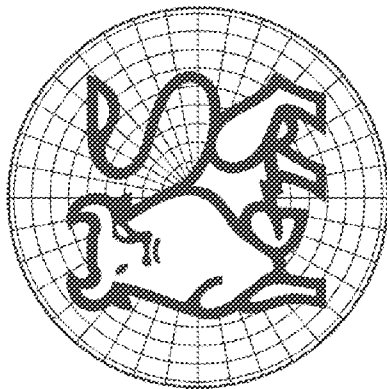


**E\*TRADE**<sup>®</sup>  
F I N A N C I A L



*Managed by:*

**E\*TRADE Global Asset Management, Inc.**

**E\*TRADE ABS CDO III, Ltd.**

*The RAPID Structure (Rapid Amortization of Principal through Interest  
Diversion)*

December 2004



Global Markets & Investment Banking Group

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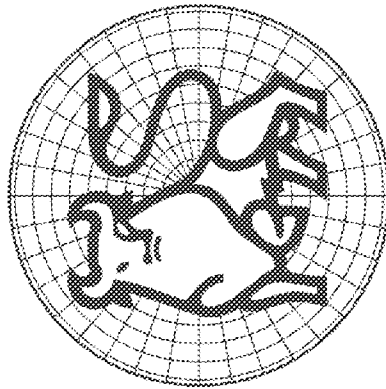


THE ATTENTION OF POTENTIAL INVESTORS IS DIRECTED TO THE RISK FACTORS AND TAX CONSIDERATIONS WHICH WILL BE DESCRIBED MORE FULLY IN THE OFFERING CIRCULAR TO BE PROVIDED

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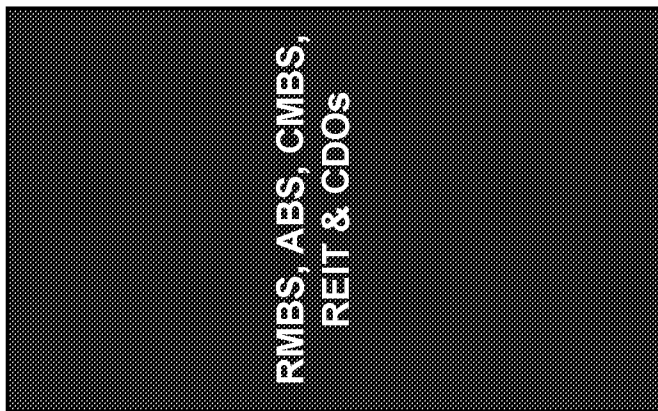


# 1. Executive Summary

## Transaction Summary

- E\*TRADE ABS CDO III, Ltd. ("E\*TRADE") plans to issue \$[302.8] MM ABS CDO securities (the "Offered Securities"). E\*TRADE ABS CDO III, Ltd. is a newly formed collateralized debt obligation ("CDO") that will be managed by E\*TRADE Global Asset Management, Inc. ("ETGAM" or the "Collateral Manager").
- The Offered Securities will be backed by a portfolio consisting primarily of Residential Mortgage Backed Securities ("RMBS"), Commercial Mortgage Backed Securities ("CMBS"), CDOs, Consumer and Commercial Asset-Backed Securities ("ABS"), and together with (RMBS and CMBS as "Structured Finance Securities"), and CDOs.<sup>(1)</sup>
- Structured Finance Securities, have historically exhibited lower default rates, higher recovery rates upon default and better stability when compared to corporate bonds with similar ratings.<sup>(2)</sup>
- E\*TRADE ABS CDO III, Ltd. will issue the following five classes of Offered Securities:

### Assets held by CDO

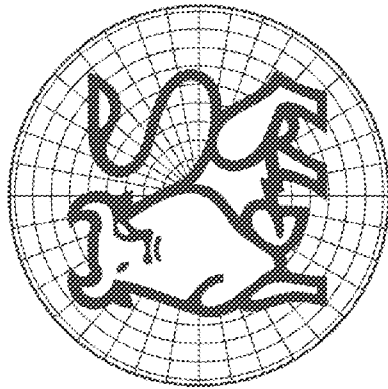


### Securities issued by CDO

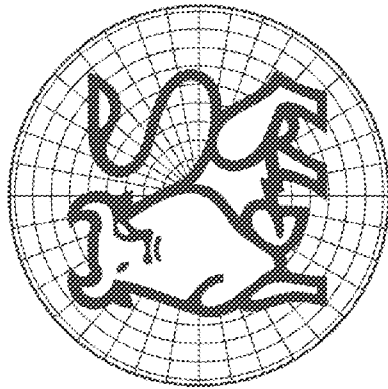
\$12.90 MM Class A1 AAA (Moody's/S&P)
\$7.75 MM Class A2 Aaa/AAA (Moody's/S&P/Fitch)
\$7.40 MM Class B Aaa/AAA (Moody's/S&P/Fitch)
\$3.25 MM Class C Baa2/BBB (Moody's/S&P/Fitch)
<b>\$12.90 MM Preference Shares Ba1/BB+ (Moody's/S&amp;P)</b>
<b>\$14.00 MM Composite Shares I Baa2/BBB (Moody's/S&amp;P)</b>
\$5.60 MM Class A1 Ba1 (Moody's)



(1) See E\*TRADE ABS CDO III, Ltd. Portfolio-Portfolio Assumptions.  
(2) Source: Moody's Investors Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities, 1993-2002", December 2003.



## 2. Asset Class Selection



## A. Structured Finance Market Overview



## Structured Finance Market Overview

### Historical Defaults <sup>(1)</sup>

The Offered Securities will be backed by a pool of assets that consists primarily of "Baa" rated Structured Finance Securities

Historical default rates for Baa Structured Finance Securities



RMBS one-year average default rate (1993 – 2002) ~0.1% <sup>(2)</sup>  
 CMBS one-year average default rate (1993 – 2002) ~0.1% <sup>(3)</sup>  
 ABS one-year average default rate (1993 – 2002) ~0.2% <sup>(4)</sup>

(1) Source: Moody's Investors Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities: 1993-2002", December 2003.

(2) This number denotes the total number of material impairments in RMBS (excluding deals originated from the mortgage lender "Quality Mortgage", which will not originate any of the underlying mortgages in the E\*TRADE ABS CDO III) as a percentage of the sample of 4,283 rated RMBS analyzed in the study.

(3) This number denotes the total number of material impairments in CMBS as a percentage of the sample of 2,614 rated CMBS analyzed in the study.

(4) This number denotes the total number of material impairments in ABS (excluding Franchise Loan and Manufactured Housing Securities from 1993-2002, which are prohibited securities in the E\*TRADE ABS CDO III) as a percentage of the total number of the 6,522 rated ABS analyzed in the sample.



## Structured Finance Market Overview

### Historical Recovery Rates of Structured Finance Securities (1)(2)(3)

- A Moody's study on recovery rates of ABS, RMBS and CMBS collateral has concluded the following:
  - Historically, RMBS have recovered at a greater rate than that of corporate bonds and CMBS have recovered at more than twice the rate of corporate bonds.
  - Compared to corporate securities, ABS, RMBS, and CMBS may receive more substantial cashflow in respect of interest and principal after a default.

Average Recoveries of Defaulted RMBS

**55%**<sup>(1)</sup>

Average Recoveries of Defaulted CMBS

**100%**<sup>(1)(4)</sup>

Average Recoveries of Defaulted Other ABS

**59%**<sup>(1)</sup>

**In contrast, the average recovery rate for corporate bonds from 1982-2003 is approximately 43%<sup>(5)</sup>.**

(1) Moody's Investor Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities: 1993-2002", December 2003.

(2) Moody's Investor Service, "Measuring Loss Severity Rates of Defaulted Residential Mortgage Backed Securities", April 2004.

(3) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".

(4) Losses on defaulted structured finance securities accumulate gradually over time. The information above is limited to those (84 in total) defaulters in the sample study that ceased making their payments (paid down or written down defaulters). Among the 84 defaulters that have had zero outstanding balances, four were from CMBS, all of which were cured before their last payment date, and hence suffered zero lifetime cumulative losses.

(5) Moody's Investor Service, "Default & Recovery Rates of Corporate Bond Issuers", January 2004. Recovery rate is measured on an issue-weighted basis.



## Structured Finance Market Overview

### Rating Stability (1)(2)

According to a recent Moody's study, the long-term historical average (1983-2003) of unchanged ratings of Structured Finance Securities<sup>(3)</sup> was 92.3%, which compares favorably to the 76.6% average of unchanged ratings of corporate bonds for the same period.

### Structured Finance Securities (2003 only)

Rating from:	Rating to:						
	Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	98.21%	1.06%	0.50%	0.20%	0.03%		
Aa	5.02%	89.13%	3.43%	1.58%	0.60%	0.19%	0.04%
A	0.65%	3.22%	89.62%	3.75%	1.57%	0.95%	0.24%
Baa	0.31%	0.28%	2.83%	88.20%	3.68%	2.49%	2.20%
Ba	0.07%	0.07%	0.22%	3.26%	83.20%	4.74%	8.44%
B	0.28%			0.98%	3.66%	81.01%	14.06%
Caa or below						0.21%	99.79%

### Structured Finance Securities (1983-2003)

Rating from:	Rating to:						
	Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	98.86%	0.82%	0.20%	0.07%	0.01%	0.01%	0.04%
Aa	5.48%	91.15%	2.25%	0.77%	0.19%	0.09%	0.08%
A	1.03%	2.42%	93.14%	2.20%	0.72%	0.29%	0.20%
Baa	0.44%	0.50%	2.20%	90.34%	3.65%	1.57%	1.31%
Ba	0.12%	0.06%	0.64%	3.56%	85.92%	3.62%	6.09%
B	0.07%		0.07%	0.67%	1.52%	87.16%	10.51%
Caa or below					0.09%	0.26%	99.65%

(1) Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.

(2) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch nor any of its affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".

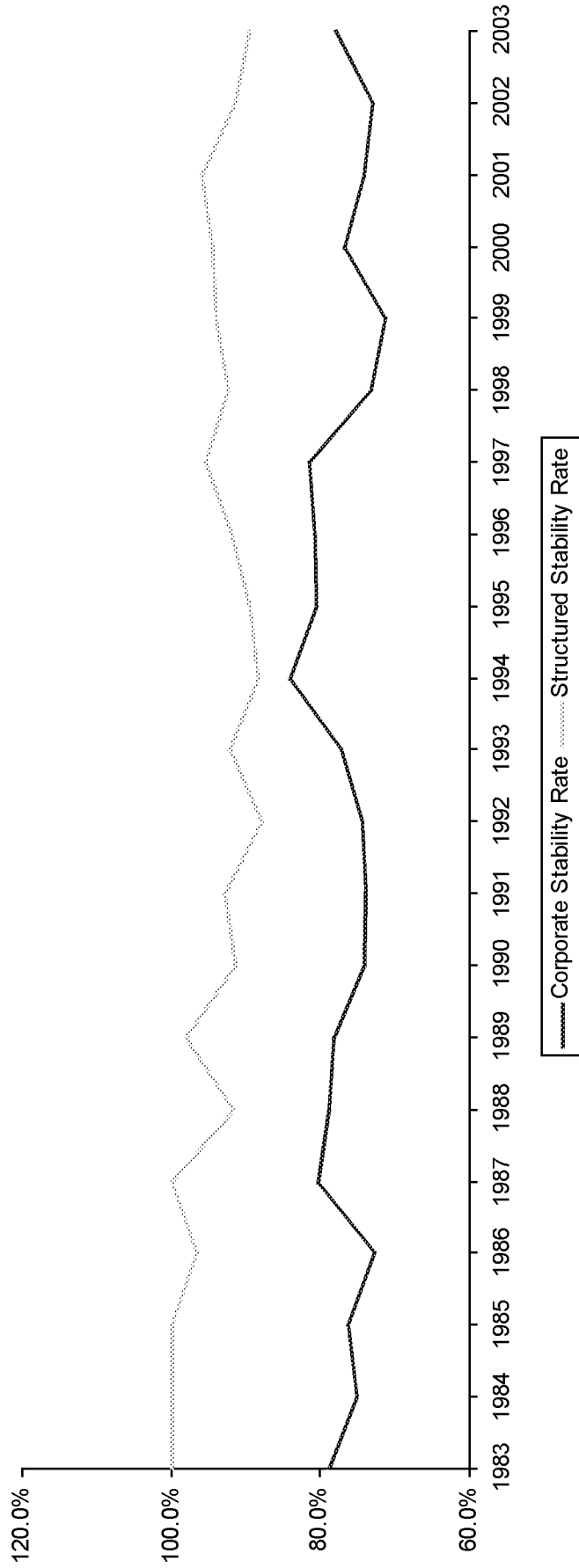
(3) For the purposes of this page, "Structured Finance Securities" includes ABS, CMBS, RMBS and CDOs.



## Structured Finance Market Overview

### Rating Stability (cont'd) <sup>(1)(2)</sup>

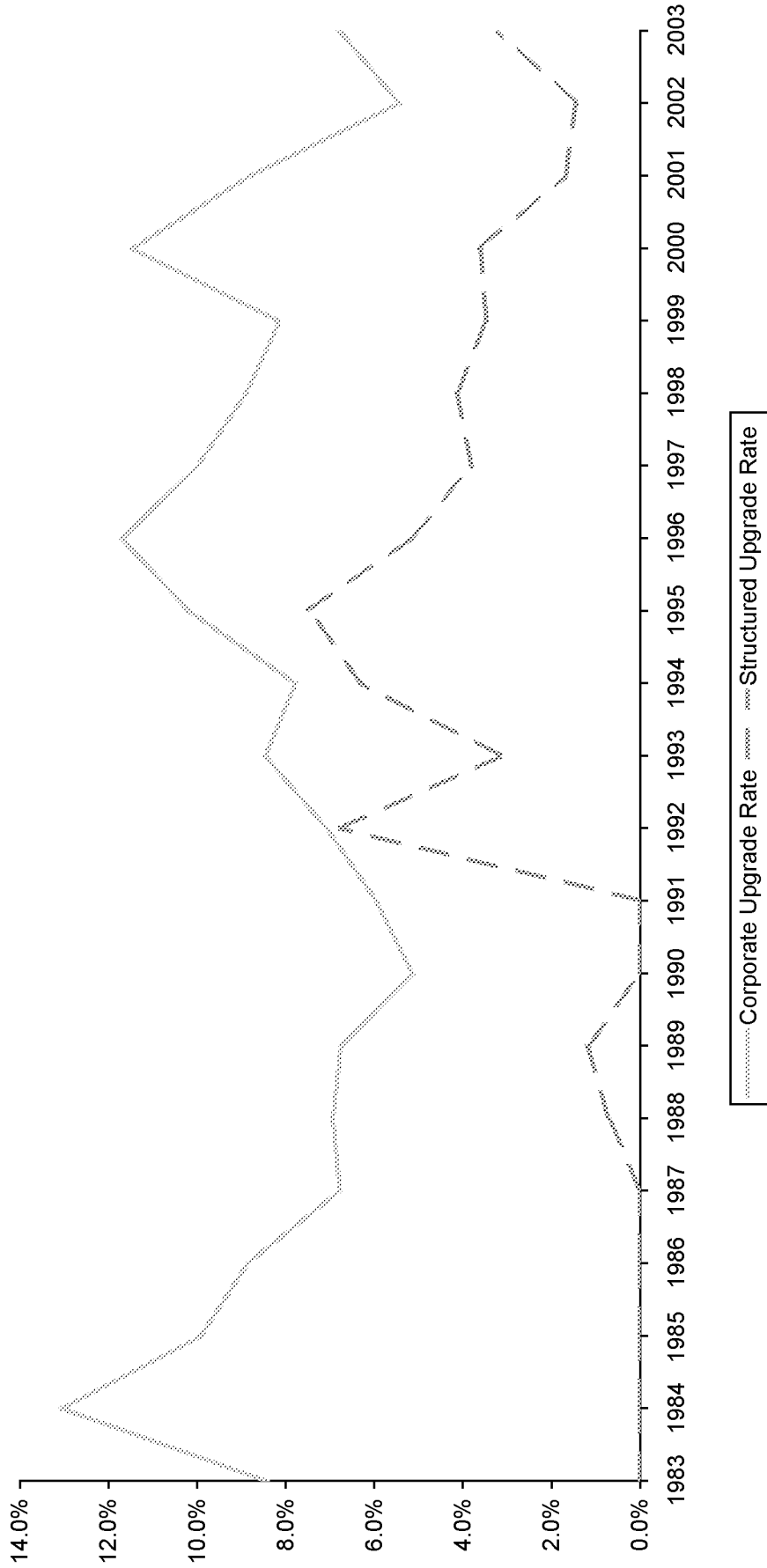
*Overall, rating stability in Structured Finance Securities <sup>(2)</sup> was more than 10 percentage points higher than in corporate bonds in 2003, and has been higher each year since 1983.*



(1) Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.  
 (2) For the purposes of this page, "Structured Finance Securities" includes ABS, CMBS, RMBS and CDOs.  
 Past Performance does not always predict future results

**Structured Finance Market Overview**

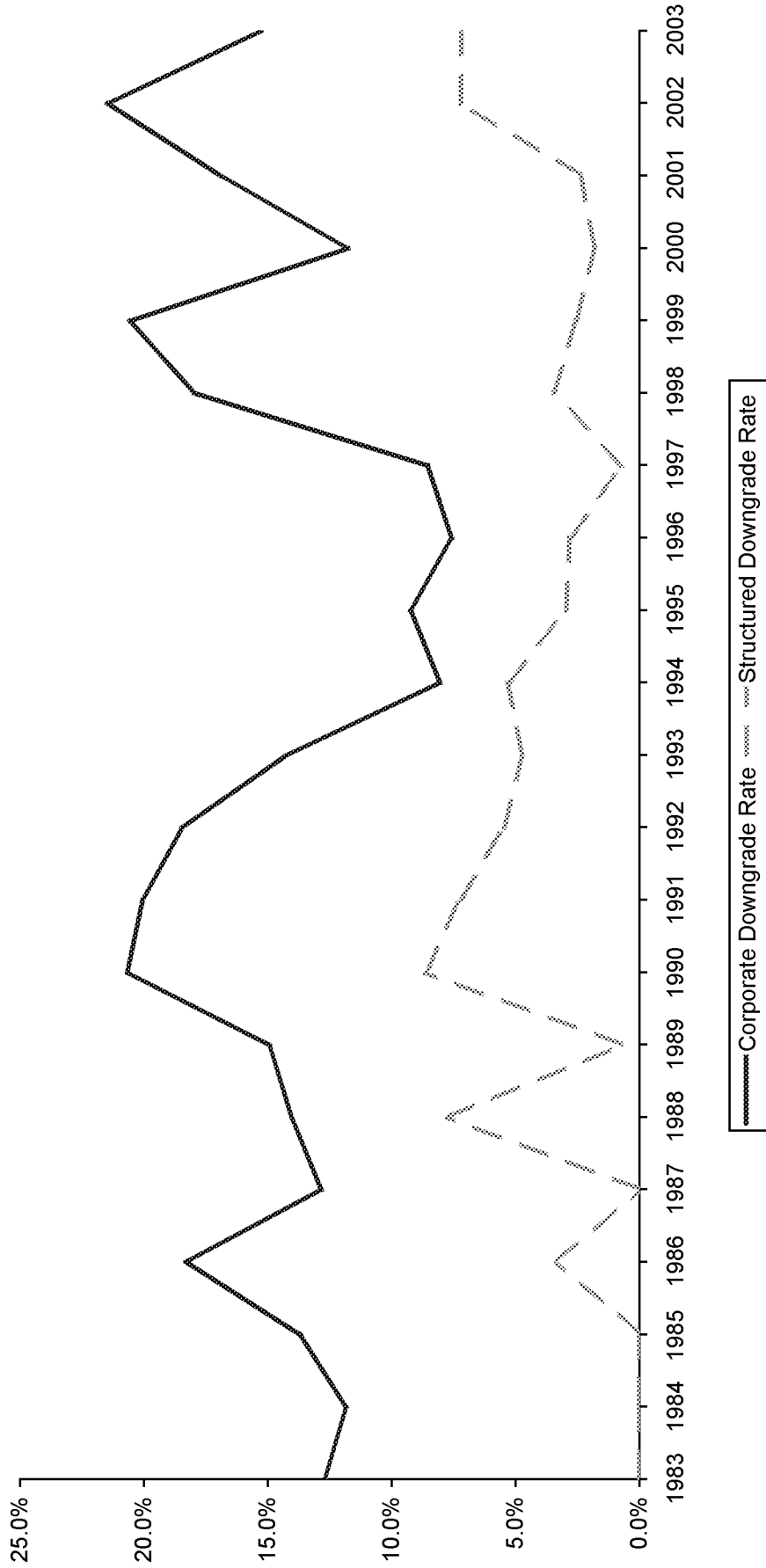
**Low Ratings Volatility - Upgrade Rates (1) (2)**



(1) Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.  
 (2) For the purposes of this page, "Structured Finance Securities" includes ABS, CMBS, RMBS and CDOs.  
 Past Performance does not always predict future results

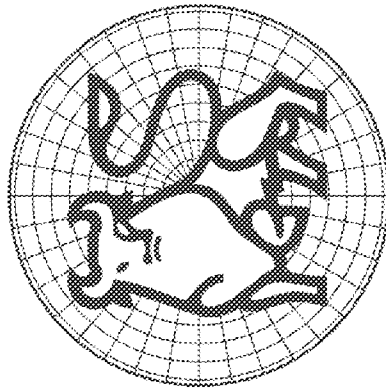
**Structured Finance Market Overview**

**Low Ratings Volatility - Downgrade Rates<sup>(1) (2)</sup>**



(1) Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.  
 (2) For the purposes of this page, "Structured Finance Securities" includes ABS, CMBS, RMBS and CDOs.  
 Past Performance does not always predict future results



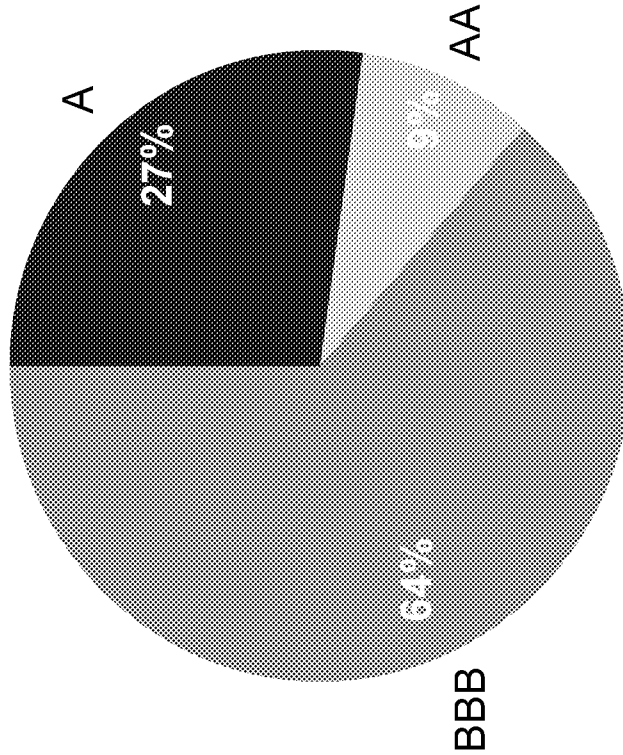


B. E\*TRADE ABS CDO III, Ltd. Portfolio

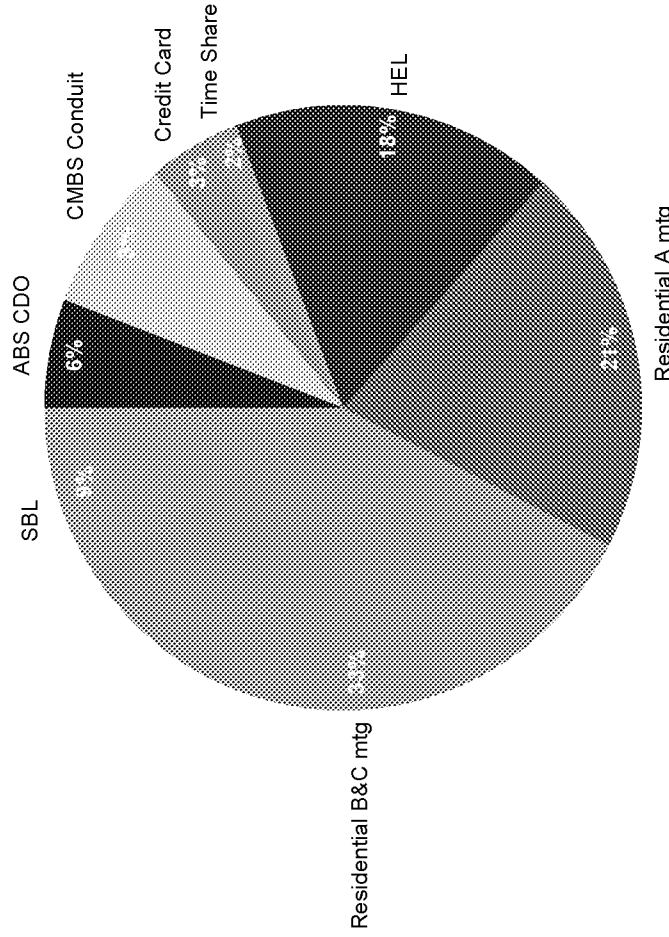
**E\*TRADE ABS CDO III, Ltd. Portfolio**

Portfolio Assumptions<sup>(1)</sup>

Ratings Distribution



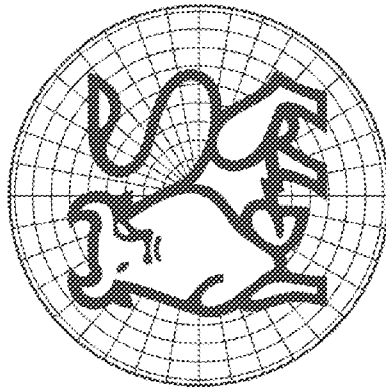
Representative Portfolio



(1) 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. The actual portfolio on the effective date may be materially different from the one presented above and the portfolio may change over time. In addition, certain of the assumptions contained herein have been made for modeling purposes and it is unlikely that such assumptions will in fact be realized.







### 3. Transaction Highlights

## Transaction Highlights (1)(2)

### Summary of Terms

Type ABS CDO  
 Issuer E\*TRADE ABS CDO III, Ltd.  
 Advisor E\*TRADE Global Asset Management  
 Total Size [\$302.3] MM

	CLASS A-1 NOTES (1)	CLASS A-2 NOTES (1)	CLASS B NOTES (1)	CLASS C NOTES (1)	PREFERENCE SHARES (1)	COMPOSITE SHARES SERIES I (1)(2)	COMPOSITE SHARES SERIES II (1)(3)
Principal	\$201,000,000	\$37,750,000	\$37,900,000	\$13,250,000	\$12,900,000	\$14,600,000	\$5,000,000
Percentage	66.4%	12.5%	12.5%	4.4%	4.2%	4.8%	1.7%
Coupon Type	L + 32 bps	L + 59 bps	L + 75 bps	L + 285 bps	Residual	L + 200 bps	3m LIBOR
Expected Rating	Aaa/AAA/AAA	Aaa/AAA/AAA	Aa2/AA/AA	Baa2/BBB/BBB	Ba1/BB+	Baa2/BBB	Ba1
Rating Agency	Moody's/S&P/Fitch	Moody's/S&P/Fitch	Moody's/S&P/Fitch	Moody's/S&P/Fitch	Moody's/S&P	Moody's/S&P	Moody's
Average Life (4)	4.3 yrs.	7.9 yrs.	8.0 yrs.	6.5 yrs.			
Stated Maturity	2040	2040	2040	2040	2040	2040	2040
Denomination (1)	\$250,000 minimum \$1,000 increments	\$250,000 minimum \$1,000 increments	\$250,000 minimum \$1,000 increments	\$250,000 minimum \$1,000 increments	\$250,000 minimum \$1,000 increments	\$250,000 minimum \$1,000 increments	\$250,000 minimum \$1,000 increments

### Collateral Profile

- Maximum Single Issue Concentration: 2.00%
- Maximum Single Servicer Concentration: 7.5% (5)
- Minimum Diversity Score: 15
- Maximum Average Rating Score: 340 (Baa1/Baa2)
- Expected Fixed Collateral: 18.0%
- Weighted Average Fixed Coupon 5.22%
- Weighted Average Floating Spread 2.15%
- Maximum Weighted Average Life: 6.0 Years

(1) 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. Definitions and other terms will be fully described in the Offering Circular. It is contemplated that the "Collateral Profile" would apply on and after the ramp-up completion date.  
 (2) Merrill Lynch may, but is not obligated to make a market in the Offered Securities.  
 (3) Please see "Transaction Highlights - Structuring Assumptions" for a description of modeling assumptions. Based on an auction call in [8] years from closing.  
 (4) There may be some exceptions.  
 (5) With some exceptions (yet to be determined).



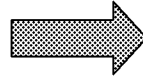
## Transaction Highlights

### Advantages of Deleveraging

#### *Benefits of the RAPID Structure*

##### Class A1 Notes Early Principal Paydown

- From the inception of the transaction, principal paydowns on the underlying collateral will be used to pay down the Class A1 Notes.

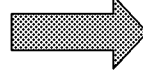


##### Benefits to Class A1 Noteholders

- Principal payments are expected upon the first distribution date
- Build up of overcollateralization levels

##### Class C Notes Early Principal Paydown

- Returns on Preference Shares will be capped at 16.0% until Class C Notes are fully amortized. Excess interest proceeds will be used to fully amortize the Class C (Baa2/BBB/BBB) Notes from the initial distribution date.



##### Benefits to Class C Noteholders

- Expected average life of the Class C (Baa2/BBB/BBB) Notes will be shorter as a result
- Build up of overcollateralization levels



## Transaction Highlights

### Break Even Default Rates (1)(2)(3)(4)

BREAKEVEN DEFAULT RATES	Based on a Break in Yield		Based on 0% Yield	
	Class Description (Moody's/S&P/Fitch)	Annual Default Rate	Cumulative Gross Defaults	Annual Default Rate
Class A-1 First Priority Senior Floating Rate Notes (Aaa/AAA/AAA)	26.3%	72.3%	37.4%	82.1%
Class A-2 Second Priority Senior Floating Rate Notes (Aaa/AAA/AAA)	14.4%	52.5%	18.4%	60.7%
Class B Third Priority Senior Floating Rate Notes (Aa2/AA/AA)	6.3%	28.6%	9.6%	39.8%
Class C Fourth Priority Mezzanine Floating Rate Notes (Baa2/BBB/BBB)	3.3%	16.7%	4.7%	22.4%

Future market and economic conditions are impossible to predict. Future market or economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of E-TRADE ABS CDO III, Ltd. 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.

- (1) Break in yield is the default rate at which the first dollar loss in principal occurs, and 0% Yield is the default rate at which total cashflow received does not equal initial investment
- (2) Assumes no default lag, 60% immediate recoveries and forward LIBOR.
- (3) Please see "Transaction Highlights - Structuring Assumptions" for a description of modeling assumptions.
- (4) 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. Definitions and other terms will be fully described in the Offering Circular. It is contemplated that the "Collateral Profile" would apply on and after the ramp-up completion date.



## Transaction Highlights Structuring Assumptions <sup>(1)</sup>

### Collateral Assumptions <sup>(1)</sup>

Weighted Average Coupon	5.22%
Weighted Average Spread	2.15%
Maximum Weighted Average Life	6.0 yrs
Principal Amount	\$300MM
Minimum Diversity Score	>=15
Minimum Rating at Initial Purchase	Baa3
Maximum Weighted Average Rating	340 (Baa1/Baa2)

### Fees and Expenses <sup>(2)</sup>

Senior Advisory and Structuring Fees	25.0bps
Subordinate Advisory Fees	20.0 bps
Trustee Fees	1.75 bps
Administrative Expenses	4.0 bps
Closing Fees <sup>(5)</sup>	

### Benchmark Assumptions

First Period LIBOR <sup>(2)</sup> 2.41%

### Timing

Closing Date	December 2004
Payment Dates	April, July, October and January of each year, beginning in April 2005
Mandatory Auction Call	8 Years
Non-Call Period	3 Years

Ramp-Up Period None. [100%] of the Collateral Portfolio is expected to be purchased or identified at closing.

### Coverage Tests <sup>(3)</sup>

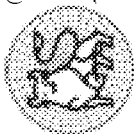
	O/C Tests	Initial O/C	I/C Tests	Initial I/C
Class B	103.25%	108.4%	110.0%	142.1%
Class C	101.40%	103.5%	105.0%	130.4%

<sup>(1)</sup> These assumptions are general and are not conclusive or exhaustive. Actual collateral characteristics may be different from those assumed and even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated. None of the assumptions contained herein are meant to be historical descriptions nor predictors of future performance. **In addition, certain of the assumptions contained herein have been made for modeling purposes and it is unlikely that such assumptions will in fact be realized.** No representation or warranty is made by Merrill Lynch or E\*TRADE Global Asset Management as to the reasonableness of such assumptions or as to any other financial information contained in such models (including the assumptions on which they are based). These assumptions have certain inherent limitations, and will be affected by any changes in the structure or assets for this transaction. As a sophisticated investor, you should review each assumption carefully and make your own determination as to its accuracy or reasonableness. Actual collateral characteristics may be different from those assumed and even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated. No representation is made that such assumptions are accurate or complete or do not contain errors, or that alternative modeling techniques or assumptions would not be more appropriate or produce significantly different results. The attached material is provided to you on the understanding that as a sophisticated investor, you will understand and accept its inherent limitations, will not rely on it in making any investment decision with respect to any securities that may be issued, and will use it only for the purpose of discussing with Merrill Lynch your preliminary interest in investing in a transaction of the type described. Any investor should rely only upon the final offering materials for the definitive conditions and terms of the offering. Neither Merrill Lynch nor E\*TRADE Global Asset Management assumes any responsibility for the accuracy or validity of the results of such models.

<sup>(2)</sup> Calculated on the outstanding collateral balance as of the first day of each period.

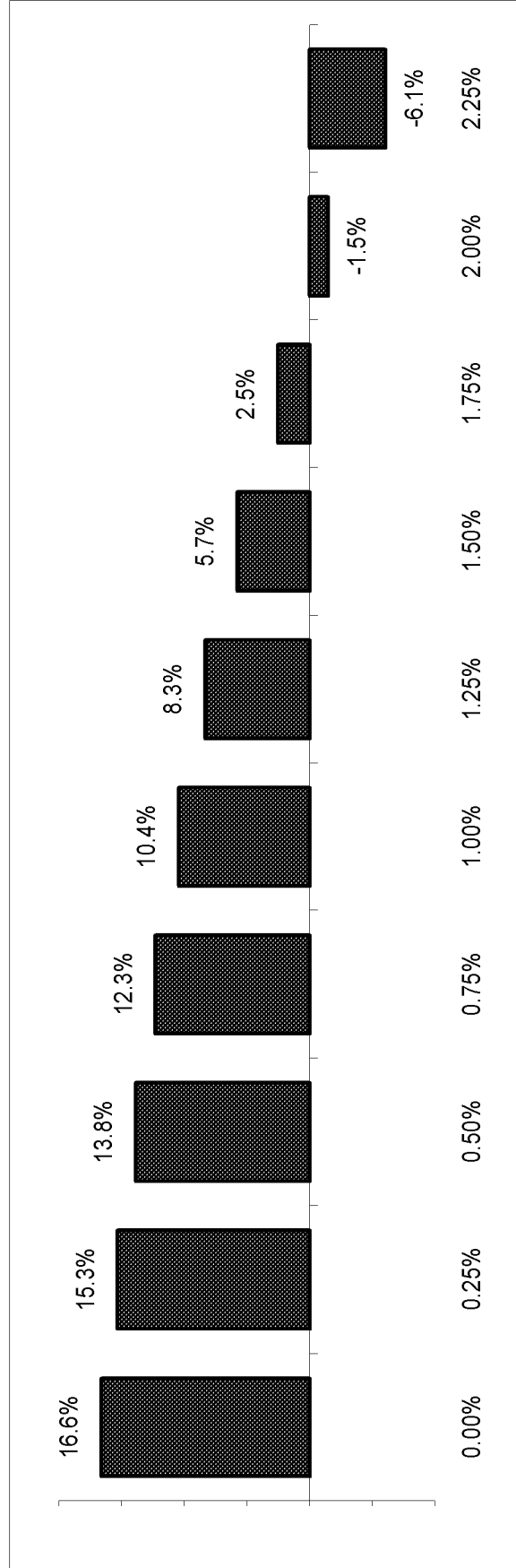
<sup>(3)</sup> Subject to change. "Initial" represents expected characteristics of target portfolio.

<sup>(4)</sup> 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, structuring and placement agency fees payable to Merrill Lynch and legal, accounting, rating agency and other fees. Fees payable to Merrill Lynch and others will be determined on an arm's length basis. 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 Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.



## Transaction Highlights Transaction Analysis

### Preference Share Return (IRR) (1) (2) (3)



### Annual Default Rates

- Assuming every year of the transaction experiences 0.5% default rate, which is approximately 2.5 times the average one-year default rate for ABS and RMBS Securities, the Preference Share return would be approximately [13.8]%,<sup>(1)</sup>
- Assuming every year of the transaction experiences 1.00% default rate, which is approximately 5 times the average annual default rate for ABS and RMBS Securities, the Preference Share return would be approximately [10.4]%,<sup>(1)</sup>

Future market and economic conditions are impossible to predict. Future market or economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of E-TRADE ABS CDO III, Ltd. 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.

(1) Please see page entitled "Transaction Highlights - Structuring Assumptions" for a description of modeling assumptions.

(2) Scenario assumptions. Annual defaults began immediately at "Stated Default Rate."

(3) Recovery Assumptions: 60%. 100% of the equity principal is returned at call date. There are no call premiums assumed. There is a [16.0]% equity cap for the life of the CDO, excess will be used to pay down Class C Notes. All information shown is for illustrative purposes only, actual results may vary. See "Important Notice."



## Transaction Highlights

### Form of Offering

Form of Securities	Rated Notes: DTC/Euroclear Preference Shares: Physical/Euroclear
U.S. Investors	Rated Notes: Qualified Purchasers/QIBs Preference Shares: Qualified Purchasers /Accredited Investors or QIBs
SEC Registration Exemption	4(2) / Rule 144A / Regulation S
Investment Company Act Exemption	3(c)(7)
Domicile/Form of Issuer	Cayman Islands Exempted Company
Domicile/Form of Co-Issuer	Delaware Limited Liability Company
Listing	Irish Stock Exchange (Notes Only)



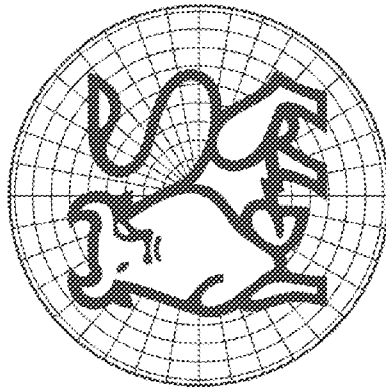
## Transaction Highlights

### Key Dates

Beginning of Ramp Up	↑	[November 2003]
Debt Pricing	↑	[November 2004]
Funding/Settlement Date	↑	[December 2004]
End of Non-Call Period	↑	[January 2007]
First Auction Call Date	↑	[January 2012]
Stated Maturity	↑	[January 2040]







## 4. Risk Factors

## Risk Factors

An investment in the Securities described in this Information, if such offering is consummated, will involve certain risks. Set forth below is a summary description of certain of the risks to which an investor in the Securities would be subject. A detailed list of risk factors will be included in the Offering Circular (including the preliminary and final versions thereof). An investor should not make any decision to invest in the Securities until after such investor has had an opportunity to read and review carefully the Offering Circular.

**Limited Liquidity.** There is currently no market for the Offered Securities. Although Merrill Lynch may from time to time make a market in any class of Offered Securities, it is under no obligation to do so. In the event that Merrill Lynch commences any market-making, it may discontinue the same at any time. There can be no assurance that a secondary market for any of the Offered Securities will develop, or if a secondary market does develop, that it will provide the holders of such Offered Securities with liquidity of investment or that it will continue for the life of the Offered Securities. In addition, the Offered Securities are subject to transfer restrictions and can only be transferred to certain transferees. Consequently, an investor in the Offered Securities must be prepared to hold its Offered Securities for an indefinite period of time.

**Limited-Recourse Obligations.** The Notes will be limited-recourse obligations of the co-issuers, payable solely from the collateral pledged by the issuer to secure the Notes. None of the security holders, members, officers, directors, managers or incorporators of the issuer, the co-issuer, the trustee, the administrator of the issuer, the Collateral Manager, Merrill Lynch, any of their respective affiliates and any other person or entity will be obligated to make payments on the Notes. Consequently, the holders of the Notes must rely solely on amounts received in respect of the collateral for the payment of principal thereof and interest thereon. There can be no assurance that the distributions on the collateral pledged by the issuer to secure the Notes will be sufficient to make payments on any class of Notes, in particular after making payments on more senior classes of Notes and certain other required amounts ranking senior to such Notes. The issuer's ability to make payments in respect of any Class of Notes will be constrained by the terms of the Notes of classes more senior to such class and the indenture. If distributions on the collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all of the collateral, the obligations of the co-issuers to pay such deficiencies will be extinguished.

**Payments in respect of the Preference Shares.** The issuer will pledge substantially all of its assets to secure the Notes and certain other obligations pursuant to the indenture. The proceeds of such assets will only be available to make payments in respect of the Preference Shares as and when such proceeds are released from the lien of the indenture in accordance with the priority of payments that will be set forth therein. There can be no assurance that, after payment of principal and interest on the Notes and other fees and expenses of the co-issuers in accordance with such priority of payments, the issuer will have funds remaining to make distributions in respect of the Preference Shares.



**The summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the collateral and are subject in their entirety to the complete presentation of risk factors in the final Offering Circular.**

THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

## Risk Factors

Subordination of Each Class of Subordinate Notes. No payment of interest on any class of Notes will be made until all accrued and unpaid interest on the notes of each class that is senior to such class and that remain outstanding has been paid in full. Except as otherwise described in, and subject to, the priority of payments that will be set forth in the offering circular, no payment of principal of any class of Notes will be made until all principal of, and all accrued and unpaid interest on the Notes of each class that is senior to such class and that remain outstanding have been paid in full. If an event of default occurs, so long as any Notes are outstanding, the holders of the most senior class of Notes then outstanding will be entitled to determine the remedies to be exercised under the indenture. It is anticipated that so long as any Class A and Class B Notes are outstanding, the failure on any payment date to make payment in respect of interest on the Class C Notes will not constitute an event of default under the indenture and such interest will be deferred and capitalized. Remedies pursued by the holders of the class or classes of Notes entitled to determine the exercise of such remedies could be adverse to the interest of the holders of the other classes of notes. It is anticipated that, to the extent that any losses are suffered by any of the holders of any Offered Securities, such losses will be borne, first, by the holders of the Preference Shares, second, by the holders of the Class C Notes, third, by the holders of the Class B Notes, and fourth, by the holders of the Class A Notes.

Volatility of the Preference Shares. The Preference Shares represent a leveraged investment in the underlying collateral. Therefore, it is expected that changes in the value of the Preference Shares will be greater than the change in the value of the underlying collateral, which will be subject to credit, liquidity, interest rate and other risks. Utilization of leverage is a speculative investment technique and involves certain risks to investors. The indebtedness of the issuer under the Notes will result in interest expense and other costs incurred in connection with such indebtedness that may not be covered by proceeds received from the Collateral. The use of leverage generally magnifies the issuer's opportunities for gain and risk of loss.

Nature of Collateral. The collateral will be subject to credit, liquidity, interest rate, market, fraud, operations and structural risk. The amount and nature of the collateral securing the Notes will be established with a view to withstanding certain assumed deficiencies in payment occasioned by defaults in respect of the securities included in the collateral. If any deficiencies exceed such assumed levels, however, payments on the Notes and distributions on the Preference Shares could be adversely affected. To the extent that a default occurs with respect to any security included in the collateral, it is not likely that the issuer will receive the full amount of principal and interest owing to the issuer in respect of such security. The market value of the collateral generally will fluctuate with, among other things, the financial condition of the obligors on or issuers of the securities included in the collateral, the remaining term thereof to maturity, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.

It is currently anticipated that 75% of the collateral will have been purchased by the closing date. The issuer expects that it will have purchased 100% of the collateral by the ramp-up completion date, and that the collateral will satisfy the coverage tests. However, there can be no assurance that this will occur. Failure to satisfy the coverage tests may result in repayment or redemption of all or a portion of the Notes (in accordance with the priority of payments to be specified in the Offering Circular).



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## Risk Factors

Early Redemption of the Notes. In addition to the risk of early redemption of the Notes discussed in the immediately preceding paragraph, the notes may be subject to early redemption 3 years after the closing date at the election of a majority in interest of the holders of the Preference shares. It is anticipated that if a coverage test is breached, interest proceeds and then principal proceeds will be applied to pay principal on the Notes until the applicable coverage test is met. In addition, it is anticipated that if the Notes have not been paid in full prior to [January 2012], an auction of the collateral will be conducted and subject to satisfaction of certain conditions, will be sold and used to redeem the Notes. The Notes may also be subject to early redemption on the occurrence of certain adverse tax events to be described in the Offering Circular.

Certain Conflicts of Interest. The activities of the Collateral Manager, Merrill Lynch and their respective affiliates may result in certain conflicts of interest.

Conflicts of Interest Involving the Collateral Manager. Various potential and actual conflicts of interest may arise from the overall investment activities of the Collateral Manager and its affiliates for their own accounts or for the accounts of others. The Collateral Manager and its affiliates may invest for their own accounts or for the accounts of others in debt obligations that would be appropriate investments for the issuer and they have no duty, in making such investments, to act in a way that is favorable to the issuer or the holders of the Offered Securities. Such investments may be different from those made on behalf of the issuer. The Collateral Manager and its affiliates may have economic interests in or other relationships with issuers in whose obligations or securities the issuer may invest. In particular, such persons may make and/or hold an investment in securities that may be *pari passu*, senior or junior in ranking to an investment in securities of the same issuer that are held by the issuer or in which partners, security holders, officers, directors, agents or employees of such persons serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in securities laws restrictions on transactions in such securities by the issuer and otherwise create conflicts of interest for the Issuer. In such instances, the Collateral Manager and its affiliates may in their discretion, subject to certain restrictions, make investment recommendations and decisions that may be the same as or different from those made with respect to the issuer's investments.

Although the officers and employees of the Collateral Manager will devote as much time to the issuer as the Collateral Manager deems appropriate, the principals and employees may have conflicts in allocating their time and services among the issuer and other accounts advised by the Collateral Manager and/or its affiliates. In addition, the Collateral Manager and its affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Collateral Manager from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

The Collateral Manager and any of its affiliates may engage in any other business and furnish investment management and advisory services to others, which may include, without limitation, serving as collateral manager or investment manager for, investing in, lending to, or being affiliated with, other entities organized to issue collateralized bond obligations secured by securities such as those included in the collateral and other trusts and pooled investment vehicles that acquire interests in, provide financing to, or otherwise deal with securities issued by issuers that would be suitable for inclusion in the collateral. The Collateral Manager will be free, in its sole discretion, to make recommendations to others, or effect transactions on behalf of itself or for others, that may be the same as or different from those effected on behalf of the issuer, and the Collateral Manager may furnish investment management and advisory services to others who may have investment policies similar to those followed by the Collateral Manager with respect to the issuer and who may own securities of the same class, or which are the same type as, the securities included in the Collateral.



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THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE RISK FACTORS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED

## Risk Factors

Although the Collateral Manager or one of its affiliates may at times be a holder of the Offered Securities, its interests and incentives will not necessarily be completely aligned with those of the other holders of the Offered Securities (or of the holders of any particular class of the Notes or of the Preference Shares). Furthermore, although the Collateral Manager is expected to purchase Preference shares, it is not required to maintain minimum holdings in the Preference shares.

*Conflicts of Interest Involving Merrill Lynch.* Certain of the Collateral Debt Securities acquired or to be acquired by the Issuer will consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which Merrill Lynch or an affiliate thereof has acted as underwriter, agent, placement agent or dealer or for which Merrill Lynch or an affiliate thereof has acted as lender or provided other commercial or investment banking services. Merrill Lynch or an affiliate thereof may structure issuers of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. Merrill Lynch or an affiliate thereof may also act as counterparty with respect to one or more Synthetic Securities. In its role as counterparty with respect to Synthetic Securities, Merrill Lynch or one of more of its affiliates may manage a pool of Reference Obligations with respect to the Synthetic Securities and make determinations regarding those Reference Obligations. In addition, an affiliate of Merrill Lynch may act as Hedge Counterparty under one or more Hedge Agreements with the Issuer. Moreover, Merrill Lynch or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Offered Securities or with respect to Collateral Debt Securities acquired by the Issuer, and Merrill Lynch or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. Merrill Lynch, its employees, affiliates and employees of affiliates will receive compensation in connection with the structuring of the CDO and/or distribution of the Securities.

These activities may create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with Merrill Lynch (or an affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties.

It is anticipated that, in the event that the transaction will include an administrative agency agreement, an affiliate of Merrill Lynch, as administrative agent, would become successor collateral manager, if the Collateral Manager were removed pursuant to the collateral management agreement. If this occurs, such affiliate could experience conflicts of interest similar to those described above with respect to the collateral manager.

*Significant Fees Reduce Proceeds Available for Purchase of Collateral Debt Securities.* 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, structuring and placement agency fees payable to Merrill Lynch and legal, accounting, rating agency and other fees. Fees payable to Merrill Lynch and others will be determined on an arms' length basis. 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 Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.

*Purchase of Collateral Debt Securities.* It is anticipated that many of the securities that will be purchased by the issuer on the date on which the Offered Securities are issued will be purchased from one or more portfolios of securities held by affiliates of Merrill Lynch pursuant to separate warehousing agreements between such affiliates of Merrill Lynch and the Collateral Manager. Some of the securities subject to such warehousing agreements may have been originally acquired by Merrill Lynch from the Collateral Manager or one of its Affiliates. The issuer will purchase securities included in such warehouse portfolios only to the extent that such purchases are consistent with the investment guidelines of the issuer, the restrictions contained in the indenture and the collateral management agreement and applicable law. The purchase price payable by the issuer for such securities will be based on the purchase price paid when such securities were acquired under the warehousing agreements, accrued and unpaid interest on such securities as of the date they are acquired by the issuer and gains or losses incurred in connection with hedging arrangements entered into with respect to such securities. Accordingly, it is likely that the issuer will bear the risk of market changes subsequent to the acquisition of such securities and related hedging arrangements pursuant to the warehousing agreements as if it had acquired such securities directly.



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## Risk Factors

Redemption and Diversion of Interest Proceeds. The Securities will be subject to redemption under certain circumstances described in the Offering Circular (including, under certain circumstances, upon the failure of certain financial coverage tests to be satisfied). Any such redemption may cause the economic return from an investment in the Securities to vary from the economic returns that may be modeled in this Information. In addition, the failure to satisfy certain financial coverage tests could result in an elimination, deferral or reduction in the payments to be made to holders of one or more classes of notes or equity securities, which could adversely impact the economic return realized by such holders.

Auction Call Redemption. If the Notes have not been redeemed in full prior to the Payment Date occurring in [January 2012], then an auction of the Collateral Debt Securities will be conducted and, provided that certain conditions are satisfied, in particular with respect to the sufficiency of anticipated proceeds from the proposed sale of the Collateral Debt Securities, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Payment Date. If such conditions are not satisfied and the auction is not successfully conducted on such Payment Date, the Collateral Manager will conduct auctions on each Payment Date thereafter, however, the Notes will not be redeemed until the conditions are satisfied.

Application of Principal Proceeds. Principal Proceeds from the Collateral Debt Securities, except for sales proceeds that are reinvested during the substitution period in substitute Collateral Debt Securities, will be used to pay principal on the Notes. The timing of receipts of principal on the Collateral Debt Securities with respect to such substitute Collateral Debt Securities will depend on, among other factors, the rate of prepayments on Collateral Debt Securities which may be influenced by the level of interest rates and economic conditions. The Issuers cannot predict the actual rate of principal payments that will be experienced on the Collateral Debt Securities. After the rampup completion date, there will be no further purchases made in the portfolio.

Redemption of Class C Notes. If Preference Shareholders have received distributions on the Preference Shares sufficient to achieve a Preference Share Preference Return (as defined herein) of [16.0]% during the related calculation period for such Payment Date, any remaining Interest Proceeds will be applied to redeem the Class C Notes. While the anticipated effect of this feature is to accelerate the payment of the Class C Notes, the Issuers cannot predict whether Interest Proceeds received on the Collateral Debt Securities will be sufficient to make such redemptions. Moreover, if the Class C Notes are redeemed sooner than anticipated due to this feature, investors in the Class C Notes may not be able to reinvest the proceeds in investments with the same yield.

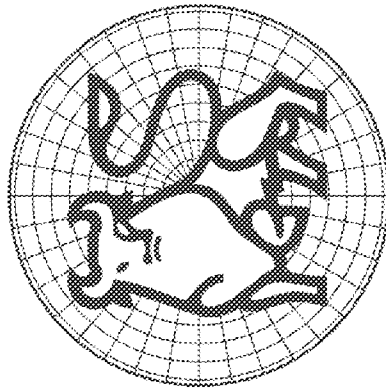
CDO of CDOs. The assets held by E\*TRADE ABS CDO III, Ltd. ("E\*TRADE ABS CDO III") which back the Offered Securities consist of (i) Asset Backed Securities including RMBS, CMBS and (iii) ABS CDOs. The portion of the assets held by E\*TRADE III CDO may consist of ABS CDO securities; provided that the securities issued by any one CDO may not exceed [10]% of E\*TRADE III CDO's portfolio. As a result, purchasers of the Offered Securities must understand that if they hold debt or equity issued by other CDOs, their credit exposure to such CDOs will increase to the extent securities issued by those CDOs are also included in the assets of E\*TRADE III CDO.

Investment in CDO Equity. CDO equity securities are a first loss, leveraged credit position. An investor in a CDO is exposed to a portfolio of diversified credits, but only a portion of those credits need to default (recovery values adjust this range upward) for clients that invest in CDO equity securities to lose 100% of their original investment – hence the leveraged credit position. Client loss is limited to original investment. CDO debt tranche investors effectively loan money to CDO equity investors. Criteria governing a CDO will divert cashflow intended for equity to start paying down debt in the event that certain coverage ratios (over-collateralization and interest coverage tests) are triggered. Collateral deterioration is the cause for these ratios to be triggered. This may result in a cutoff of cashflow to CDO equity securities for some time and potential phantom income tax issues. Equity investors are leveraged. Spread movement in the underlying collateral portfolio will have exaggerated mark-to-market effect on client positions. These cashflows are amortizing in nature, i.e., investors do not normally receive their full principal at maturity. CDO equity returns are projected in terms of the IRR of this stream of cashflows. The earlier cash is received, the higher the IRR will be.

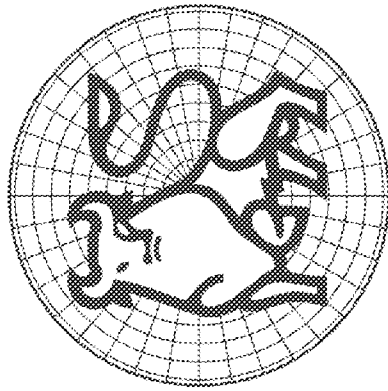


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## 5. About the Collateral Manager



A. Introduction to E\*TRADE Financial



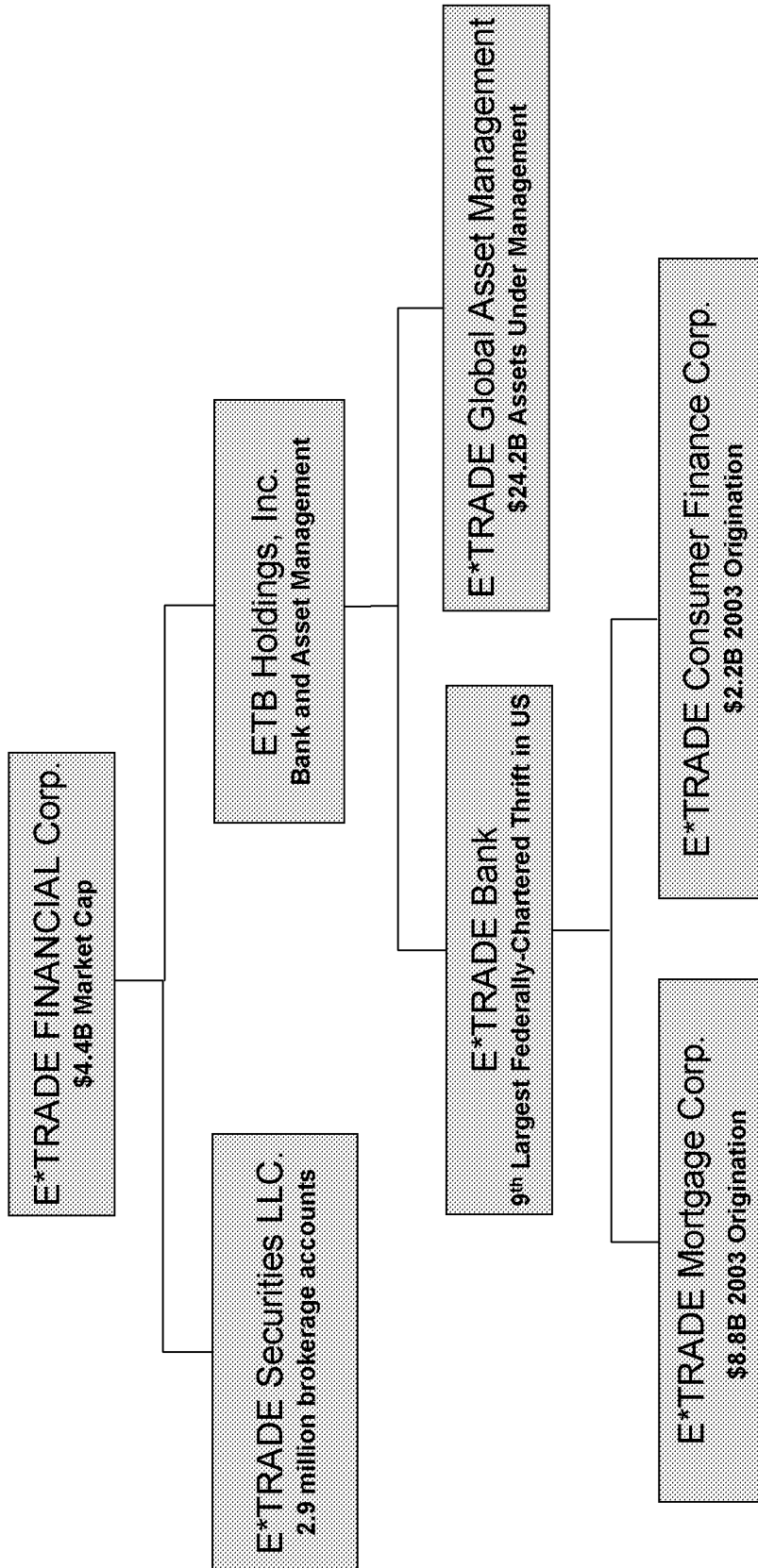
## An Introduction to E\*TRADE Financial

### Mission Statement

To create long term shareholder value through superior financial performance driven by the delivery of an integrated range of innovative, customer-focused financial products and services and supported by an operating culture based on the highest levels of teamwork, efficiency and integrity

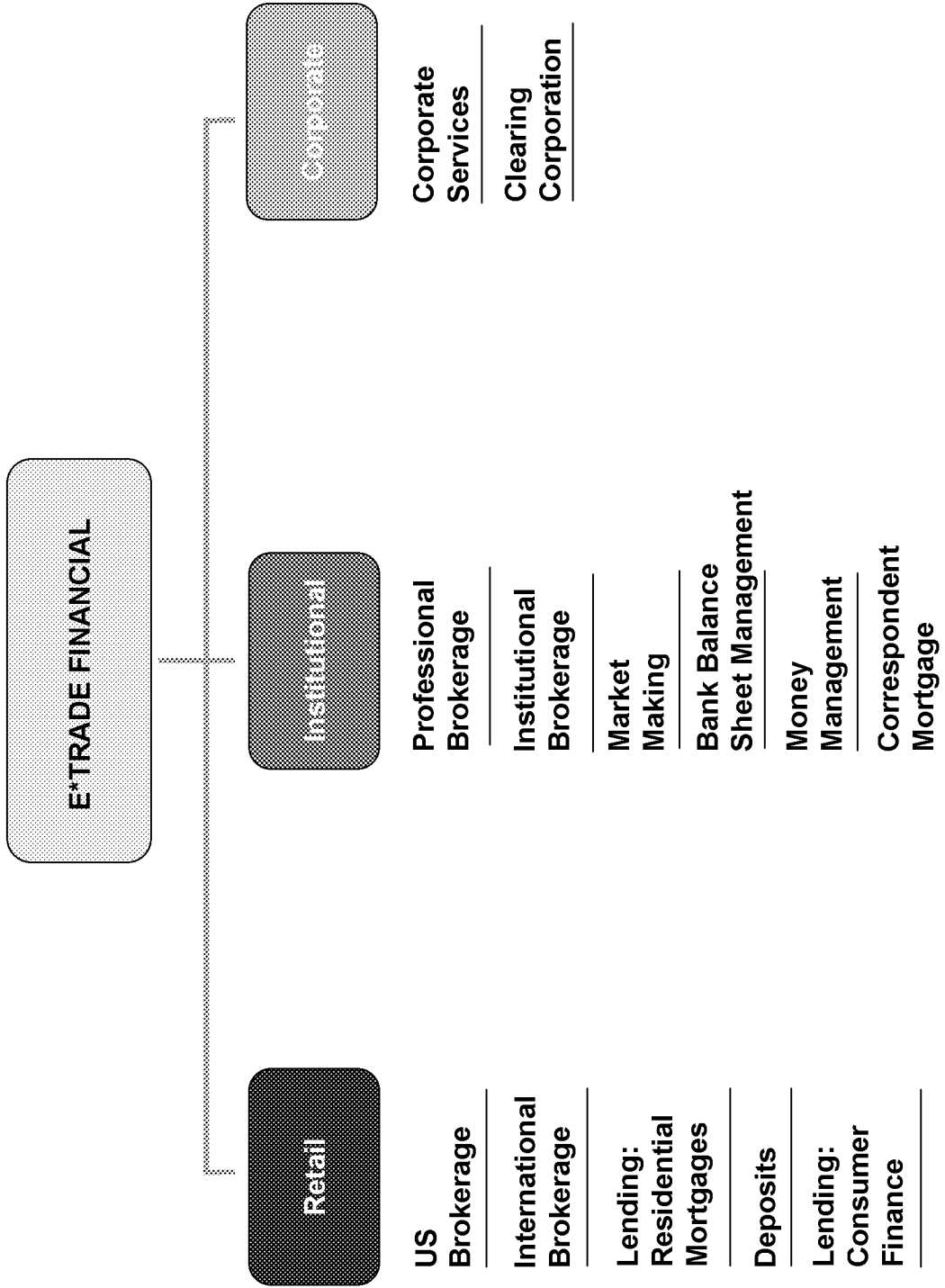


**Introduction to E\*TRADE Financial<sup>(1)</sup>**



(1) Selected affiliates only.

Introduction to E\*TRADE Financial



## Introduction to E\*TRADE FINANCIAL

- Incorporated in 1996 and headquartered in New York, E\*TRADE Financial (NYSE: ET) is a diversified financial services holding company with two main businesses:
  - 1) E\*TRADE Securities LLC – a leading online brokerage company;
  - 2) ETB Holdings, Inc. – incorporates E\*TRADE Bank, the 9<sup>th</sup> largest Federally-Chartered savings bank in the US, and E\*TRADE Global Asset Management (“ETGAM”), an exclusive asset manager for E\*TRADE Bank with \$24.2 billion assets under management.
- E\*TRADE Financial offers value to its customers by using technology to provide brokerage, banking and lending products primarily through electronic delivery channels.
- Provider of financial services to retail, corporate and institutional customers.
- RETAIL: Provide integrated and personalized suite of investing, banking, lending, planning and advice services primarily through online channels, under “E\*TRADE Financial” brand.
- CORPORATE: Employee stock plan administration, as well as market-making and clearing services to brokerage firms.
- INSTITUTIONAL: Broad range of brokerage products and services, including cross-border trading and third party independent research.



## Introduction to E\*TRADE Securities

### E\*TRADE Securities - Online Brokerage

- 2.9 Million active online brokerage accounts
- 3<sup>rd</sup> largest online broker with 18 percent market share of online trading volumes<sup>1</sup>
- Over \$71 Billion in assets in client investing accounts
- \$880 Million in Net Revenues in 2003
- E\*TRADE brokerage operates branded websites in 12 countries throughout North America, Europe and Asia



(1) SEC Filings  
Note: As of September 30, 2004.

## Introduction to E\*TRADE Bank

### E\*TRADE Bank - The Largest Branchless Bank

- 9<sup>th</sup> largest federally-chartered savings bank in the US <sup>(1)</sup>
- \$23.1 Billion in interest earning assets<sup>(1)</sup>
- Over \$12 Billion in customer deposits <sup>(1)</sup>
- 632,000 active banking accounts <sup>(1)</sup>
- Over \$600 Million in Net Revenues in 2003
- 3<sup>rd</sup> largest online mortgage originator
- 15<sup>th</sup> largest correspondent channel mortgage originator
- E\*TRADE Bank's consumer lending division, ETCFC\*, has 17% and 10% market share in RV and marine loans
- \$2.0 billion annual origination of RV and Marine loans



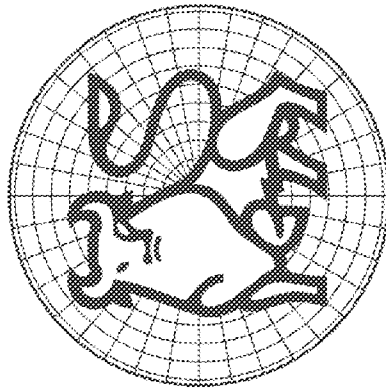
(1) ETCFC - E\*TRADE Consumer Finance Company  
Note: As of September 30, 2004.

**Introduction to E\*TRADE Financial**

**Business Lines**

Market Segment	Business Line	Description
Retail	<b>Lending: Consumer Finance</b>	Originate Home Equity, Marine, RV, Auto, Credit Card and motor sport loans
	<b>Lending: Residential Mortgages</b>	Originate first and second lien residential home mortgages
	<b>Deposits</b>	Offer suite of retail transactional banking products
Institutional	<b>Balance Sheet Management</b>	Manage acquisition, holding, and disposition of assets for the Bank's portfolio
	<b>Correspondent Mortgage</b>	Purchase and sell mortgages through network of financial institutions
	<b>Money Management</b>	Serve as asset manager for proprietary mutual funds and CDOs





B. An Introduction to E\*TRADE Global Asset  
Management, Inc. (ETGAM)



**Overview**

- ETGAM is an Asset Manager & a Registered Broker Dealer that manages over \$24.2 billion in assets
- ETGAM, and its predecessor company, has been an active investor of structured mezzanine collateral since 1992
- ETGAM's core portfolio team consists of 17 people with average investment experience of 15 years
- ETGAM is currently staffed with 78 employees
  - Portfolio Managers (11)
  - Risk Management Team (9)
  - Credit Group (8)
  - Analysts (15)
  - Support Staff (35)



*Note: As of September 30, 2004.*

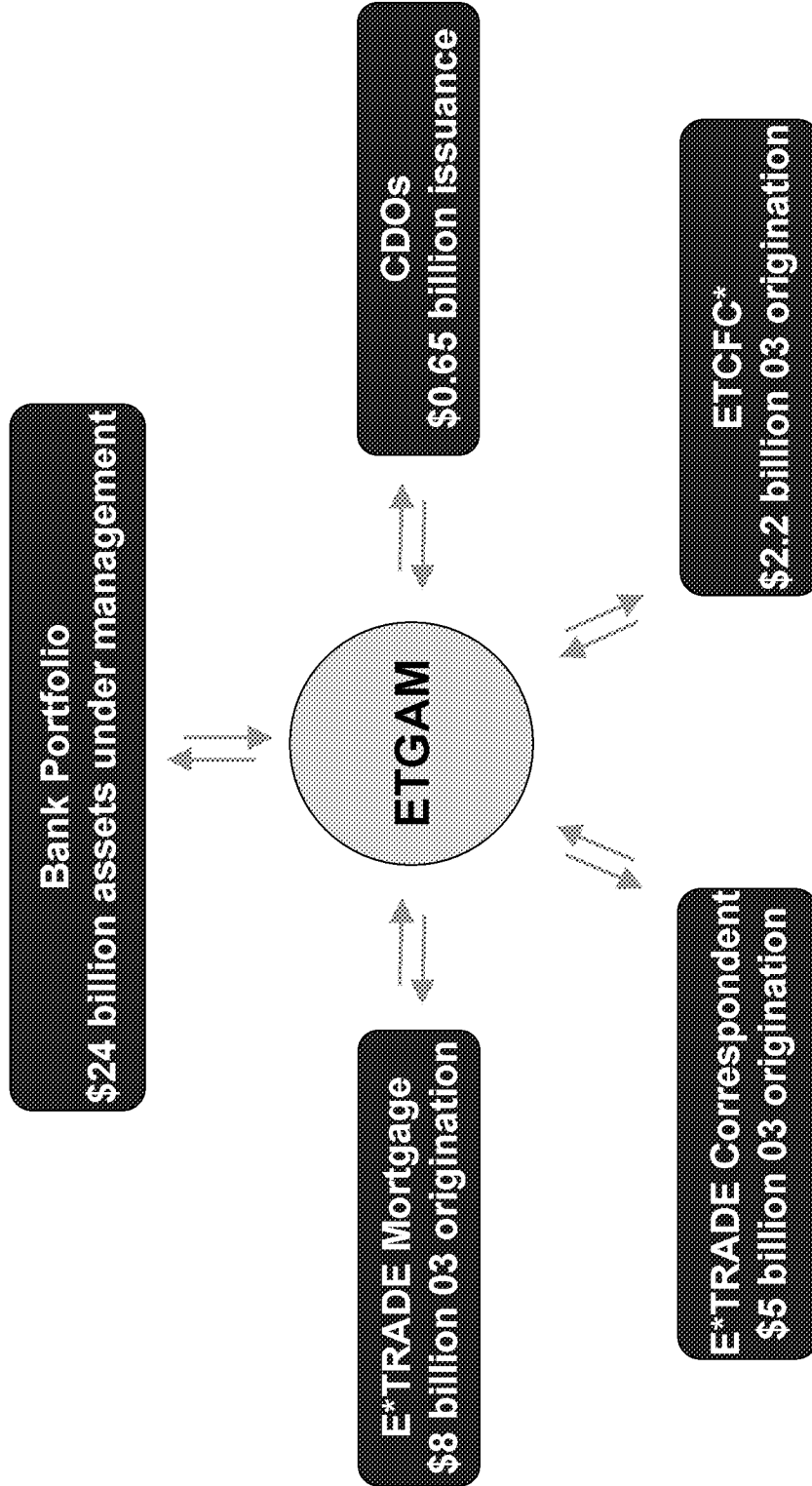
## **ETGAM's Investment Strategy and Objectives**

- **Investment Strategy**
  - ETGAM's investment strategy is directed by business line initiatives with respect to capital allocation, asset/liability management, sound credit analysis and industry best practices. Within the constraints of authorized investments, credit risk management and interest rate risk management techniques, ETGAM will strive to maximize portfolio returns on a total rate of return basis.
- **Management Objective**
  - ETGAM's management objective is to use industry best practices to invest in high quality assets with stable cash flows which will provide high risk-adjusted returns on a total return basis for investors.
- **Why Invest with E\*TRADE Global Asset Management?**
  - Experienced asset managers, with an average of 15 years of fixed income investment management experience
  - Advanced proprietary & best of breed portfolio management systems and infrastructure
  - A credit first approach: from extensive pre-purchase underwriting to detailed asset-by-asset monthly surveillance
  - ETGAM has historically made significant equity investments in its ABS CDOs
  - ETGAM plans to be a regular issuer of ABS CDOs, enabling investors to participate in the company's disciplined investment approach over a long period of time



**Introduction to E\*TRADE Global Asset Management, Inc.**

**Asset Management Responsibility in Several Business Lines**



(1) ETCFC - E\*TRADE Consumer Finance Company

**Broad-Based Experience**

- The ETGAM portfolio management team collectively has extensive and broad-based experience investing in and managing structured mezzanine and whole loan collateral across a broad range of asset classes
  - \$4 billion Mezzanine Assets
  - \$7 billion in Consumer Loans
  - \$4 billion in Mortgage Loans
- E\*TRADE is an active originator and servicer of consumer finance assets
  - E\*TRADE currently originates loans and receivables across a broad spectrum of consumer finance assets, to include:
    - Mortgages
    - Credit Cards
    - Home Equity Loans (HEL, HELOC)
    - Recreational Vehicles (RV)
    - Marine
  - Since 2003, E\*TRADE Bank has originated \$18 billion in mortgage loans and \$4.5 billion in consumer loans
  - E\*TRADE Consumer Finance Corp. services \$5 billion in consumer loan assets<sup>(1)</sup>

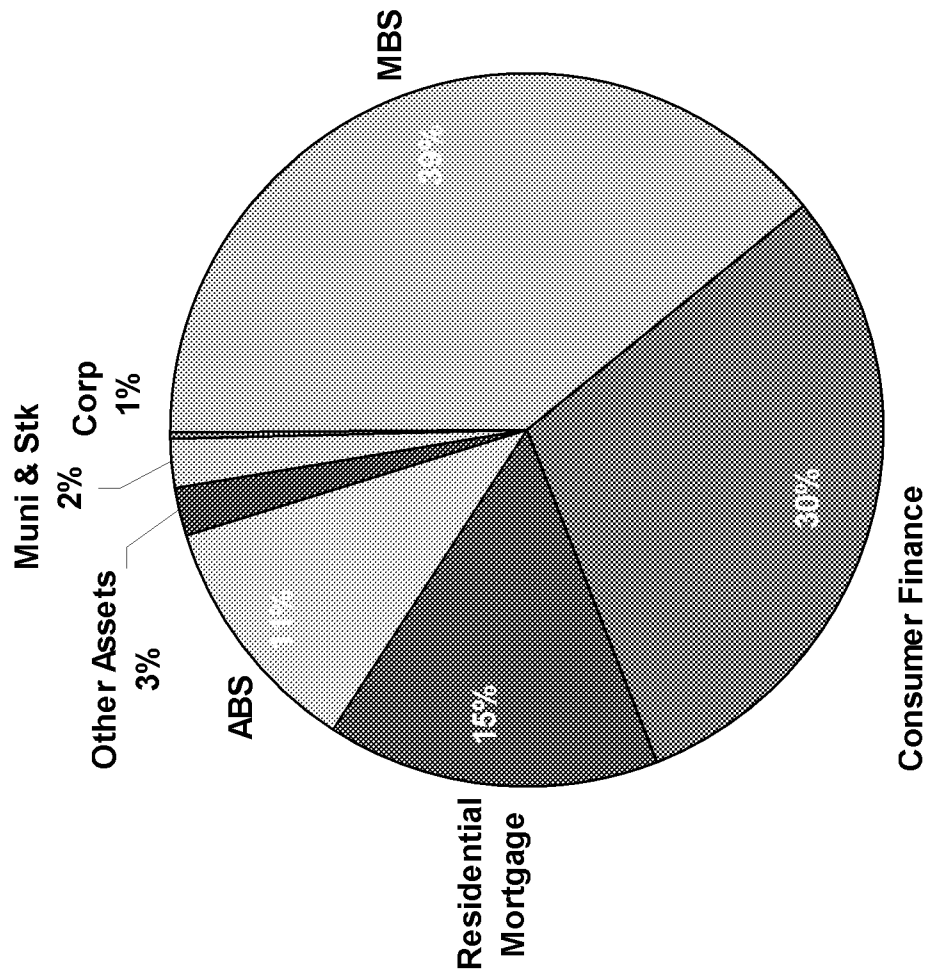


<sup>(1)</sup> Includes servicing for third parties.

# Introduction to E\*TRADE Global Asset Management, Inc.

## Bank Portfolio

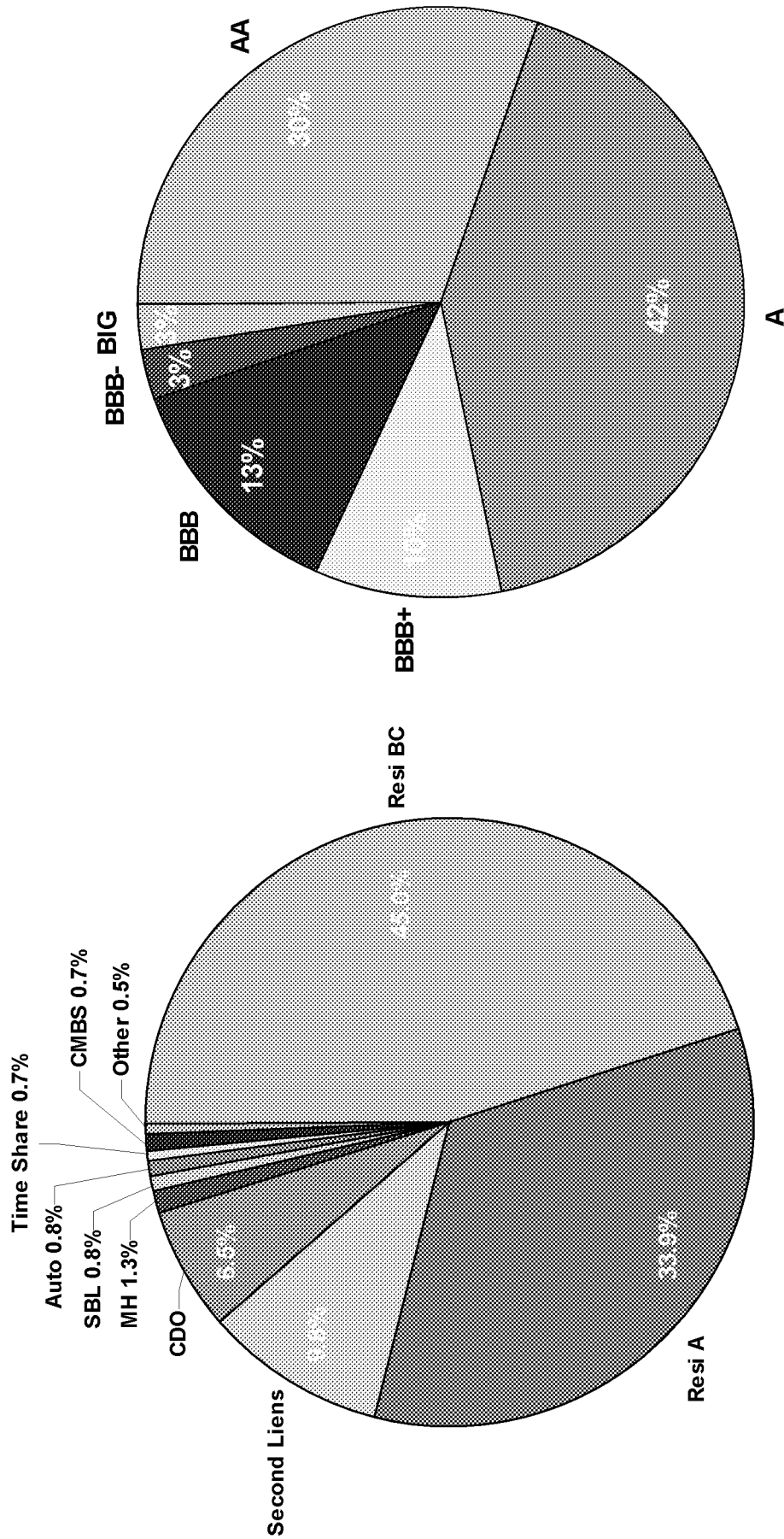
E\*TRADE Bank Portfolio Composition \$24.2 billion (excludes \$4B Money Market Funds)



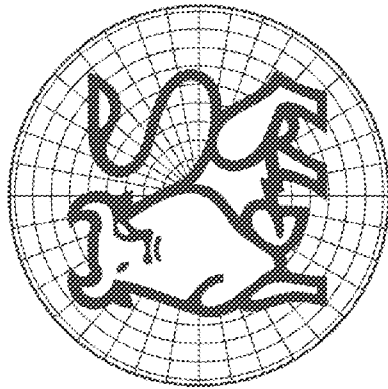
Note: As of September 30, 2004.

**Introduction to E\*TRADE Global Asset Management, Inc.**  
ABS Portfolio

**Mezzanine ABS Product Type and Ratings (Including CDOs I & II)**  
**Total: \$3.3B; WARE: 301 (Baa1/Baa2)**

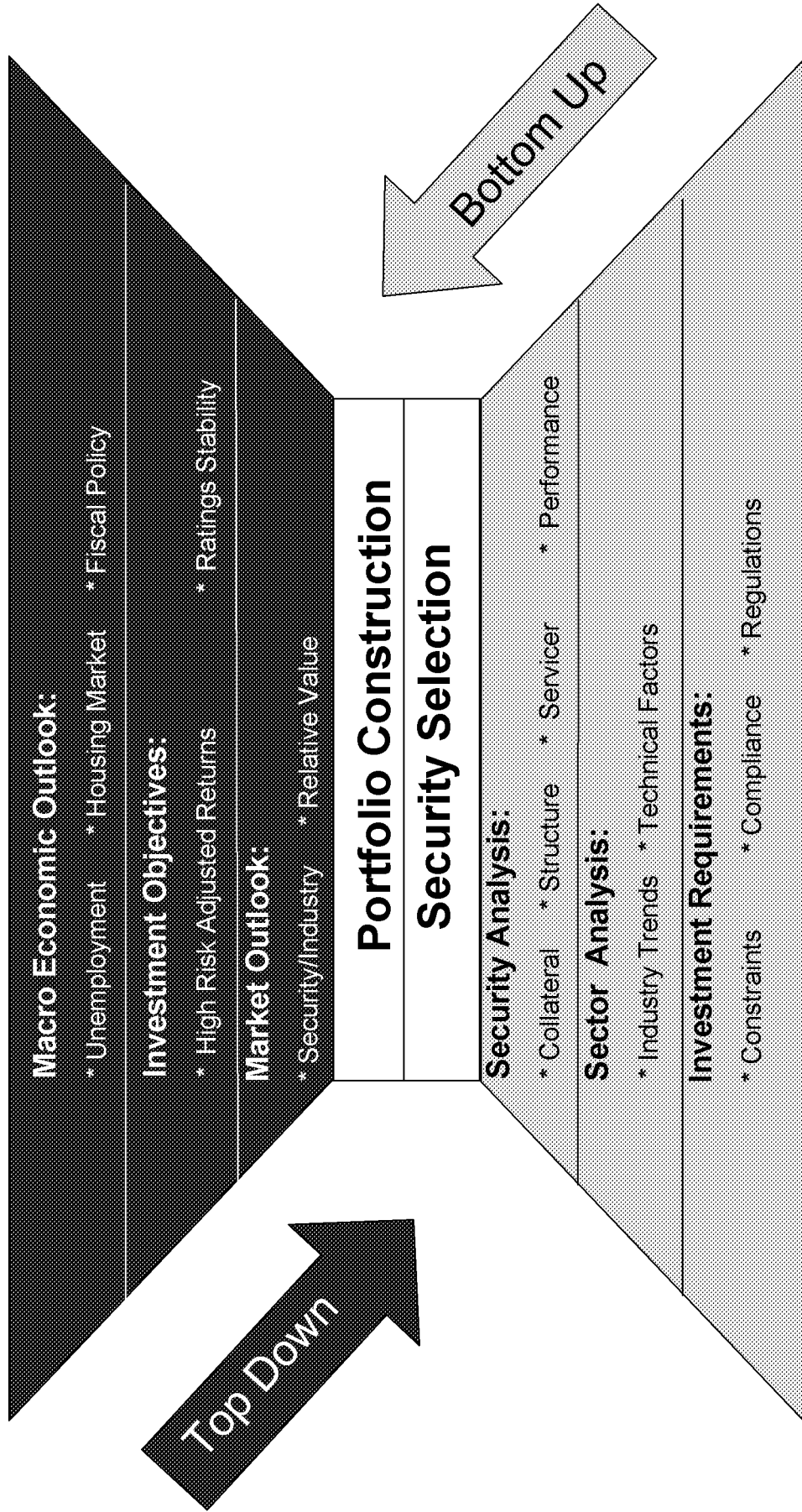


Note: As of September 30, 2004.



## C. ETGAM Research and Credit Process

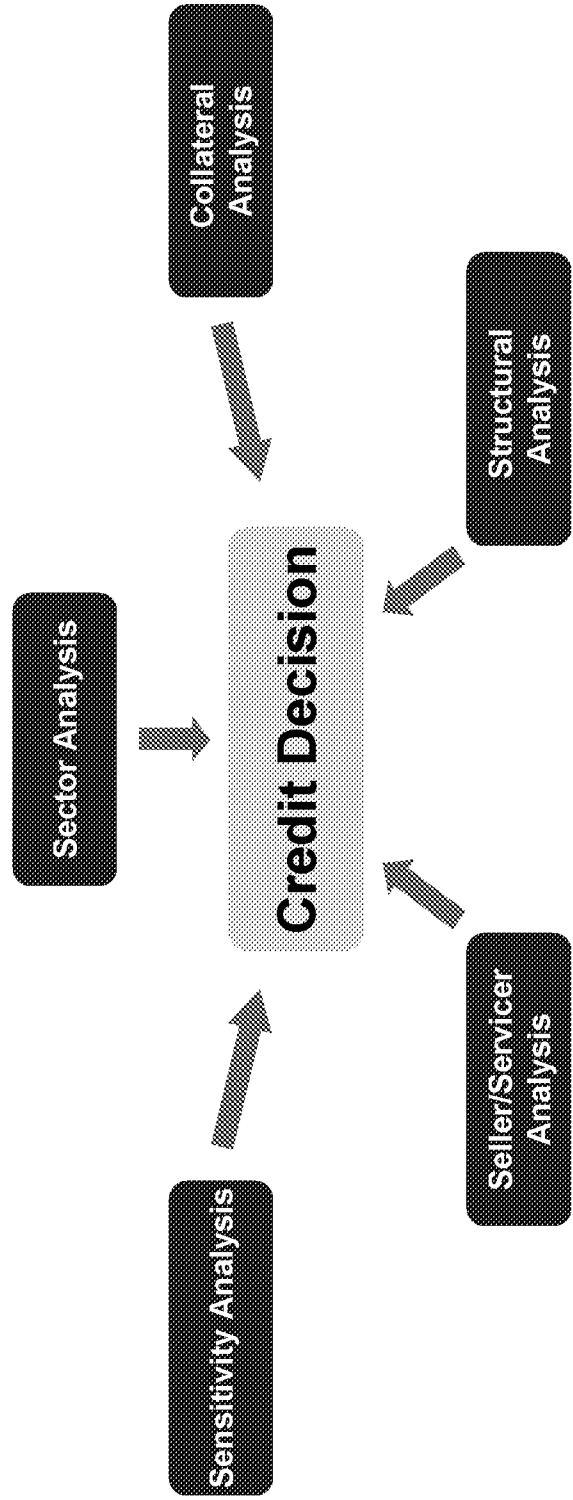
**Investment Process**





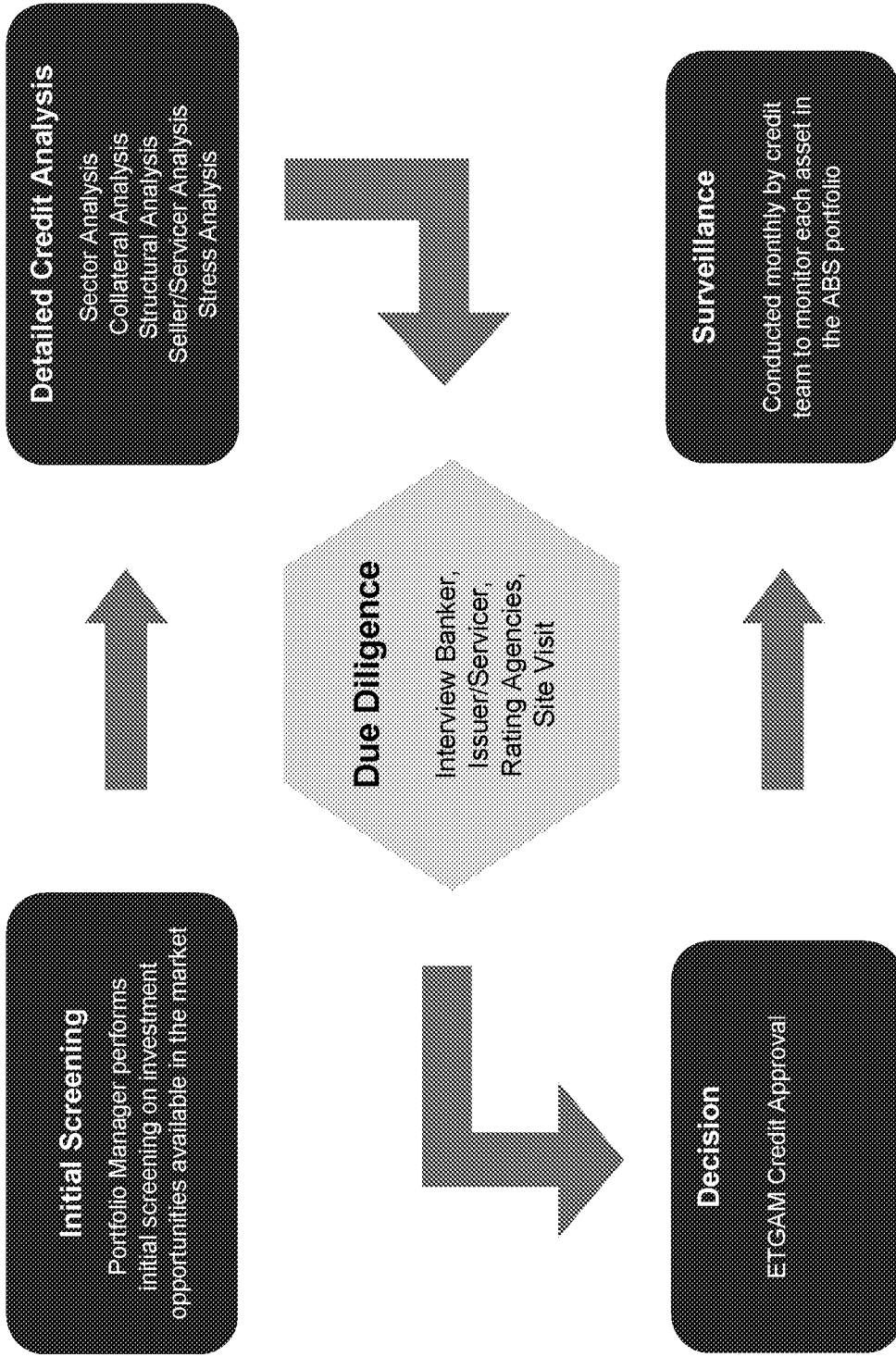
**Credit Philosophy**

- Value oriented, investment approach based on fundamentals
- Strong credit discipline
- Focus on core competencies
- Identify attractive sectors and relative value opportunities
- Invest in high quality assets with stable cash flows and high risk-adjusted returns on a total return basis
- Ongoing surveillance of industry trends and performance of individual securities



## ETGAM Research and Credit Process

### Investment Process



## ETGAM Research and Credit Process Collateral Analysis

### Proprietary scoring methodology

- ETGAM's Credit Team employs a proprietary scoring system in order to assess the creditworthiness of the underlying obligors
  - The methodology is based upon a multi-faceted analysis of the collateral "tails", defined as those groups of loans that have perceived credit weaknesses (for example low FICO combined with high LTV)
  - By cross referencing multiple credit metrics, ETGAM is able to identify weak or over-leveraged borrowers
    - FICO scores are cross-referenced with LTV ratios
    - DTI ratios are cross-referenced with FICO scores
    - LTV, with DTI thresholds, are used to identify stressed loans
    - Loans with small balances are rated as riskier because the fixed costs associated with the foreclosure process generally result in lower recovery rates
    - Additional factors: Documentation Level, Property Type, and Geographic Location
  - A collateral score is established by using ETGAM's proprietary methodology
  - Collateral scores are then compared to a database of previously scored deals to ascertain collateral relative strength
  - To date, ETGAM Credit has generated a proprietary score for more than 378 deals representing over \$420 billion of collateral.



### Structural and Sensitivity Analysis

- After the deal is scored, internal loss and prepayment curves are generated
- Stress tests are run using the aforementioned curves to assess the structural integrity of the deal
  - Multiple stress analyses are run in Intex using the following variables:
    - Interest rate shocks
    - Prepayment shocks
    - Default and Severity shocks
  - Structural analysis includes a review of the following items:
    - Cash flow waterfall and priority of payments (sequential, pro rata or turbo)
    - Hedging instrument used to protect against interest rate risk
    - Delinquency and Cumulative Loss triggers
    - Available Funds Cap
  - Additionally, ETGAM prefers deals with the following structural features:
    - Fully funded Over-Collateralization
    - High initial Excess Spread
    - Trapping mechanisms that prevent excess spread from leaving the deal if loan performance deteriorates



## ETGAM Research and Credit Process Surveillance

Surveillance	Monthly	
	Ongoing	
	Tools	
	<ul style="list-style-type: none"> <li>■ Review monthly remittance reports for each transaction to monitor performance of the underlying pool, emphasizing available credit enhancement, delinquencies, losses and prepayments</li> <li>■ ETGAM Early Detection Report uses asset specific triggers to spot early indicators of potential performance deterioration</li> <li>■ Maintain internal watchlist of deals with potential credit deterioration</li> <li>■ Monitor rating agency actions</li> <li>■ Monthly ETGAM Credit Committee meeting to review entire portfolio</li> </ul>	
	<ul style="list-style-type: none"> <li>■ Regular contact with servicers, rating agencies, trustees and industry analysts</li> <li>■ Periodic Issuer and Servicer reviews</li> <li>■ Evaluate external research provided by investment banks and ratings agencies to assist in performance evaluation and trade ideas in various sectors</li> <li>■ ETGAM Analysts notify the Credit Committee immediately upon any substantive event (such as ratings changes)</li> </ul>	
		<ul style="list-style-type: none"> <li>■ Analytics: Intex, Bloomberg, proprietary Security Evaluation Model</li> <li>■ Performance Tracking: Remittance reports, ABSNet, Intex, Bloomberg, Rating Agency reports/ models</li> <li>■ Research: Dealer research, Rating Agency research, Bloomberg, SEC filings on Edgar On-line</li> </ul>



# ETGAM Research and Credit Process Monthly Surveillance Example

## Resi-BC Portfolio

**Holdings**

**FLAG KEY**

SD Severe Delinquencies: Sum of 90+ delinquencies, bankruptcies, foreclosures, & REOs is greater than 120% of the cohort.  
 NL Net Loss: The three month rolling average is greater than 120% of the cohort.  
 CE Credit Enhancement: Credit enhancement declines from the previous month.  
 Cov Coverage against Foreclosure & REO: Foreclosures plus REOs divided by the available credit enhancement plus excess spread.  
 CL Cumulative Losses: Cumulative losses that exceed the base case losses by 10%.

Issue	Class	Rating	Deal	Current 3 Month			Delinquencies			Net Losses			Cum. Losses			Excess Spread			CE			Coverage			
				Capex	3 Month Average	3 Month	3 Month Average	3 Month	3 Month Average	3 Month	3 Month Average	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month	3 Month
AACE1012	M2	A	06943	1.24%	1.24%	1.46%	3.24%	0.44%	6.37%	7.97%	0.87%	0.17%	0.99%	0.18%	5.57%	5.43%	5.00%	11.76%	12.51%	6.03%	5.72%	0.31			
AACE1013	M2	A	07478	1.31%	1.46%	1.13%	3.70%	0.62%	6.65%	5.92%	0.31%	0.05%	0.03%	0.10%	5.35%	5.59%	5.03%	8.92%	12.05%	5.07%	6.16%	0.36			
AACE1014	M3	A	07478	1.31%	1.45%	1.13%	3.70%	0.52%	6.65%	5.92%	0.31%	0.05%	0.03%	0.10%	5.35%	5.59%	3.03%	8.92%	9.37%	5.07%	5.36%	0.36			
AACE1015	M2	A	03015	3.80%	3.60%	6.34%	5.29%	2.35%	17.76%	19.60%	1.26%	1.60%	0.57%	1.16%	4.73%	4.90%	7.25%	22.21%	23.63%	4.74%	10.62%	0.50			
AACE1016	E1	BBB	04052	7.39%	6.02%	1.72%	7.33%	1.35%	17.78%	19.68%	0.21%	0.94%	0.19%	0.58%	3.73%	3.12%	0.03%	7.92%	8.30%	3.95%	8.36%	0.71			
AACE1017	M3	BBB	03429	3.64%	3.31%	6.45%	5.32%	4.80%	20.19%	18.13%	3.11%	1.00%	0.67%	0.57%	2.62%	3.69%	1.55%	8.73%	9.91%	1.38%	9.91%	0.90			
AACE1018	M2	A	04654	3.27%	3.01%	3.90%	5.99%	1.57%	14.73%	11.57%	0.66%	0.42%	0.32%	0.37%	3.66%	3.92%	5.35%	14.81%	15.43%	3.46%	7.13%	0.71			
AACE1019	M2	A	04303	2.45%	2.30%	2.55%	4.14%	1.09%	10.27%	11.57%	0.79%	0.42%	0.15%	0.37%	3.25%	3.92%	5.60%	14.01%	14.83%	3.71%	6.87%	0.50			
AACE1020	M3	A	04303	2.45%	2.30%	2.55%	4.14%	1.09%	10.27%	11.57%	0.79%	0.42%	0.15%	0.37%	3.25%	3.92%	5.60%	14.01%	14.83%	3.71%	6.87%	0.50			
AACE1021	M2	A	08071	0.75%	1.34%	1.05%	1.35%	0.65%	3.14%	4.45%	0.00%	0.05%	0.00%	0.03%	4.11%	4.05%	5.75%	8.34%	9.99%	3.96%	4.37%	0.16			
AACE1022	M3	A	08071	0.75%	1.24%	1.05%	1.25%	0.65%	3.14%	4.45%	0.00%	0.05%	0.00%	0.03%	4.11%	4.05%	4.25%	7.55%	8.11%	3.95%	4.37%	0.16			
AACE1023	M2	A	02071	3.39%	2.67%	7.26%	9.30%	4.75%	24.84%	19.60%	3.14%	1.60%	0.84%	1.39%	4.29%	4.84%	7.60%	24.15%	25.89%	0.99%	9.70%	1.33			
AACE1024	M2	A	04123	1.64%	1.30%	3.31%	3.45%	1.42%	9.65%	14.07%	0.84%	0.77%	0.215%	0.22%	3.55%	4.10%	4.55%	9.94%	11.04%	3.47%	4.51%	0.61			
AACE1025	M3	BBB	04123	1.64%	1.30%	3.31%	3.45%	1.42%	9.65%	14.07%	0.84%	0.77%	0.215%	0.22%	3.55%	4.10%	4.55%	9.94%	11.04%	3.47%	4.51%	0.61			
AACE1026	M2	A	05238	1.42%	0.96%	1.03%	2.95%	0.92%	6.31%	6.92%	0.02%	0.12%	0.189%	0.82%	5.88%	6.36%	7.75%	11.84%	12.43%	5.73%	5.94%	0.33			
AACE1027	M3	A	05238	1.42%	0.96%	1.03%	2.95%	0.92%	6.31%	6.92%	0.02%	0.12%	0.189%	0.82%	5.88%	6.36%	6.00%	9.16%	9.63%	5.73%	5.94%	0.33			
AACE1028	M3	BBB	05238	1.42%	0.96%	1.03%	2.95%	0.92%	6.31%	6.92%	0.02%	0.12%	0.189%	0.82%	5.88%	6.36%	3.70%	5.65%	5.94%	5.73%	5.94%	0.33			
AACE1029	M6	BBB	05238	1.42%	0.96%	1.03%	2.95%	0.92%	6.31%	6.92%	0.02%	0.12%	0.189%	0.82%	5.88%	6.36%	2.25%	3.44%	3.61%	5.73%	5.94%	0.33			
AACE1030	M2	A	05570	1.09%	1.09%	3.13%	4.32%	1.39%	9.94%	8.66%	0.02%	0.21%	0.090%	0.27%	6.05%	5.91%	5.25%	7.53%	7.99%	5.78%	2.75%	0.67			
AACE1031	M3	A	05570	1.09%	1.09%	3.13%	4.32%	1.39%	9.94%	8.66%	0.02%	0.21%	0.090%	0.27%	6.05%	5.91%	4.25%	6.18%	6.47%	5.78%	2.75%	0.67			
AACE1032	M6	BBB	05570	1.09%	1.09%	3.13%	4.32%	1.39%	9.94%	8.66%	0.02%	0.21%	0.090%	0.27%	6.05%	5.91%	2.25%	4.00%	4.19%	5.76%	2.75%	0.67			
AACE1033	M4	BBB+	08475	0.92%	0.97%	0.56%	0.86%	0.40%	5.73%	3.27%	0.00%	0.02%	0.00%	0.00%	5.16%	5.40%	5.65%	6.66%	6.90%	4.66%	5.13%	0.42			
AACE1034	M4	BBB+	08040	0.97%	0.54%	0.93%	1.66%	0.44%	4.19%	3.93%	0.00%	0.03%	0.039%	0.01%	1.67%	3.41%	2.75%	3.17%	3.26%	0.00%	1.75%	1.38			
AACE1035	M4	A	09083	0.60%	0.00%	0.36%	0.77%	0.03%	1.75%	2.66%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	5.00%	5.99%	6.07%	3.09%	0.10				
AACE1036	M3	BBB	02035	3.44%	3.55%	6.32%	6.66%	2.33%	19.04%	18.31%	2.73%	1.15%	0.627%	0.78%	1.48%	1.95%	2.25%	7.19%	7.67%	4.65%	2.67%	1.69			
AACE1037	M2	A	03671	3.44%	3.55%	3.87%	5.69%	1.56%	14.56%	18.31%	1.37%	1.15%	0.37%	0.64%	2.76%	3.48%	5.65%	14.31%	15.37%	1.89%	5.17%	1.03			
AACE1038	M4	BBB	03671	3.44%	3.55%	3.87%	5.69%	1.56%	14.56%	18.31%	1.37%	1.15%	0.37%	0.64%	2.76%	3.48%	0.75%	1.90%	2.04%	1.89%	5.17%	1.03			
AACE1039	M2	A	03689	1.84%	1.64%	2.86%	2.91%	0.77%	8.36%	14.02%	0.26%	0.77%	0.212%	0.57%	2.42%	2.60%	3.90%	11.81%	11.85%	2.34%	2.73%	0.72			
AACE1040	M1	A	04036	3.17%	2.65%	3.06%	4.12%	1.40%	11.76%	14.07%	0.93%	0.77%	0.223%	0.57%	1.63%	2.07%	1.50%	3.51%	3.72%	1.64%	1.86%	1.58			

Source: ETGAM





# ETGAM Research and Credit Process Surveillance, Flag Report Example



**FINANCIAL**

E\*TRADE Global Asset Management, Inc.

Bank ABX Portfolio Flag Report

As of September 30, 2004

Res:BC

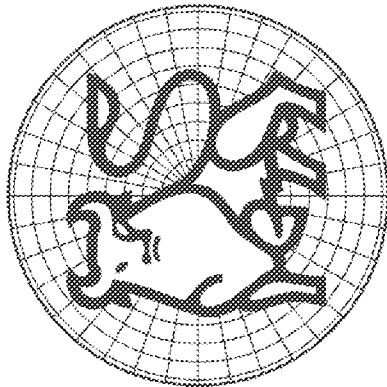
Flags Applied	Description of Flag Applied
Severe Delinquencies	Sum of 60+ delinquencies, bankruptcies, foreclosures, and REO's exceeds the cohort by 20%
Cumulative Losses	Cumulative losses exceed the base case by 10%
Credit Enhancement Coverage	Credit enhancement declines from the prior month (Foreclosure + REO) / (BBB C/E + Excess Spread) > 1.0
Net Losses	3 month net loss average exceeds the cohort by 20%

Deal	Tranche	Current Rating	Allocation	Test Failed	Trigger	Value	Comment
<b>3 Flags Failing:</b>							
CBASS 03-CB1	M2	A	\$6,918,000	Three month avg. net loss exceeds cohort by 20%	0.66%	1.75%	Severe delinquencies continue to build and cumulative losses mounting. Excess spread has been declining over the last 12 months. Credit enhancement is strong at 11%.
				Cum. Losses exceed expected losses by 10%	0.54%	0.65%	
MESA 02-3	M1	AA	\$5,000,000	Severe delinquencies exceed the cohort by 20%	14.81%	19.58%	AA rated. Full turbo structure results in rapid build-up of C/E. Strong credit enhancement (42.46%) to absorb high losses but we will continue to monitor as deal seasons.
				Three month avg. net loss exceeds cohort by 20%	1.20%	2.07%	
	M2	A	\$20,000,000	Cum. Losses exceed expected losses by 10%	1.09%	1.96%	This is a revolving deal and severe delinquencies are not a prediction of future losses. Credit continues to watch this Bankruptcies, foreclosure, and REO on the rise. Losses could swell in next 12 months.
				Severe delinquencies exceed the cohort by 20%	0.07%	1.22%	
BAVY 03-G	M4	A-	\$5,000,000	Cum. Losses exceed expected losses by 10%	0.16%	0.64%	Bankruptcies, foreclosure, and REO on the rise. Losses could swell in next 12 months.
				Severe delinquencies exceed the cohort by 20%	0.31%	0.63%	
SAIL 03-BC2	M2	A	\$20,000,000	Three month avg. net loss exceeds cohort by 20%	0.60%	1.44%	Credit enhancement at 6.01% and continues to build. OC is fully funded at \$20 million.
				Severe delinquencies exceed the cohort by 20%	0.50%	0.79%	
<b>1 Flag Failing:</b>							
*AABST 04-2	B1	BBB+	\$4,500,000	Severe delinquencies exceed the cohort by 20%	0.50%	0.79%	OC fully funded. Loss rate decreasing. Not an issue at this time.
				Three month avg. net loss exceeds cohort by 20%	0.50%	0.79%	
ABSHE 03-HE2	M3	A-	\$8,035,000	Three month avg. net loss exceeds cohort by 20%	0.50%	0.79%	OC fully funded. Loss rate decreasing. Not an issue at this time.
				Severe delinquencies exceed the cohort by 20%	0.50%	0.79%	

Source: ETGAM





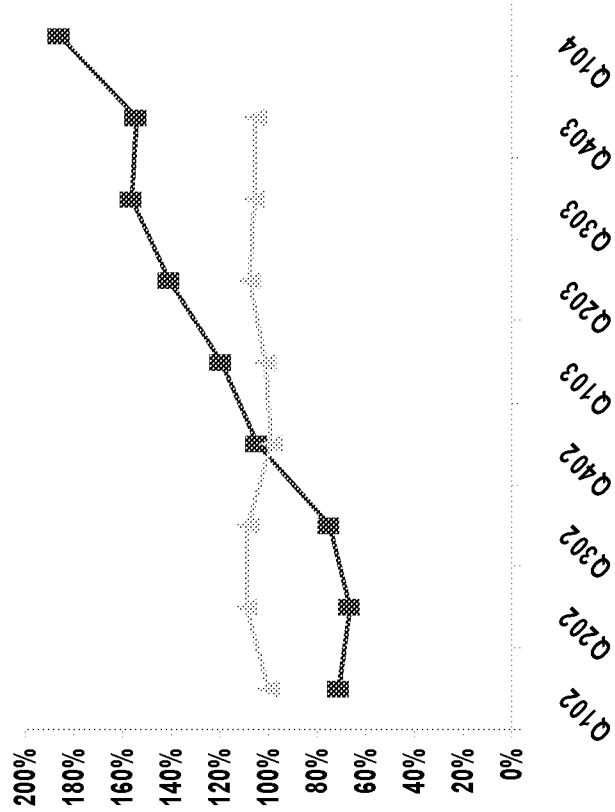


## D. ETGAM Performance History

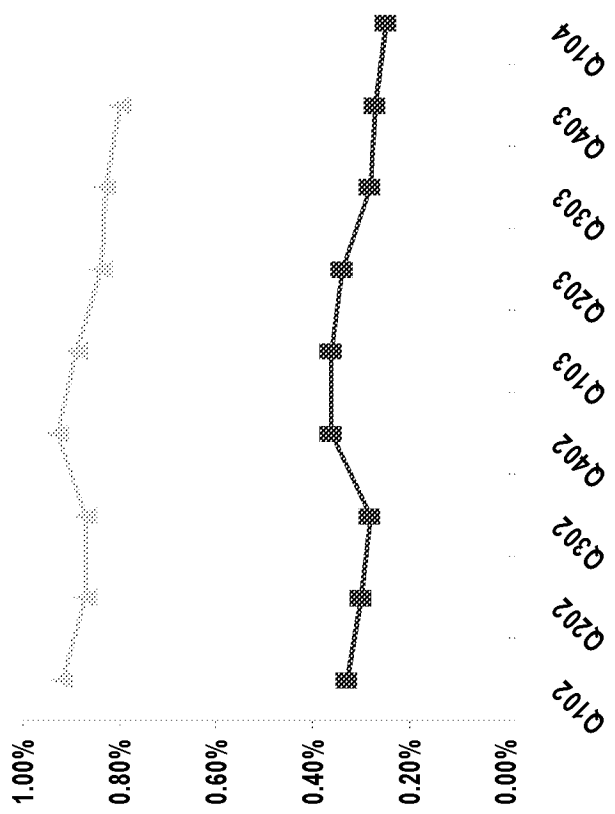
**ETGAM Performance History**

**E\*TRADE Global Asset Management, Inc. Has Experienced Outstanding Credit Performance**

**Coverage Ratio  
Reserves / Non-Performing Assets**



**Net Charge Offs (bps annualized)  
Non-Performing Loans / Total Loans**



E\*TRADE Bank    Industry



\*As a % of Whole Loans. Past performance is not indicative of future performance.  
Sources: QTS.

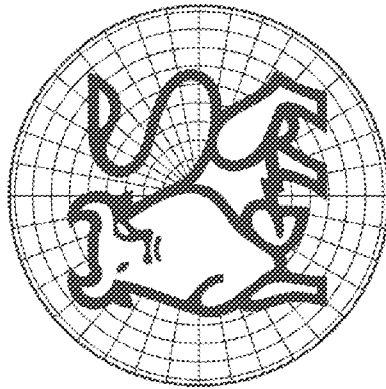
**E\*TRADE CDO I and II - Key Characteristics**

	<b>E*TRADE ABS CDO I</b>	<b>E*TRADE ABS CDO II</b>
<b>Collateral Composition</b>	<b>Closed: 09/26/02</b>	<b>Closed: 08/7/03</b>
Face Amount Issuance	\$250MM	\$400MM
Residential A Securities	17.26%	11.24%
Residential B&C Securities	21.57%	48.50%
Home Equity Loans	21.31%	13.21%
Business Loans	6.00%	7.89%
Auto	1.19%	2.25%
Credit Card	8.90%	8.62%
Equipment Loans	0.00%	2.25%
Manufactured Housing	11.22%	-
Commercial Mortgage Backed Securities	10.96%	6.93%
CDO/CBO	1.60%	1.00%
Other Securities		

	<b>Initial</b>	<b>Current</b>	<b>Initial</b>	<b>Current</b>
<b>Collateral Quality</b>				
Moody's Weighted Average Rating Factor (WARF)	360	1208	257	255
Manufactured Housing adjusted WARF	NA	431	NA	NA
Moody's Diversity Score	16	15.5	16.8	15.1
<b>Rating Distribution</b>	<b>as of 9/30/04</b>			
AAA	0.00%			0.00%
Aa	4.28%			5.30%
A	15.93%			42.48%
Baa	63.70%			52.22%
Below Investment Grade	16.09%			0.00%

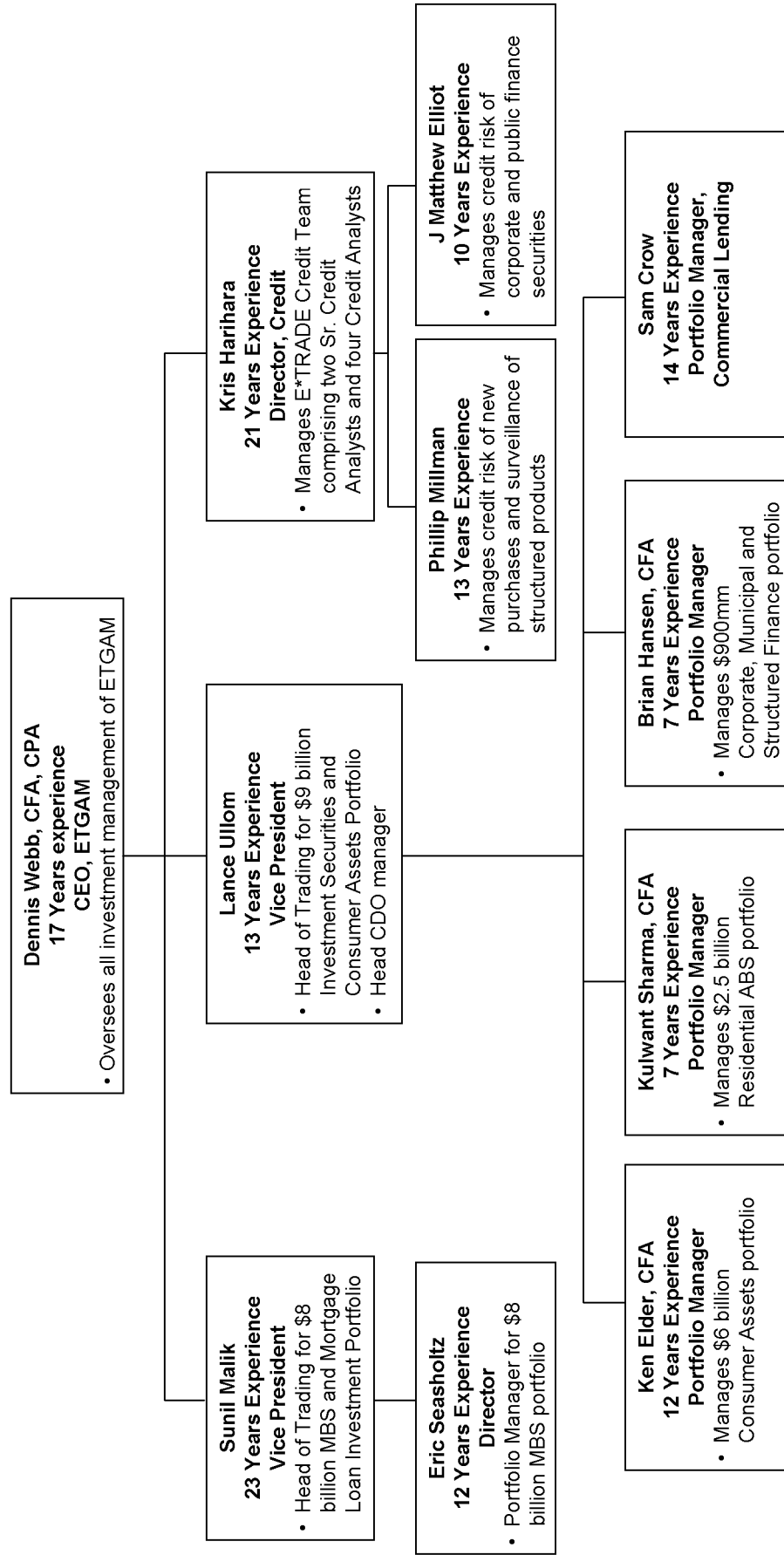
	<b>Initial Rating (M/E/S)</b>	<b>Par %</b>	<b>Initial Rating (M/S/F)</b>	<b>Par %</b>
<b>Initial Capital Structure</b>				
AAA Notes	Aaa/AAA/AAA	79.97%	Aaa/AAA/AAA	77.07%
AA Notes	Aa1/AA+/AA+	9.93%	Aa2/AA/AA	14.95%
BBB Notes	Baa1/BBB/BBB	5.13%	Baa2/BBB/BBB	3.99%
Preference Shares	Baa3/BBB-/BB+*	4.97%	Ba2/BBB-/BBB-	3.99%





# E. Key Fixed Income Investment Professionals

## Key Fixed Income Investment Professionals<sup>(1)</sup>



<sup>(1)</sup> There is no guarantee that a specific individual or employees will continue to be employed by ETGAM.  
Note: As of September 30, 2004.



**Key Fixed Income Investment Professionals<sup>(1)</sup>**

**Strong Investment Experience**

Name	Title	Experience
Dennis Webb, CFA, CPA	CEO, ETGAM	18 Years
Lance C. A. Ullom	VP, Sr. Portfolio Mgr.	13 Years
Sunil Malik	VP, Sr. Portfolio Mgr.	23 Years
J. Laurie Webster, CFA	VP, Sr. Portfolio Mgr.	19 Years
Kris Harihara	Director, Credit	21 Years
Eric L. Seasholtz	Portfolio Manager	13 Years
Kulwant Sharma, CFA	Portfolio Manager, ABS	7 Years
Ken Elder, CFA	Portfolio Manager, Consumer Lending	12 Years
Brian Hansen, CFA	Portfolio Manager, Structured Products	7 Years
Samuel Crow	Portfolio Manager, Commercial Lending	14 Years
Hayden McMillian	Director, Business Development	23 Years
Michael Pizzi, CFA, FRM	Derivative Trader	9 Years
Robert Wyle, CFA	Director, Asset-Liability Management	13 Years
Phillip Millman	Sr. Credit Analyst	13 Years
J. Matthew Elliot	Sr. Credit Analyst	10 Years
Larry (Huiyan) Zhang, Ph. D.	Sr. Risk Manager	10 Years
Daryl Hershberger	Sr. Risk Manager	21 Years

*Average Investment Experience = 15 Years*



<sup>(1)</sup> There is no guarantee that a specific individual or employees will continue to be employed by ETGAM.  
Note: As of September 30, 2004.

## Key Fixed Income Investment Professionals<sup>(1)</sup> Biographical Information

### Dennis E. Webb, CFA, CPA

Dennis Webb is the CEO of E\*TRADE Global Asset Management. He is a member of E\*TRADE Financial's Operating Team and is responsible for all investment management activities of ETGAM. These activities include portfolio management for E\*TRADE Bank, secondary marketing for E\*TRADE Mortgage, funds management for certain E\*TRADE mutual funds, and ETGAM's CDO business. Mr. Webb was Chairman of E\*TRADE Bank's Asset and Liability Committee (ALCO) and was responsible for the Bank's \$15 billion derivative portfolio until he joined ETGAM in June 2001. Prior to joining E\*TRADE in 2000, Mr. Webb was the Senior Vice President of Asset/Liability Management of Allfirst Bank, an \$18 Billion regional bank based in Baltimore, Maryland. Mr. Webb has nearly 18 years experience in banking and portfolio management. Mr. Webb has a MBA-Finance degree from Johns Hopkins University and a BS in Accounting Information Systems from Virginia Polytechnic Institute and State University. Mr. Webb is a Chartered Financial Analyst and a Certified Public Accountant.

### Lance C.A. Ullom

Lance Ullom is a Vice President and Head of Trading for the E\*TRADE Global Asset Management Investment Portfolio. He is responsible for all investments in ABS, Corporates, Municipals and Preferred securities as well as ETGAM's CDO Business. Mr. Ullom has held several senior positions in ETGAM during his eight year tenure including Senior Whole Loan Trader and Sr. MBS Portfolio Manager. Prior to joining E\*TRADE, Mr. Ullom worked for two years at Arbor Capital, a licensed broker dealer / mortgage hedge fund based in NYC, where he was responsible for trading structured bonds and whole loans. Mr. Ullom worked at Barclay Investments for six years in various capacities from institutional sales to Co-Head of Trading for all mortgage product. Mr. Ullom has over 13 years experience in the structured product market. Mr. Ullom received a Bachelors Degree from Franklin Pierce College, majoring in Finance and Business Management.

### Sunil Malik

Sunil Malik is a Vice President and Head of trading for the E\*TRADE Global Asset Management MBS and Mortgage Loan Investment Portfolio. He is responsible for all investments in Agency MBS, Private-label MBS, Whole Loan Mortgage Conduit, and Secondary Marketing as well as Securitization. Prior to joining the organization, Mr. Malik was Vice President of Treasury and Director of Risk Management of Capital Markets for Ocwen Financial Corporation. Mr. Malik has over 23 years investment experience, 14 years of which were as a portfolio manager for Fannie Mae where he oversaw \$25 billion of various fixed income investments. Mr. Malik received his MBA in Finance from Pune University in India, and a BS in Accounting from Delhi University.



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## Key Fixed Income Investment Professionals<sup>(1)</sup> Biographical Information (cont'd)

### J. Laurie Webster, CFA

Laurie Webster is a Vice President and Senior Portfolio Manager for E\*TRADE Global Asset Management. She is responsible for the management of the E\*TRADE Proprietary Mutual Funds. She and her team directly manage E\*TRADE Bond Fund, and E\*TRADE Money Market Funds and perform sub advisor oversight for the externally managed equity funds. Total assets under management currently top \$4 Billion. Prior to joining E\*TRADE, Ms. Webster managed several billion dollars in institutional money market Mutual Funds accounts, most recently for the Calvert Group where her efforts were rewarded by being awarded "top grossing fund" for 1999 within her category. She has over 19 years combined portfolio management experience. Ms. Webster received her Chartered Financial Analyst designation in 1992 and is a member of both the Washington Financial Analyst Society and AIMR. She received her Bachelors Degree from University of Colorado, majoring in Finance and Accounting.

### Kris (Krishnan) Harihara, FCCA

Kris Harihara is Director of Credit for E\*TRADE Global Asset Management. He is responsible for directing activities surrounding credit administration within E\*TRADE Global Asset Management, including determination and implementation of credit policies and procedures, approving and monitoring various credits, industries and sectors and performing regulatory reporting. Prior to E\*TRADE Kris was a Vice President at GE Asset Management and was the team leader for Structured Products' Research. He was a Managing Director at Structured Finance Advisors prior to that. In that capacity he was managing CDO portfolios as well as insurance company investments. He worked at MBIA in ABS surveillance prior to joining SFA. Prior to that he had roles in Public Accounting with KPMG Peat Marwick especially in investments audit. Kris has an MBA from Pace University. He is a Fellow of the Chartered Association of Certified Accountants, UK.

### Eric Seasholtz

Eric Seasholtz is a Director and Portfolio Manager for E\*TRADE Global Asset Management. He is responsible for managing E\*TRADE Bank's \$8.0 billion mortgage securities portfolio. Prior to joining the organization in August 2001, Mr. Seasholtz spent two years as Director of Whole Loan Trading for GMAC/RFC. Prior to that, he worked as a Director in the Capital Market Group of Ocwen Financial Corporation for six years where he was responsible for executing trades, hedging positions, as well as modeling and monitoring a number of the Banks portfolios. Mr. Seasholtz has significant experience in various mortgage products including, residential mortgage derivatives, whole loans, commercial IO, and residual cash flows. Mr. Seasholtz has 13 years of financial markets experience with 10+ years focusing on mortgage products. He holds a BA in Business Economics from Brown University and holds the Series 7 and 63 licenses.



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## Key Fixed Income Investment Professionals<sup>(1)</sup> Biographical Information (cont'd)

### **Kulwant Sharma, CFA**

Kulwant Sharma is a Portfolio Manager for the E\*TRADE Global Asset Management Residential ABS portfolio. He is responsible for analyzing the structure and collateral characteristics of asset-backed and mortgage-backed securities for ETGAM. Prior to joining ETGAM, Mr. Sharma was with Penn Capital Management, a High Yield/Small Cap money manager, where he was responsible for equity and fixed income analysis, trading, and modeling for Equus Capital Funding, a cash flow CDO. Previously, Mr. Sharma was with the Vanguard Group where he was directly responsible for the planning and analysis of a \$118MM divisional budget within the Vanguard Individual Investor Processing Group. Mr. Sharma holds an MBA (Finance) from Temple University, a BS in Mechanical Engineering, and a Master's degree in Industrial Engineering from Thapar University in India. Mr. Sharma is a Chartered Financial Analyst and a member of AIMR and NYSSA.

### **Kenneth Elder, CFA**

Ken Elder is a Portfolio Manager for E\*TRADE Global Asset Management. He is responsible for managing E\*TRADE Bank's \$5.6 billion consumer assets portfolio. Mr. Elder previously managed the Bank's CMBS and ABS investments. Prior to joining E\*TRADE in July 2003, Mr. Elder spent 10 years at Credit Suisse First Boston, most recently as a Vice President in CMBS research. Mr. Elder also worked in structured products sales at CSFB, covering institutional clients in the Boston area. Mr. Elder holds a BSBA from Washington University in St. Louis and received the CFA designation in 1998.

### **Brian Hansen, CFA**

Brian Hansen joined E\*TRADE Global Asset Management in April 2003 as a Portfolio Manager. He is responsible for managing ETGAM's corporate bond and structured finance portfolios. Prior to ETGAM, Mr. Hansen spent 6 years with Prudential Global Asset Management as a Senior Investment Analyst with primary duties including corporate credit analysis and underwriting for private placement debt investments, along with assisting in the ongoing management of a private placement corporate portfolio of \$2 billion. Former duties also involved the establishment and management of a \$1.5 billion mortgage REIT. Mr. Hansen holds a BS in Finance from Georgetown University and is a Chartered Financial Analyst.



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## Key Fixed Income Investment Professionals<sup>(1)</sup> Biographical Information

### **Samuel Crow**

Sam Crow is the Senior Manager for Commercial Lending at E\*TRADE Global Asset Management. He is responsible for all operations including originating, underwriting and managing the portfolio of commercial loans. Mr. Crow has fourteen years of experience in commercial lending including nine years at Fleet Capital and five years at Guaranty Business Credit. Mr. Crow has a BA in Accounting from Wake Forest University.

### **Hayden McMillian**

Hayden McMillian is Director of Business Development. He is responsible for strategic initiatives and asset diversification strategies for ETGAM and its affiliates. Prior to joining ETGAM, he was Chief Operating Officer and Chief Financial Officer of Dominion Capital, a company he built and grew to approximately \$10 billion in assets under management. Prior to Dominion Capital, he served in various investment banking and legal positions focused on mergers and acquisitions, debt and equity private placements, interest rate derivatives, risk arbitrage and anti-takeover defense. He has an MBA from the University of Virginia and a law degree from the University of Utah.

### **Michael Pizzi, CFA, FRM**

Michael Pizzi is the head of Derivative Trading for E\*TRADE Global Asset Management. He is responsible for management of the Firm's interest rate risk position, hedge structuring, and balance sheet strategy. Prior to joining E\*TRADE Mr. Pizzi worked in the Global ALM department at Lehman Brothers focusing on funding and liquidity strategy, balance sheet strategy, portfolio optimization, and risk positioning. Prior to this, Mr. Pizzi was the head of Quantitative Analysis for Allied Irish Banks and was a Research Assistant to the Federal Reserve Board. Mr. Pizzi received a BA from Ursinus College. Mr. Pizzi is a Chartered Financial Analyst (CFA) as well as a certified Financial Risk Manager (FRM).



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## Key Fixed Income Investment Professionals<sup>(1)</sup> Biographical Information

### Robert Wyle, CFA

Rob is currently the Director of Asset/Liability Management for E\*TRADE Bank. Before joining E\*TRADE, Rob was the global ALM Solutions Product Manager for the BancWare division of SunGard Trading and Risk Systems. Prior to joining SunGard, Rob worked for The Dime Savings Bank of New York as a VP level Risk Manager. Mr. Wyle has also held positions at the Federal Home Loan Bank of New York, Manhattan Equities, and Winged Keel Group. Rob received both a Bachelor of Science (1989) and an M.B.A. (1996) in Finance from the Leonard N. Stern School of Business at New York University. Mr. Wyle was also awarded the CFA charter in September 2001.

### Phillip Millman

Phillip Millman has recently joined E\*TRADE Global Asset Management as the Senior Manager of ABS Credit. He is responsible for analyzing, monitoring, and overseeing the credit responsibilities for ETGAM's ABS portfolio and the CDO program. Mr. Millman has spent the past 13 years working at various investment houses working in different capacities. Most recently Mr. Millman worked at Fannie Mae and UBS where he worked in research. Mr. Millman has a BA in Economics from the University of Chicago.

### J. Matthew Elliott

Matt Elliott is the Senior Manager of Unsecured Credit for E\*TRADE Global Asset Management. He is responsible for all credit-related issues involving the money market funds, as well as assessing counter-party risk. Matt also acts as the Assistant Portfolio Manager for the municipal money market funds. Matt joined E\*TRADE with prior experience at Prudential Financial and Moody's Investors Service. Mr. Elliott was the lead analyst responsible for all synthetic floaters at Prudential and covered structured credits, general obligation notes and revenue supported securities. Matt has over five years of rating agency experience as an Assistant Vice President in Moody's structured finance department and was responsible for all credit supported structures, as well as mortgage-backed securities and student loan collateralized bonds. Mr. Elliott has ten years of experience as a credit analyst, is a member of the National Federation for Municipal Analysts, and has a BA in Economics from Rutgers University.



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## Key Fixed Income Investment Professionals<sup>(1)</sup> Biographical Information

### Larry (Huiyan) Zhang, Ph. D.

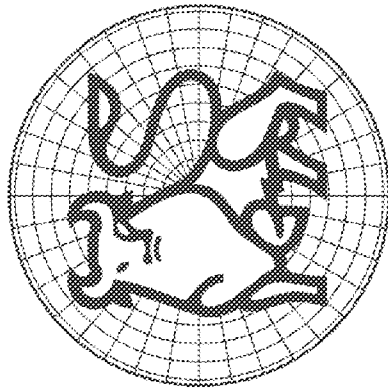
Lawrence Huiyan Zhang is a quantitative analyst for the Risk Management at E\*TRADE Global Asset Management. He is responsible for providing quantitative support for functional areas of the risk management group including interest rate risk management, funds transfer pricing/capital allocation, and financial planning and analysis. His previous risk management experience within ETGAM includes the prepayment analysis of RV and Marine loans, HELOC loans, and valuation of the E\*TRADE Bank's non-maturing deposits. Prior to joining E\*TRADE, Mr. Zhang worked as an economist in the International Monetary Fund and did research about monetary policy and interests rate movement. Mr. Zhang has a Ph.D. in economics from the Johns Hopkins University. He recently passed Level I of the CFA exam and is currently enrolled as Level II candidate.

### Daryl Hershberger

Daryl Hershberger is a Senior Risk Manager in the Asset - Liability Management department at E\*TRADE Bank . He is responsible for leading a team of analysts who quantify and monitor the interest rate risk position of E\*TRADE Bank . Prior to joining E\*TRADE Mr. Hershberger was a Rate Risk Management Consultant at KeyCorp where he developed behavioral models for that bank's assets and liabilities using transaction level data and was responsible for advancement of the overall interest rate risk methodology, including funds transfer pricing. Mr. Hershberger has a BS and MS in Nuclear Engineering from Oregon State University, a MS in Engineering Management from Washington State University, and a MS in Computational Finance from Carnegie Mellon University. In addition Mr. Hershberger has significant formal graduate level education in Computer Science where he has published several papers and hold a patent in the area of Data Mining and Knowledge Discovery. Mr. Hershberger has passed Level I of the CFA exam and is currently enrolled as a Level II candidate.



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## 6. Tax Considerations

## Tax Considerations

The following is a general discussion of the US federal income tax consequences of investment in securities issued by CDO issuers. The precise tax consequences of investment in the Offered Securities may vary based on the terms thereof and the circumstances of particular prospective investors.

### EXPECTED TAX TREATMENT

- The Class A Notes and the Class B Notes [will] be debt and the Class C Notes [should] be debt for U.S. Federal income tax purposes.
- The issuer will be a passive foreign investment company (a "PFIC"). Tax treatment of a US investor in the Preference Shares thus generally will depend on whether it elects to treat the issuer as a qualified electing fund (a "QEF").
  - If a US investor in Preference Shares makes the QEF election, it will be required to include in gross income each year, whether or not the issuer makes distributions, its pro rata share of the issuer's net earnings. Amounts required to be included will not be taxed again when distributed. The issuer will provide the information needed to make a QEF election
  - If a US investor in Preference Shares fails to make the QEF election, it will be taxable only when it receives a distribution or sells its Preference Shares. However, "excess distributions" (generally, distributions in any year exceeding 125% of the average amount received during the three preceding years or, if shorter, the investor's holding period) and gains on sale will be subject to an additional tax.
    - To compute the tax on any excess distribution or gain, (i) the excess distribution or gain is allocated ratably over the investor's holding period, (ii) the amount allocated to the current year is taxed as ordinary income and (iii) the amount allocated to each previous year is taxed at the highest applicable marginal rate for that year and an interest charge is imposed to offset the deemed benefit of deferral of that tax.
    - These rules effectively prevent a US investor from treating gain as capital gain.
- The issuer may also be a controlled foreign corporation (a "CFC") and/or a foreign personal holding company (a "PFPHC"), as well as a PFIC.
  - The issuer will be a PFIC if five or fewer US citizens or resident individuals own more than 50% of the Preference Shares. If the issuer is a PFPHC, a US investor in Preference Shares (i) generally will be required to include in income constructive dividends equal to its share of the issuer's specially adjusted taxable income whether or not it receives distributions and (ii) may be subject to the PFIC rules with respect to excess distributions and gains not taxed under the PFIC rules.
  - Pending legislation seeks to repeal the PFIC rules. If passed, the tax consequences to a US investor of an investment in Preference Shares would be modified. Prospective investors should consult their tax advisors regarding this matter.
  - The issuer may be a CFC if US persons that each own at least 10% of the Preference Shares together own more than 50% of the Preference Shares. If the issuer is a CFC, a US investor that owns 10% of the Preference Shares (i) will not be subject to the PFIC rules or PFPHC rules and (ii) should recognize each year as ordinary income its pro rata share of the issuer's net earnings whether or not the issuer makes a distribution.
- Distributions to US investors in the Preference Shares will not be eligible for either (i) the dividends received deduction allowed to corporations or (ii) the preferential rate allowed to individuals for dividends from US and certain foreign corporations.
- A tax-exempt investor generally should not be subject to unrelated business income tax ("UBIT") unless the investor either (i) holds more than 50% of the Preference Shares and also holds Notes or (ii) holds Notes or Preference Shares that are debt-financed property.
- The issuer expects to conduct its affairs so that it will not be treated as engaged in a trade or business within the United States and so that its income therefore will not be subject to US net income tax. The issuer also expects that interest income from collateral debt securities generally will not be subject to withholding tax imposed by the United States or other countries.
- A US investor (including a US tax-exempt entity) that acquires Preference Shares at issuance will be required to file Form 926 or a similar form with the IRS. **In the event that a US Preference Shareholder fails to file any such required form, such US shareholder could be subject to a penalty (generally up to a maximum of \$100,000), computed in the amount of 10% of the fair market value of the Preference Shares purchased by such US shareholder.** Such US shareholder may in some cases be subject to additional reporting requirements under tax shelter regulations.
- [Payments on the Notes and Preference Shares will not be subject to Cayman Islands tax. The issuer's income will not be subject to Cayman Islands tax.]
- The foregoing outline summarizes some points relevant to prospective investors in general. Some types of investors (e.g., banks, insurance companies, securities dealers and traders, tax-exempt organizations, investors holding Securities as part of a hedge, straddle, conversion or constructive sale transaction) are subject to special US federal income tax regimes not considered here.

PROSPECTIVE INVESTORS SHOULD READ THE DISCUSSION OF US TAX CONSIDERATIONS IN THE OFFERING CIRCULAR TO BE PROVIDED, WHICH WILL INCLUDE MORE DETAILED INFORMATION. NEITHER THIS OUTLINE NOR THE DISCUSSION OF TAX CONSIDERATIONS IN THE OFFERING CIRCULAR CONSIDERS THE CIRCUMSTANCES OF PARTICULAR PROSPECTIVE INVESTORS. THUS, THEY ARE NOT SUBSTITUTES FOR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR TAX ADVISORS.



THE ATTENTION OF POTENTIAL INVESTORS IS DRAWN TO THE TAX CONSIDERATIONS WHICH ARE DESCRIBED IN THE OFFERING CIRCULAR TO BE PROVIDED