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Moodys Email from O'Driscoll to Yoshizawa re Magnolia 2006-5 Class D

Yuri Yoshizawa

Fiachra O'Driscoll

Richard Michalek

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Permanent Subcommittee on Investigations

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DATE: 05/01/2006
TIME: 20:43:50 GMT
AUTHOR: Michalek, Richard
RECEIPT: 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

Permanent Subcommittee on Investigations

EXHIBIT #19

PSI-MOODYS-000086

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

PSI-MOODYS-000087

- 2) Draft Pricing Supplement for Series D2
- 3) Draft CDS Confirm 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
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-----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

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