.	284.5	Mountain Capital Advisors	Bear Stearns
12/20/05	Newcastle CDO VII, Limited	462.8	Newcastle Investment Corp.	Banc of America Securities
12/20/05	Stack 2005-2 Ltd.	484	Asset Management Company	Barclays Capital
12/21/05	Aces Series 2005-24	20	[static pool]	Morgan Stanley

Figure 7 (Continued)

LIST OF U.S. CDOs RATED BY MOODY'S DURING Q4 2005

Closing Date	Issuer	Rated Volume (\$MM)	Manager	Agent
12/21/05	Apidos CDO II	368	Apidos Capital Management LLC	CSFB
12/21/05	KC CLO II	465	Credit Suisse First Boston International	CSFB
12/21/05	Maps CLO Fund I LLC	352.75	Callidus Capital Management LLC	Merrill Lynch
12/21/05	Westways Funding VI, Ltd.	262.5	TCW Asset Management Company	Citigroup Global Markets
12/22/05	Dutch Hill Funding I	384	TCW Asset Management Company	Deutsche Bank Securities
12/22/05	FM Leveraged Capital Fund I	342.22	FriedbergMilstein LLC	Merrill Lynch
12/22/05	Manasquan CDO 2005-1, Ltd.	289.5	UBS Principal Finance Group	Bear Stearns
12/22/05	Marathon CLO II, Ltd.	342.3	Marathon Asset Management LLC	Citigroup Global Markets, Inc.
12/22/05	U.S. Capital Funding IV, Ltd.	318.75	StoneCastle Advisors, LLC	Wachovia Capital Markets, LLC
12/22/05	Venture V CDO Limited	368	MJX Asset Management, LLC	Credit Suisse First Boston
12/23/05	Taberna Preferred Funding IV, Ltd.	401.8	Taberna Capital Management	Merrill Lynch
12/28/05	Baker Street Funding CLO 2005-1 Ltd.	332.4	SunTrust Capital Markets, Inc.	SunTrust Bank
12/28/05	Grand Avenue CDO I Ltd.	1190	TCW Asset Management Company	Calyon

Figure 8

MOODY'S CDO REPORTS RELEASED IN Q4

Release Date	Title	Author(s)	Subject
12/21/2005	Periodic Reports for Moody's Rated Credit Derivative Product Companies (CDPCs)	Michalek	Credit Derivative Product Companies, monitoring and surveillance
12/14/2005	Assigning Market Value To CDO Assets	Wyszomierski	General, Structural Features, OC, CLOs, CBOs, SF, Market Value
12/13/2005	Treatment of Available Funds Cap Risk in Cash and Synthetic Structured Finance CDOs	Chen	Structured finance Resecuritizations, RMBS, Home Equity, Available Funds Cap, Synthetics
12/13/2005	Available Funds Caps and the Failure to Pay Credit Event in ABS Credit Default Swaps	Teicher	Structured finance Resecuritizations, RMBS, Home Equity, Available Funds Cap, Synthetics
12/06/2005	Framework for De-Linking Hedge Counterparty Risks from Global Structured Finance Cashflow Transactions Moody's Revised Methodology Call For Comments	Gereluk, Harrington, Lindstrom	General, Swaps, Posting and Termination thresholds, Counterparties, ISDA documentation, Market Values and Advance Rates
12/06/2005	Third Quarter 2005 U.S. CDO Review: The Hectic Pace Continues	Michalek, Sava & Chen	Activity review
12/1/2005	Moody's Approach to Rating U.S. Middle Market CLOs: Part II	Chen, Burger	SMEs, CLOs and Servicers
11/11/2005	Performance Review of Japanese SME CLO/CBOs	Nishida	SMEs, Japanese CLOs
10/17/2005	Monitoring Catastrophe Bonds: Assessing the Impact of Hurricane and Earthquake Activity	Araya	Catastrophe Bonds
10/07/2005	Hurricane Rita Adds Incremental Pressure to P&C Insurers and Reinsurers	Berg, Hibler, Riegel	Insurance, Trups
10/05/2005	European SME Securitisation Review 2005	Bauman	Review of European middle market CDOs

For additional reports released by Moody's in the third quarter of 2005, please visit the Moody's website at www.moodys.com.

Doc ID# SF69236

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