2007

AIG email from Joseph Cassano to Elias Habayeb William Doodley and Steven Bensinger Re November changes in value for the super senior multi sector cdo

Joseph Cassano

Elias Habayeb

From: Cassano, Joseph
Sent: 12/01/2007 03:30:27 PM
To: Habayeb, Elias; Dooley, William; Bensinger, Steven
CC: Herzog, David; McGinn, Kevin; Lewis, Robert (AIG Enterprise Risk Mgmt); Cenci, Diane
Subject: RE: November change in value for the super senior multi sector cdo

We have now derived a number of methods for valuing the transactions . Each of the methods have come in within a range of each other .The two principle methods are the BET model using the JPM spreads calibrated to the change in the abx . All of the data for this exercise is of Thursday .We do not look at current JPM data for this exercise we look to the change in indices to correct for the 9/30 JPM data. This exercise is similar to what we id in October with the exception of improved data for the underlying reference obligations especially all of the mortgage securities. The data has been improved for amortization and average life calculations. Much that information is a download directly from Bloomberg or Intex.

The second main option is to use the BET but with spreads we derive from the actual prices from the managers of the multi sector cdo's . We have bolt another matrix which relies on the 3,500 reference obligations that the mangers have priced and then our trader inputs for areas where data was unavailable .Since many of the portfolios share many of the same attributes this is reasonably reliable . The timing of the pricing data is more difficult to pin down . It comes to us all during the month of Novememebr so it does have a timing drag .Our traders review the data and any pricing they deem inconsistent with the current market and make adjustments adjust. Finally as we discussed on the call with PWC on the conference call with Martin since these spreads are for cash as opposed to the JP/ABX spreads we make an adjustment for cash vs. cds that we derive from the market .

We also have the gut check of the pricing and margin call we made to GS as a third basis to extrapolate but that is just a gut check. Since all of this is unaudited and can not be audited before the call it is important we speak in wide ranges on Wednesday.

The second process uses the same price information we used to call back the money from GS .So the values are included in the valuation.

This month the main drivers seem to be movement in sub prime spreads but more importantly the movement of prime rmbs spreads especially higher grade instruments as all rmbs securities have been dragged down in price .higher grade higher quality instruments have accelerated down faster this month than sub prime. The other big mover is spreads from CDO's while we do not have large amounts of CDO's as reference obligations, their pull downward has been extraordinary.

We will send you the data on Monday morning .

Joe

From: Habayeb, Elias [mailto:Elias.Habayeb@aig.com]

Sent: Sat 12/1/2007 4:01 PM
To: Cassano, Joseph; Dooley, William; Bensinger, Steven
Cc: Herzog, David; McGinn, Kevin; Lewis, Robert (AIG Enterprise Risk Mgmt)
Subject: RE: November change in value for the super senior multi sector cdo

Joe

Thanks for the information.

Where these estimates derived in a consistent manner to what you did in October, that is, were the November valuation estimates derived using the same methodology / approach / assumption sources used in October or did you do anything different? The October valuation estimates were derived using the BET model and the JPM spreads adjusted for the relative change in the ABX.HE index for the subprime RMBS collateral. If so, as of which date in November were you able to get the spreads from JPM?

Did you use any of the information you have from the collateral calls in deriving these estimates?

Did you employ the monte-carlo simulation in valuing the structural benefits in November?

Can you tell what the mains drivers behind the $500 or $600 million valuation estimate are (e.g. subprime RMBS, mezz, etc.)?

Finally, can someone send me the valuation output spreadsheet from the BET model by deal (the one that shows what the DEL and DESA in bps are) and the spread input data?

Thanks,
Elias

From: Cassano@aigfpc.com [mailto:Cassano@aigfpc.com]
Sent: Friday, November 30, 2007 6:16 PM
To: William.Dooley@aig.com; Steven.Bensinger@AIG.COM
Cc: David.Herzog@aig.com; elias.habayeb@aig.com
Subject: November change in value for the super senior multi sector cdo

Pierre ,Andy ,James and I spent the day working through various permutations and runs of the multi sector cdo book for the end of November . While the number is a rough cut due to the time constraints we estimate the value change for the month of November between $500 million and $600 million . I would propose that at the conference I say

Something to the effect while it is still early after the month end I estimate that the change in value for the month of November was similar in magnitude to the change for the month of October of somewhere between $500 and $600 million but of course that number can change as we dig through the details of the results for the period.

I am going home , we can talk further on Sunday.

Joe