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Kleros Funding III CDO Term Sheet

Merrill Lynch International

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**September 2006
Pricing Information**

Subject to Completion and Amendment

This Preliminary Information outlines certain characteristics of a proposed collateralized debt obligation transaction ("CDO"). This material is presented solely for purposes of discussion, to determine preliminary interest in investing in a transaction with the general characteristics described. This transaction is in a structuring phase and there may be material changes to the structure and collateral prior to the securities being offered (such securities, the "Offered Securities").

Please review the "Important Notice" in the marketing book.

<p>THE OFFERING:</p> <p>\$1,994.2 MM Collateralized Debt Obligation ("CDO") Notes and Preferred Shares issued by Kleros Preferred Funding III, Ltd. ("Kleros III")</p>	 Kleros Preferred Funding III, Ltd. Strategos CAPITAL MANAGEMENT, LLC	<p>COLLATERAL ADVISOR: STRATEGOS CAPITAL MANAGEMENT, LLC</p>
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	CLASS A-1 NOTES ⁽¹⁾	CLASS A-2 NOTES ⁽¹⁾	CLASS B NOTES ⁽¹⁾	CLASS C NOTES ⁽¹⁾	CLASS D NOTES ⁽¹⁾	CLASS E NOTES ⁽¹⁾	PREFERENCE SHARES ⁽¹⁾
Principal Percentage	\$1,800,000,000 90.3%	\$90,000,000 4.5%	\$54,000,000 2.7%	\$9,800,000 0.5%	\$25,800,000 1.3%	\$6,000,000 0.3%	\$8,600,000 0.4%
Coupon/Spread	1M LIBOR + 0.25%	3M LIBOR + 0.44%	3M LIBOR + 0.51%	3M LIBOR + 1.30%	3M LIBOR + 3.15%	3M LIBOR + 6.25%	Residual
Expected Rating ⁽²⁾	Aaa/AAA	Aaa/AAA	Aa2/AA	A2/A	Baa2/BBB	Ba1/BB+	NR
Rating Agency	Moody's/S&P	Moody's/S&P	Moody's/S&P	Moody's/S&P	Moody's/S&P	Moody's/S&P	N/A
Average Life ⁽³⁾	7.2 Years	7.2 Years	7.2 Years	7.2 Years	7.2 Years	7.2 Years	N/A
Legal Maturity	2050	2050	2050	2050	2050	2050	2050
Denomination	\$250,000 min \$1,000 increments	\$250,000 min \$1,000 increments	\$250,000 min \$1,000 increments	\$250,000 min \$1,000 increments	\$250,000 min \$1,000 increments	\$250,000 min \$1,000 increments	\$250,000 min \$1,000 increments ⁽⁴⁾

- (1) The transaction is at a structuring phase, the actual characteristics of the offered securities may differ from those presented herein. Definitions and other terms will be fully described in the Offering Circular. Please see "Transaction Highlights - Structuring Assumptions" for a description of modeling assumptions.
- (2) The Class A-1 Notes will not be fully funded at Closing—they will be Delayed Draw.
- (3) Based on an 8 year auction call. See "Transaction Highlights" in the Confidential Discussion Material for a description on modeling assumptions.
- (4) A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. Please see "Risk Factors - Credit Ratings."

For further important information, please see "Kleros Preferred Funding III, Ltd. Portfolio - Transaction Highlights" in the marketing book.

STRUCTURE

Issuer:	Kleros Preferred Funding III, Ltd.
Collateral Advisor:	Strategos Capital Management, LLC
Closing Date:	September 2006
Coupon Payment Dates:	Quarterly, except for Class A-1 Notes, which will pay monthly.
Ramp Up Period:	At least 85% of the portfolio has been purchased or identified by closing; 3 month ramp up period
Non Call Period:	3 years
OC Test Cures:	In the event that a Class A/B Overcollateralization Test is breached in the interest waterfall, interest will be used first to pay down the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes. In the event that a Class A/B Overcollateralization Test is breached in the principal waterfall, principal will be used to pay down the most senior outstanding Class of Notes. In the event that a Class C Overcollateralization Test is breached in the interest waterfall, interest will be used first to pay down the Class C Notes, the Class B Notes, the Class A-2 Notes, then the Class A-1 Notes. In the event that a Class C Overcollateralization Test is breached in the principal waterfall, principal will be used to pay down the most senior outstanding Class of Notes. In the event that a Class D Overcollateralization Test is breached in the interest waterfall, interest will be used first to pay down the Class D Notes, then the Class C Notes, the Class B Notes, the Class A-2 Notes, then the Class A-1 Notes. In the event that a Class D Overcollateralization Test is breached in the principal waterfall, principal will be used to pay down the most senior outstanding Class of Notes. In the event that a Class E Interest Diversion Test is breached in the interest waterfall, interest will be used to pay down the Class E Notes.
Reinvestment Period:	5 years
Auction Call:	8 years - Preference Share IRR for successful auction call: 7% in years 8-9; 4% in years 10-11; and 2% thereafter
Deleveraging Structure:	Principal amortization will be used to pay down the Notes on a pro rata basis until either 50% of the collateral has amortized or the Sequential Pay Ratio is triggered, or if any overcollateralization test is not satisfied. If pro rata paydowns have been stopped due to non-compliance with an overcollateralization test, pro rata paydowns may commence when compliance with such overcollateralization test has been restored. In the event that either 50% of the collateral has amortized or the Sequential Pay Ratio is breached, the deal will permanently pay down the Notes in Sequential order.

COLLATERAL ASSUMPTIONS	Portfolio Target	COLLATERAL ASSUMPTIONS	Portfolio Target
Minimum Weighted Average Coupon	5.85% ⁽⁶⁾	Maximum Weighted Average Life	8 Years
Minimum Weighted Average Floating Spread	0.54% ⁽⁶⁾	Maximum Single Issuer Concentration	1.0%
Minimum/Maximum % Fixed	20/25%	Maximum Single Servicer Concentration	7.5% ⁽⁴⁾
Maximum Weighted Average Rating	70 (A1) ⁽¹⁾	Maximum Correlation	0.25 ⁽¹⁾

For further important information, please see "Kleros Preferred Funding III, Ltd. Portfolio - Transaction Highlights" in the marketing book.

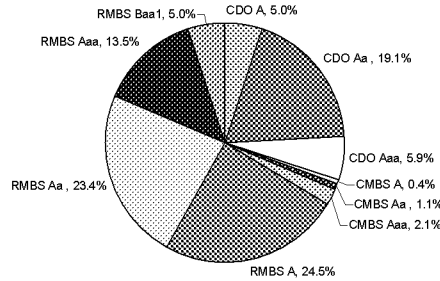
	O/C Tests ⁽³⁾	Initial O/C ⁽⁴⁾	MANAGEMENT FEE STRUCTURE
Class A/B	101.13%	102.88%	Senior Management Fee 8.0 bps per annum
Class C	100.76%	102.36%	Closing Fees ⁽⁵⁾ ****
Class D	100.43%	101.03%	
Class E	100.23%	100.73%	
Sequential Pay Ratio ⁽⁶⁾	103.32%	105.82%	

For further important information, please see "Kleros Preferred Funding III, Ltd. Portfolio - Transaction Highlights" in the marketing book.

- (1) Moody's Weighted Average Rating Factor and maximum Asset Correlation are included as structuring assumptions. However it is expected that the actual Moody's Weighted Average Rating Factor test and Asset Correlation test will be established at different combinations of values which may be satisfied together for both tests to be passed.
- (2) With exceptions for highly rated services.
- (3) Test Level represents the levels that must be passed in order not to cause accelerated redemption of the Notes.
- (4) Initial represents expected characteristics of target portfolio.
- (5) On the Closing Date, the Co-Issuers will use a portion of the gross proceeds from the offering to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the Collateral, upfront fees to the Collateral Manager, structuring and placement agency fees payable to Merrill Lynch and legal, accounting, rating agency and other fees. Closing fees and expenses reduce the amount of the gross proceeds of the offering available to purchase Collateral and, therefore, the return to purchasers of the Offered Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Offered Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.
- (6) This transaction is in a structuring phase, and there may be material changes to the structure, terms and assets prior to the offering of any securities. Following the ramp up period, the expected initial weighted average coupon will be approximately 5.87% for original and swaps + 75 bps for reinvested collateral, and the expected initial weighted average spread will be approximately 0.53% for original and 0.54% for reinvested collateral. The Minimum Weighted Average Coupon is 5.85% for original collateral and 5.50% for reinvested collateral. The Minimum Weighted Average Spread is 0.54% for original collateral and 0.51% for reinvested collateral.

For Further Information, Please Contact:			
Global Structured Products	CDO Marketing/Global Structured Products	Global Private Clients	ABS Trading and Syndicate
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REPRESENTATIVE PORTFOLIO ⁽¹⁾



NOTE: This is an indicative portfolio. All information shown on this page is for illustrative purposes only. The actual structure of the final transaction, including the composition of the collateral to be acquired, will be determined at or around the time of pricing of the Notes based upon market conditions and other factors applicable at that time.

Please see "Kleros III Portfolio - Portfolio Composition for Illustrative Purposes" in the marketing book for further information on the representative portfolio.

About Strategos CDO Management ⁽¹⁾

- > **Strategos Capital Management, LLC**, a Delaware limited liability company 100% owned by Cohen Brothers, LLC ("Cohen" or "Cohen Bros.") and its principals, will serve as Collateral Advisor for Kleros Preferred Funding III, Ltd.
- > Cohen Bros. has grown to become one of the leading research houses and investment banks dedicated to the small and medium size financial services market. The firm currently employs over 70 professionals, with offices in Philadelphia, New York and Paris
- > Cohen Bros. draws on the many years of experience of its employees and principals in the financial services and real estate sectors to provide specialized research and investment opportunities to institutions and sophisticated individuals
- > The research analysts and credit underwriters at Cohen Bros. are experienced in the bank, insurance, real estate and specialty finance industries from both an evaluation and management perspective
- > Cohen Bros. was ranked the #1 CDO asset manager from 2004-2005 with over \$9.9 billion in securities originated ⁽²⁾
- > Strategos currently has \$2.6 billion in ABS CDOs under management and has been the advisor on approximately \$4.8 billion of whole loan mortgage acquisitions and securitizations ⁽³⁾.

(1) There can be no assurance that the professionals currently employed by Petra or any of its affiliates will continue to be employed by Petra or any of its affiliates or that the past performance or success of any such professional serves an indicator of such professional's future performance or success.
 (2) Asset-Backed Alert (December 30, 2005) www.ABAlert.com ranked by amount of securities originated.
 (3) Cohen Bros. currently has a servicing agreement with Taberna Realty Finance Trust.

Please see "About the Collateral Manager - Introduction to Strategos CDO Management" in the marketing book for further information on the Collateral Manager.

Break in Yield and 0% Yield Default Rates ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾

Class Description (Moody's/S&P)	Based on a Break in Yield		Based on 0% Yield	
	Annual Default Rate	Cumulative Gross Defaults	Annual Default Rate	Cumulative Gross Defaults
Class A1 First Priority Senior Floating Rate Delayed Draw Notes (Aaa/AAA)	5.6%	24.2%	31.4%	72.9%
Class A2 Second Priority Senior Floating Rate Notes (Aaa/AAA)	3.0%	14.7%	5.4%	23.8%
Class B Third Priority Senior Floating Rate Notes (Aa2/AA)	1.9%	9.6%	3.4%	16.3%
Class C Fourth Priority Mezzanine Floating Rate Notes (A2/A)	1.4%	7.5%	1.7%	8.9%
Class D Fifth Priority Mezzanine Deferrable Floating Rate Notes (Baa2/BBB)	0.3%	2.1%	1.1%	5.9%
Class E Sixth Priority Mezzanine Deferrable Floating Rate Notes (Ba1/BB+)	0.2%	1.6%	0.4%	3.3%

(1) "Break in yield" is the default rate at which the first dollar loss in promised coupon or principal occurs, and "0% Yield" is the default rate at which total cashflow received does not equal initial investment. Please see Appendix A for a description of Collateral Cashflow Formulas.
 (2) Assuming annual constant defaults beginning immediately, 75% recovery rate, forward LIBOR. Please see "Transaction Details - Structuring Assumptions" for a description of modeling assumptions. Assumes the expected initial weighted average coupon will be approximately 5.97% for original and 6.10% for reinvested collateral, and the expected initial weighted average spread will be approximately 0.55% for original and 0.54% for reinvested collateral. The Minimum Weighted Average Coupon is 5.85% for original collateral and 5.50% for reinvested collateral. The Minimum Weighted Average Spread is 0.54% for original collateral and 0.51% for reinvested collateral.
 (3) All the information shown on this page is for illustrative purposes only. The transaction is at a structuring phase, and the actual structure of the transaction and characteristics of the offered securities may differ from those presented herein.
 (4) Defaults are stated as constant immediate annual rates and are applied on the outstanding collateral balance at the beginning of each quarterly Distribution Date. Defaulted assets are assumed to be sold immediately at a price equal to the applicable recovery rate.
 (5) Future market and economic conditions are impossible to predict. Future market or historical economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Kleros III. For these reasons, there are limitations on the value of this or any hypothetical illustration. This information is not intended to be either an express or implied guaranty of investment performance. See "Important Notice" at the beginning of the Material.

Please see "Transaction Highlights - Structuring Assumptions" in the marketing book for further information on Break in Yield and 0% Yield Default Rates.

This term sheet may only be distributed along with the Confidential Discussion Materials to pre-qualified Merrill Lynch clients who are Qualified Purchasers within the meaning of Investment Company Act of 1940.

Please review "Section 4 - Risk Factors" and "Section 6 - Tax Considerations." In addition, risks of investing in the Offered Securities will be described more fully in the preliminary and final offering circulars to be provided in connection with the offering of the Offered Securities.

Non-U.S. holders of preferred shares in a CDO including the ones being offered are likely to be treated as owning an interest in a "passive foreign investment company" and possibly also a "controlled foreign corporation." U.S. investors in CDO securities will need to consult their personal tax advisors and consider filing certain tax disclosure forms in order to avoid the potential imposition of penalties associated with an undisclosed investment in a foreign entity. Investors should direct their attention to the Tax Considerations section of the Confidential Discussion Material.