Huntington CDO, Ltd.

Managed by:

Western Asset Management Company

The "RAPID" Structure
("Rapidly Amortizing Principal through Interest Diversion")

February 2005

Merrill Lynch

Global Markets & Investment Banking Group

Preliminary Information

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Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.

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Huntington CDO, Ltd.

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1. Executive Summary

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Executive Summary

- Huntington CDO, Ltd. is a newly formed collateralized debt obligation ("CDO") incorporated under the laws of the Cayman Islands that will be managed by Western Asset Management Company (the "Collateral Manager").
- Huntington plans to issue a $[605.6] MM Asset-Backed Collateralized Debt Obligation ("ABS CDO") backed by a portfolio of Asset-Backed Securities ("ABS"), Residential Mortgage Backed Securities ("RMBS"), Commercial Mortgage Backed Securities ("CMBS"), (collectively with the ABS and RMBS, "Structured Finance Securities") and CDOs.
- Structured Finance Securities have historically exhibited lower default rates, higher recovery upon default and better rating stability than comparably rated corporate bonds. Consequently, CDOs consisting of Structured Finance Securities have historically outperformed other CDO types. (1)
- Huntington will issue the following five classes of securities (the "Offered Securities") to be backed primarily by Structured Finance Securities and CDOs:

Assets held by Huntington

ABS, RMBS, CMBS and CDOs

Securities Issued by Huntington

[$420.0]MM Class A-1
[Aaa/AAA/AAA]
Moody's/S&P/Fitch

[$60.0]MM Class B
[Aa2/AA/AA]
Moody's/S&P/Fitch

[$27.0]MM Class C
[Baa2/BBB/BBB]
Moody's/S&P/Fitch

[$26.6]MM Preference Shares
[NR]

(1) *Source: Standard and Poor's, Rating Transitions 2003: "Global CDO Rating Performance and Outlook", February 9, 2004; "Resilient U.S. CMBS Endure Stressed Real Estate Fundamentals", January 16, 2004; "U.S. ABS Performance and Outlook", January 20, 2004; "Another Record Year of Credit Performance for U.S. RMBS", January 23, 2004. Please refer to Section 2.*

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2. Asset Class Selection

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A. Structured Finance Market Overview

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Structured Finance Market Overview

Historical Defaults [1] [2]

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-Rated Structured Finance Securities

RMBS one-year average default rate (1993 - 2002)	~0.1% [3]
CMBS one-year average default rate (1993 - 2002)	~0.1% [4]
ABS one-year average default rate (1993 - 2002)	~0.2% [5]

(1) *Moody's Investor Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities: 1993-2002", December 2003.*
(2) *The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*
(3) *This number denotes the annual average number of material impairments in RMBS (excluding deals originated from the mortgage lender "Quality Mortgage", which has gone out of business) as a percentage of the sample of the 753 Baa-rated RMBS securities analyzed in the study.*
(4) *This number denotes the annual average number of material impairments in CMBS as a percentage of the sample of 747 Baa-rated CMBS securities analyzed in the study.*
(5) *This number denotes the annual average number of material impairments in ABS Securities (excluding Franchise Loans and Manufactured Housing from 1993-2002, which are prohibited in typical transactions) as a percentage of the total number of the 1,184 Baa-rated ABS securities analyzed in the sample.*

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Structured Finance Market Overview

Historical Recovery Rates of Structured Finance Securities (1)(4)

- A Moody's study on recovery rates of ABS, RMBS and CMBS collateral (referred to as "Structured Finance Securities") has concluded the following:
  - Structured Finance Securities have historically had an average recovery rate of 58%. (1)
    - Unlike corporate securities, Structured Finance Securities may receive more substantial cashflow in respect of interest and principal after a default.
    - Historically, RMBS have recovered at more than 1.5X the rate of corporate bonds and CMBS have recovered at more than 2X the rate of corporate bonds.

Average Recoveries of Defaulted RMBS	55% (1)
Average Recoveries of Defaulted CMBS	100% (1)(2)
Average Recoveries of Defaulted Other ABS	59% (1)

In contrast, the average recovery rate for corporate bonds from 1982-2003 is approximately 35% (3).

(1) Source: Moody's Investor Service, "Payment Defaults and Material Impairments of U.S. Structured Finance Securities: 1993-2002", December 2003.
(2) Because losses on defaulted structured finance securities accumulate gradually over time, complete information about life-time losses on defaulted securities is available only for 84 out of a total defaulters in the Moody's sample that have ceased making their payments (i.e. 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.
(3) Source: Moody's Investors Service, "Default & Recovery Rates of Corporate Bond Issuers", January 2004. Recovery rate is measured on an issue-weighted basis.
(4) The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".

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Structured Finance Market Overview (1)

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 and CDOs was 92.3%, which compares favorably to the 76.6% average of unchanged ratings of corporate bonds in each year for the same period.

One-Year Rating Transition Matrices in All Structured Finance Categories

Structured Finance Securities and CDOs (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 and CDOs (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".

Past Performance does not always predict future results

Structured Finance Market Overview

Rating Stability (cont'd) (1) (2)

Rating stability in Structured Finance Securities and CDOs was more than 10 percentage points higher than in corporate bonds in 2003; it has been higher since 1983.

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

(2) *The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*

Past Performance does not always predict future results

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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) The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".
(3) "Structured" refers to Structured Finance Securities including CDOs
Past Performance does not always predict future results

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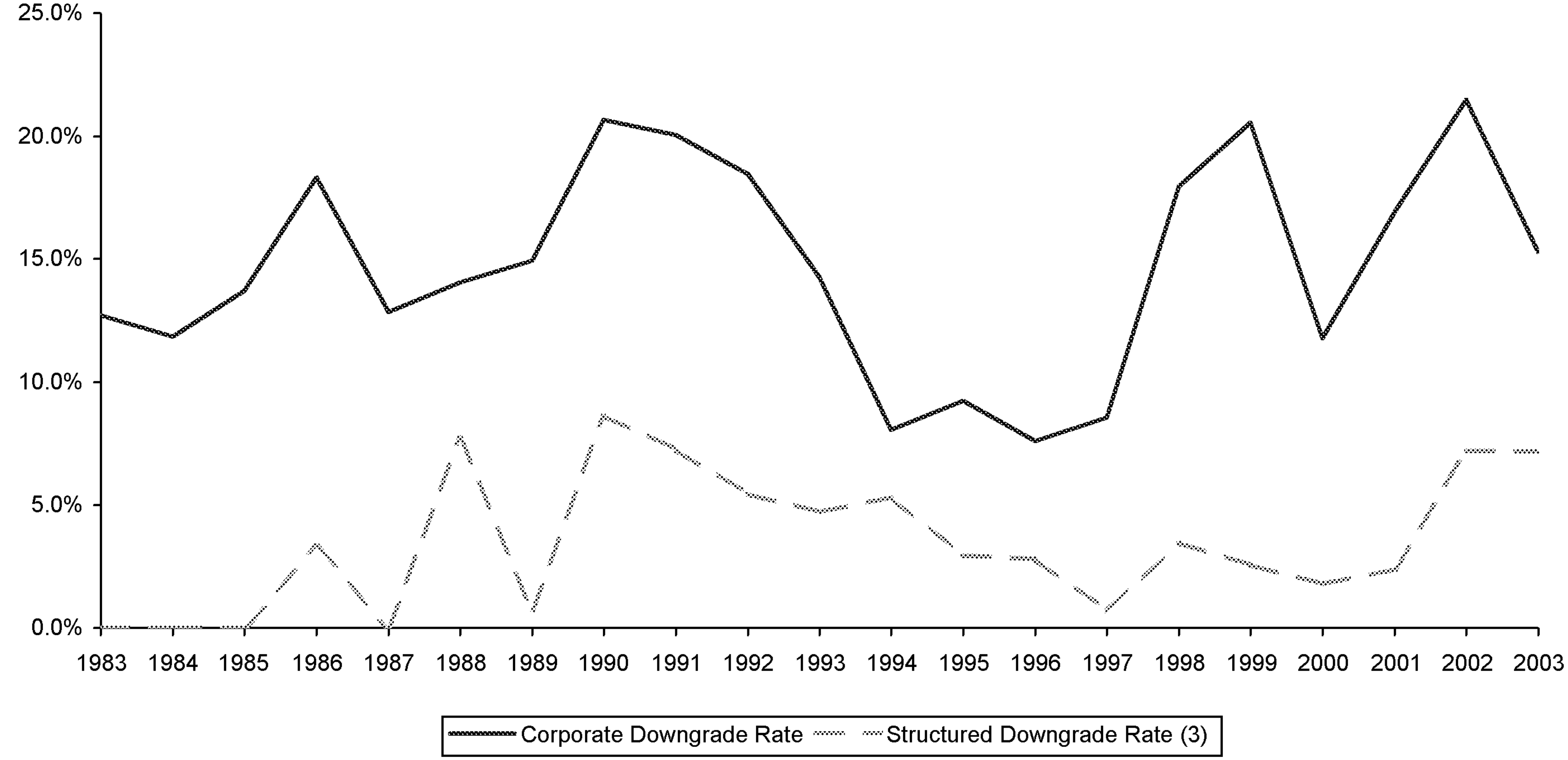
Structured Finance Market Overview

Low Ratings Volatility - Downgrade Rates (1) (2)



(1) Source: "Structured Finance Rating Transitions: 1983-2003", Moody's Investors Service, February 2004.
(2) The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".
(3) "Structured" refers to Structured Finance Securities including CDOs
Past Performance does not always predict future results

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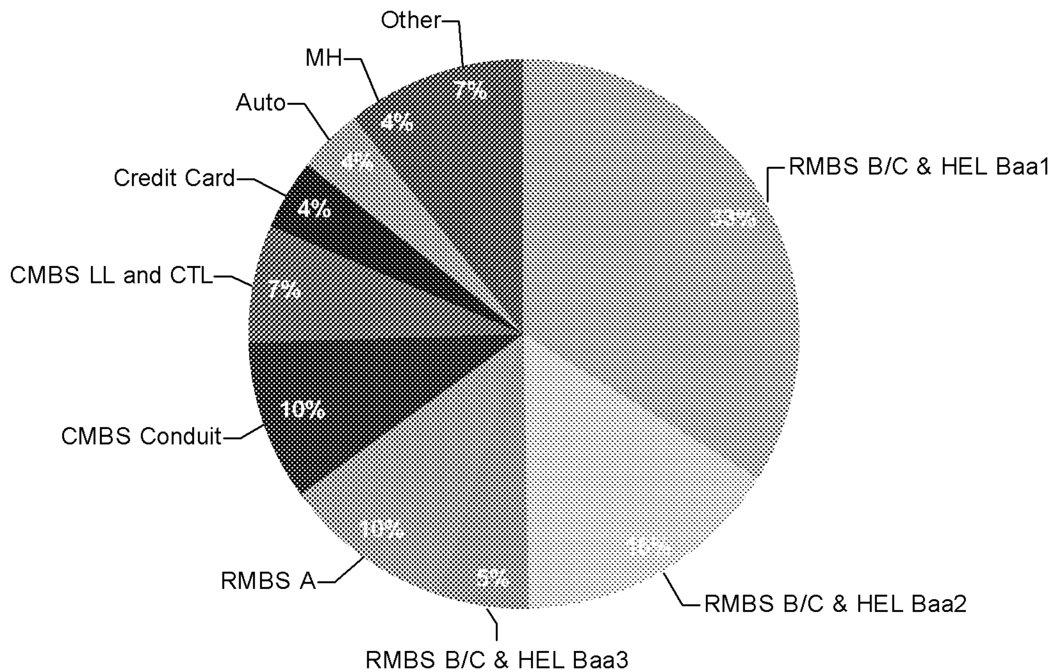
B. Huntington Portfolio

Huntington Portfolio

Portfolio Assumptions

Huntington CDO - Representative Collateral Mix(1)



(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.**

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3. Transaction Highlights

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Transaction Highlights (1)(5)

Summary of Terms

Type ABS CDO
Issuer Huntington CDO, Ltd.
Collateral Manager Western Asset Management Company
Total Size [$605.6] MM

Class	Type	Ratings (Moody's/S&P/Fitch)[2]	Par/Investment Amount	Average Life [3]	Legal Maturity Date	Minimum Denomination
A-1	First Priority Senior Secured Floating Rate Notes	[Aaa/AAA/AAA]	[$420.0] MM	[5.8] yrs	[March 2040]	[$250,000 minimum] [$1,000 increments]
A-2	Second Priority Senior Secured Floating Rate Notes	[Aaa/AAA/AAA]	[$72.0] MM	[8.0] yrs	[March 2040]	[$250,000 minimum] [$1,000 increments]
B	Third Priority Senior Secured Floating Rate Notes	[Aa2/AA/AA]	[$60.0] MM	[8.0] yrs	[March 2040]	[$250,000 minimum] [$1,000 increments]
C	Fourth Priority Mezzanine Floating Rate Notes	[Baa2/BBB/BBB]	[$27.0] MM	[6.9] yrs	[March 2040]	[$250,000 minimum] [$1,000 increments]
	Preference Shares	[NR/NR]	[$26.6] MM		[March 2040]	[$250,000 minimum] [$1,000 increments]

Collateral Profile

- Maximum Single Issuer Concentration: [1.50%] [4]
- Maximum Single Servicer Concentration: [7.50%] [4]
- Minimum Diversity Score: [16] [6]
- Maximum Weighted Average Rating Factor: [400] [6]
- Below Investment Grade Bucket : [10%]
- Maximum Weighted Average Life: [6.25] Years
- Minimum Weighted Average Coupon: [5.95%]
- Minimum Weighted Average Spread: [1.80%]

(1) *The transaction is at a structuring phase; the actual characteristics of the offered securities may differ from those presented herein.*
(2) *The Notes will be rated by Moody's, S&P, and Fitch*
(3) *Please see "Transaction Highlights – Structuring Assumptions" for a description of modeling assumptions. Based on an auction call in [8] years*
(4) *With some exceptions (yet to be determined)*
(5) *Merrill Lynch may, but is not obligated to make a market in the Offered Securities*
(6) *Subject to the ratings matrix in the Offering Circular*
Note: *All information shown in these materials 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.*

Transaction Highlights
Advantages of Deleveraging

Benefits of the RAPID Structure

Class C Notes Early Principal Paydown

- From the initial distribution date, after the preference shares have achieved a cash-on-cash return of [ ]%, the Class C Notes will be amortized based on a specified turbo amount.

Benefits to Class C Noteholders

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

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Transaction Highlights
Structuring Assumptions (1)

Collateral Assumptions (1)

Minimum Weighted Average Fixed Coupon	[5.95%]
Minimum Weighted Average Floating Spread	[1.80%]
Maximum Weighted Average Price	[100.35%]
Maximum Weighted Average Life	[6.25] yrs
Principal Amount	[$600MM]
Minimum Diversity Score	>=[18]
Maximum Fixed Rate Collateral	[27%]
Maximum Weighted Average Rating Factor	[400] (Baa2/Baa3)

Ongoing Fees and Expenses (2)(5)

Senior Advisory Fees	[25.0] bps
Subordinate Advisory Fees	[25.0] bps
Incentive Fee	[10.0 % once IRR of 15% is achieved]
Trustee Fees	[2.0] bps
Administrative Expenses	[4.0] bps
Administrative Fee Cap	[$350,000] yr

Benchmark Assumptions(4)

First Period LIBOR	[2.82%]
10 Year Swap Rate	[4.63%]

Funding and Payment Dates

Closing Date	[February 2005]
Payment Dates	[March, June, September, December, of each year beginning with the first payment in June of 2005]

Coverage Tests (3)

	O/C Tests	Initial O/C	I/C Tests	Initial I/C
Class A/B	[103.7%]	[108.7%]	[110.0]%	[138.4%]
Class C	[101.4%]	[103.6%]	[105.0]%	[127.5%]

(1) *These assumptions are general and are not conclusive or exhaustive. Actual collateral characteristics may be different from these 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 Western 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 Western Asset Management assumes any responsibility for the accuracy or validity of the results of such models.*

(2) *Calculated on the outstanding collateral balance as of the first day of each payment period.*

(3) *Subject to change. Initial represents expected characteristics of target portfolio.*

(4) *As of 1/3/05*

(5) *On the Closing Date, the Co-Issuers will use a portion of the gross proceeds from the offering to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the Collateral, 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.*

Transaction Highlights

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

BREAKEVEN DEFAULT RATES	Based on a Break in Yield[1]		Based on 0% Yield[1]	
Class Description (Moody's/S&P/Fitch)	Annual Default Rate	Cumulative Gross Defaults	Annual Default Rate	Cumulative Gross Defaults
Class A-1 First Priority Senior Secured Floating Rate Notes (Aaa/AAA/AAA)	[22.2%]	[62.8%]	[35.4%]	[76.4%]
Class A-2 Second Priority Senior Secured Floating Rate Notes (Aaa/AAA/AAA)	[12.6%]	[44.7%]	[16.0%]	[52.2%]
Class B Third Priority Senior Secured Floating Rate Notes (Aa2/AA/AA)	[5.8%]	[24.6%]	[8.7%]	[34.2%]
Class C Forth Priority Mezzanine Floating Rate Notes (Baa2/BBB/BBB)	[2.9%]	[13.5%]	[4.1%]	[18.3%]

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 Huntington, 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 the cashflows received are equal to the initial investment.*
(2) *Assumes no default lockout, 60% immediate recoveries and forward LIBOR. Assumes a WA Spread of 1.90% and an initial coupon of 6.05%.*
(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 the ramp-up completion date.*

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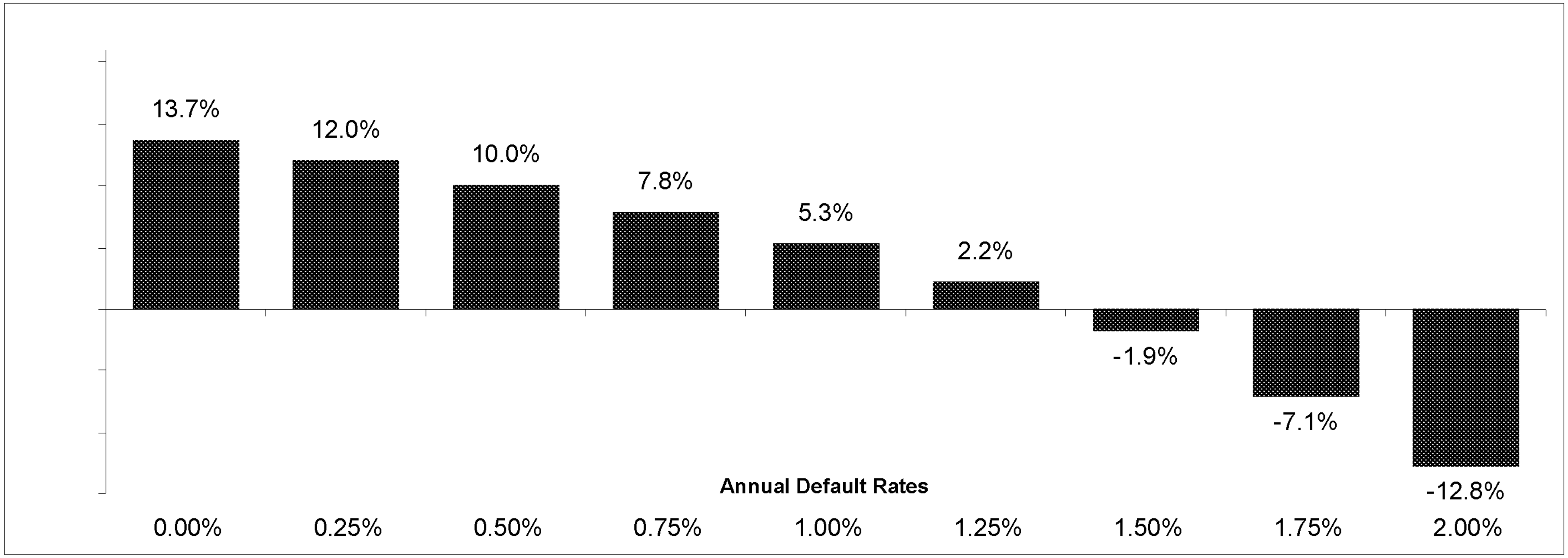
Transaction Highlights

Preference Share IRR* (1)(2)



Assuming the transaction experiences 0.5% default rate, which is approximately 5 times the average one-year default rate for Baa-rated Structured Finance Securities(1993-2002), according to Moody's, the Preference Share return would be [10.0]%.(1)(2)(3)

Future market and economic conditions are impossible to predict. Future market or historical economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Huntington CDO 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. See Important Notice at the beginning of the materials.

* *Preference shares will first receive a cash-on-cash return of [ ]% as well as all residual cashflows remaining after paying down the Class C Notes.*

(1) *Please see prior page for description of modeling assumptions. Annual defaults begin immediately at "Stated Default Rate." Recovery Assumptions: 60%. Assumes a WA spread of 1.90% and an initial coupon of 6.05%*

(2) *All information shown is for illustrative purposes only, actual results may vary. See "Important Notice."*

(3) *Refer to all footnotes in historical defaults section of Structured Finance Market Overview*

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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.

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.

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 80% 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).

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.

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 [February], [2013], 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 an 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.

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.

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.

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.

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.

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 [Febuary], [2013], 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 [15.5]% 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.

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.

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.

WESTERN ASSET

5. The Collateral Manager

All information in this section 5 has been supplied herein by Western Asset Management Company. Except as otherwise indicated, information is as of June, 2004.

A. Introduction to Western Asset Management Company

Introduction to Western Management
Western Asset Management Company

Well-Known Institutional Fixed Income Manager

- Over 33 year history of institutional investment management
- $177 billion of assets under management for 440 client relationships located in 24 countries(1)(2)
- Elite institutional client base
- Exclusive focus on global fixed income management
- Offices in Pasadena, London, and Singapore
- Expertise extends across major bond markets worldwide
- Multiple strategies intended to enhance value while reducing volatility
- Over 28% of assets managed are in structured product market(1)(2)

Large and Experienced Management Team(1)(2)

- 154 investment professionals
- 86 portfolio management professionals
  - 21 Portfolio Managers (15 years average experience)
  - 28 Research Analysts
  - 30 Risk Management Analysts
  - 3 Traders
  - 3 Product Specialists
  - 1 Economist
  - 446 staff in total

Western Asset was founded in 1971

Western Asset is an independent affiliate of Legg Mason, Inc.

Morningstar Recently Selected Western Asset as their Fixed-Income Manger of the Year for 2004

"Western Asset is one of the country's biggest managers of bonds for institutions. By sniffing out bonds that are a little better than their credit ratings suggest, Western Asset has been able to consistently add value" - Morningstar

(1) As of September 30, 2004.
(2) Figures may include Western Asset Management Company Limited and Western Asset Management Company (Asia).

Introduction to Western Management

Western Asset Management Company

Investment Management Team

S. Kenneth Leech, *Chief Investment Officer*

Stephen A. Walsh, *Deputy Chief Investment Officer*

Dennis J. McNamara, *Director of Portfolio Operations*

Product Specialists

- Travis M. Carr (11 years experience)
- Thomas V. McMahon (25 years experience)
- Stephen P. Fulton (21 years experience)
- Scott F. Grannis (24 years experience)
- Donald Plotsky (19 years experience)

Government/Currencies

- Richard Booth (8 years experience)
- Claudia S. Dorsch (6 years experience)
- Julia Ho (16 years experience)
- Janat M. Ibraev (7 years experience)
- Arun Lyng (18 years experience)
- Noriaki Matsui (18 years experience)
- Catherine L. Matthews (17 years experience)
- Edward A. Moody (28 years experience)
- Gregory A. Peeke (12 years experience)
- Andres Sanchez Balcazar (6 years experience)
- Detlev Schlichter (14 years experience)
- Peter H. Stutz (11 years experience)
- Tan Leng Leng (17 years experience)
- Christopher Telling (10 years experience)
- Paul E. Wynn (22 years experience)

Emerging Markets

- Laura K. Anderson (12 years experience)
- Keith J. Gardner (23 years experience)
- Michael B. Zelouf (17 years experience)

ABS / MBS

- David Y. Cheng (6 years experience)
- Carl L. Eichstaedt (18 years experience)
- James J. Flick (17 years experience)
- Sean O. Johnson (15 years experience)
- Greg E. Handler (4 years experience)
- Jeffrey T. Katz (10 years experience)
- Ronald D. Mass (17 years experience)
- Adam K. Patros (10 years experience)
- Deborah Slogoff (10 years experience)
- Jason A. Smith (6 years experience)

Credit

- Oberto Alvarez (10 years experience)
- Jeffrey S. Carlson (13 years experience)
- Simon Chester (13 years experience)
- J. Gibson Cooper (17 years experience)
- Matthew C. Duda (11 years experience)
- Ian R. Edmonds (14 years experience)
- Thomas R. Galloway (17 years experience)
- Henrietta Gourlay (5 years experience)
- Jonathan Gregory (20 years experience)
- Jennifer Hartviksen (12 years experience)
- Walter E. Kilcullen (7 years experience)
- Jin H. Kim (11 years experience)
- Christopher F. Kilpatrick (7 years experience)
- David Klein (7 years experience)
- Andrea A. Mack (12 years experience)
- James V. Nelson (25 years experience)
- Graham C. Nicol (19 years experience)
- Timothy J. Settel (11 years experience)
- Cel M. Sibley (12 years experience)
- Davis Smith (15 years experience)
- Suzanne M. Trepp (14 years experience)
- Karen T. Uyehara (9 years experience)
- Jeffrey D. Van Schaick (23 years experience)
- Ryan E. Widener (7 years experience)
- Yeo Li Ping (9 years experience)
- Justin M. Ziegler (9 years experience)

Portfolio Analysis

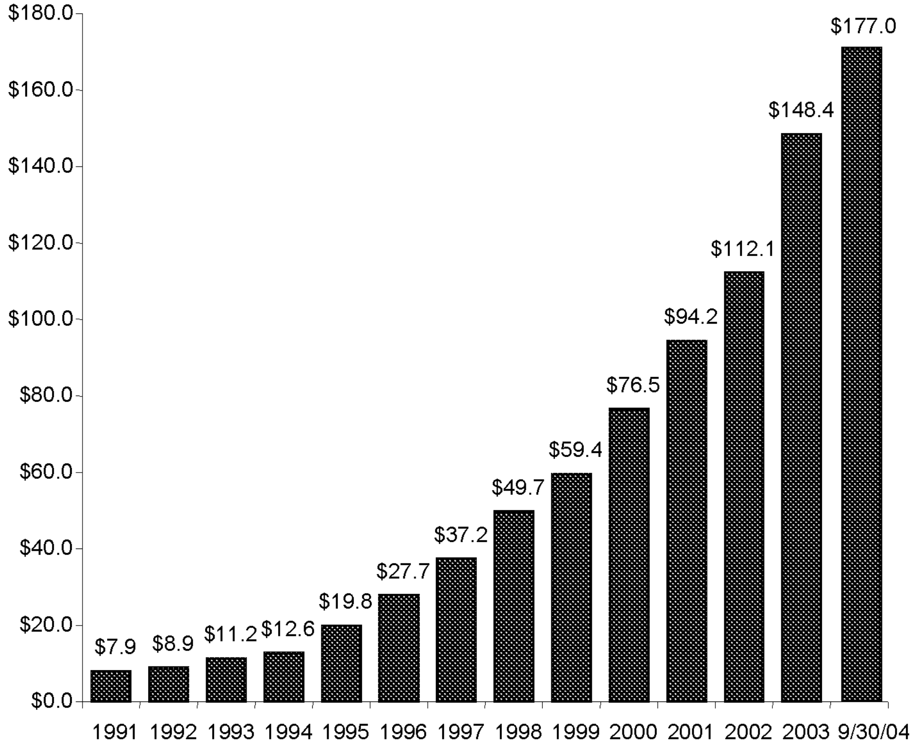
- Scott M. Beatty (3 years experience)
- Bernard J. Bertucci (3 years experience)
- Jennifer T. Chang (8 years experience)
- Harrison Choi (3 years experience)
- Chris D. Diegelman (8 years experience)
- Claudia Gollmeier (5 years experience)
- John C. Hwang (3 years experience)
- Becky Khoo (13 years experience)
- Katherine Kuek (10 years experience)
- Benjamin G. Martin (3 years experience)
- Michael Y. Pak (11 years experience)
- Julien A. Scholnick (5 years experience)
- Jason P. Sharpe (10 years experience)
- Bonnie M. Wongtrakool (5 years experience)

Average experience = 15 years
There is no guarantee that specific individuals will continue to provide services to Western Asset Management or that additional personnel will not be involved in the management of the portfolio.

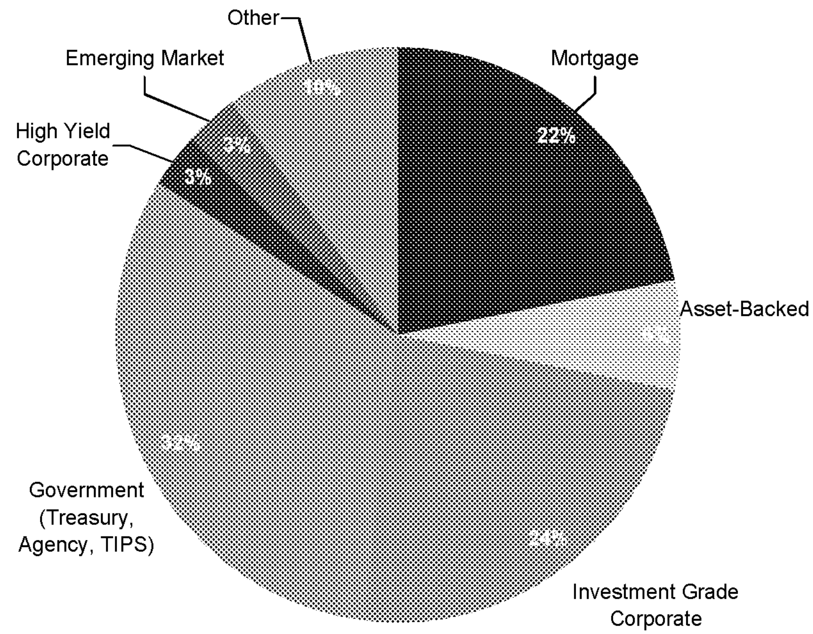
Introduction to Western Management

Western Asset Management Company

Assets Under Management ($ Billions) (1)



Assets Under Management – By Asset Type(1)



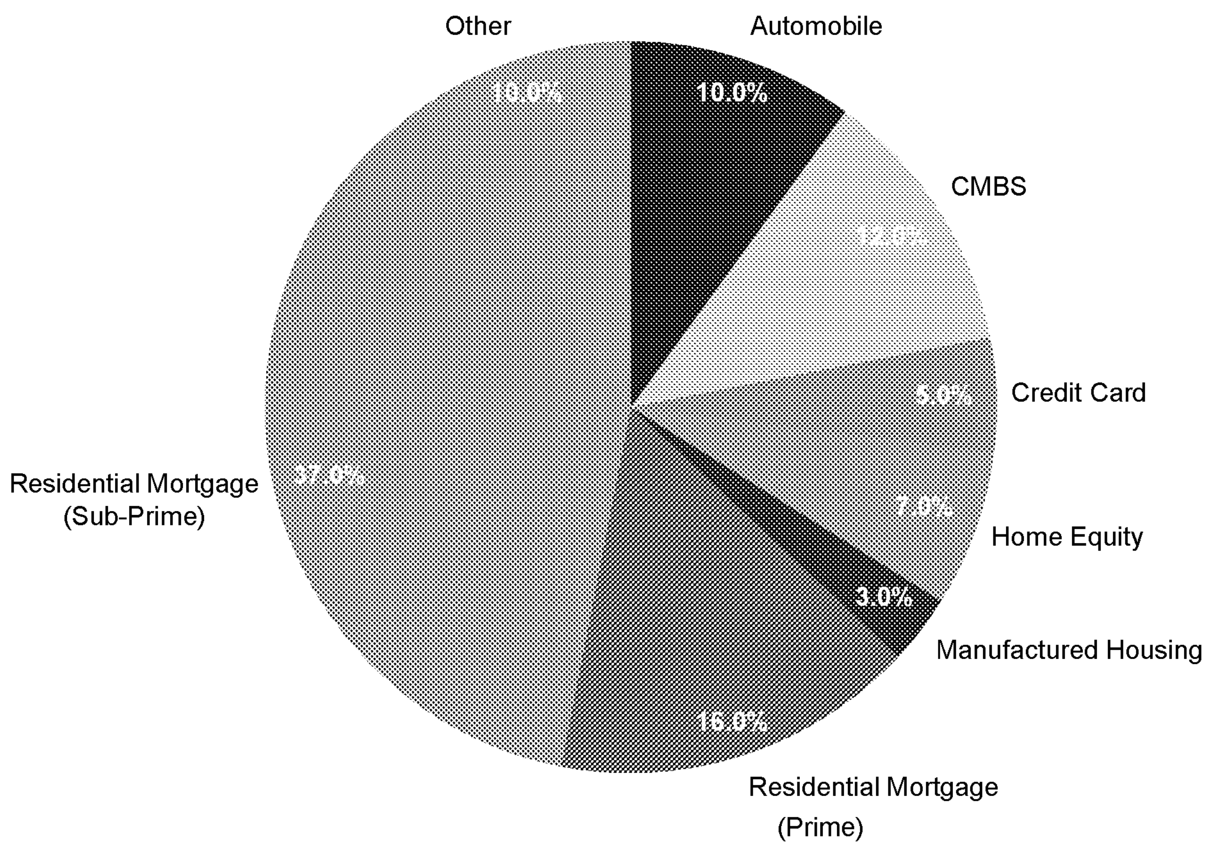
28% of Assets Under Management are comprised of Mortgage and Asset-Backed assets.

(1) *Figures may include Western Asset Management Company Limited and Western Asset Management Company (Asia).*

Introduction to Western Management

Western Asset Management Company

Western Asset Management Company — Structured Products Portfolio (1)(2)



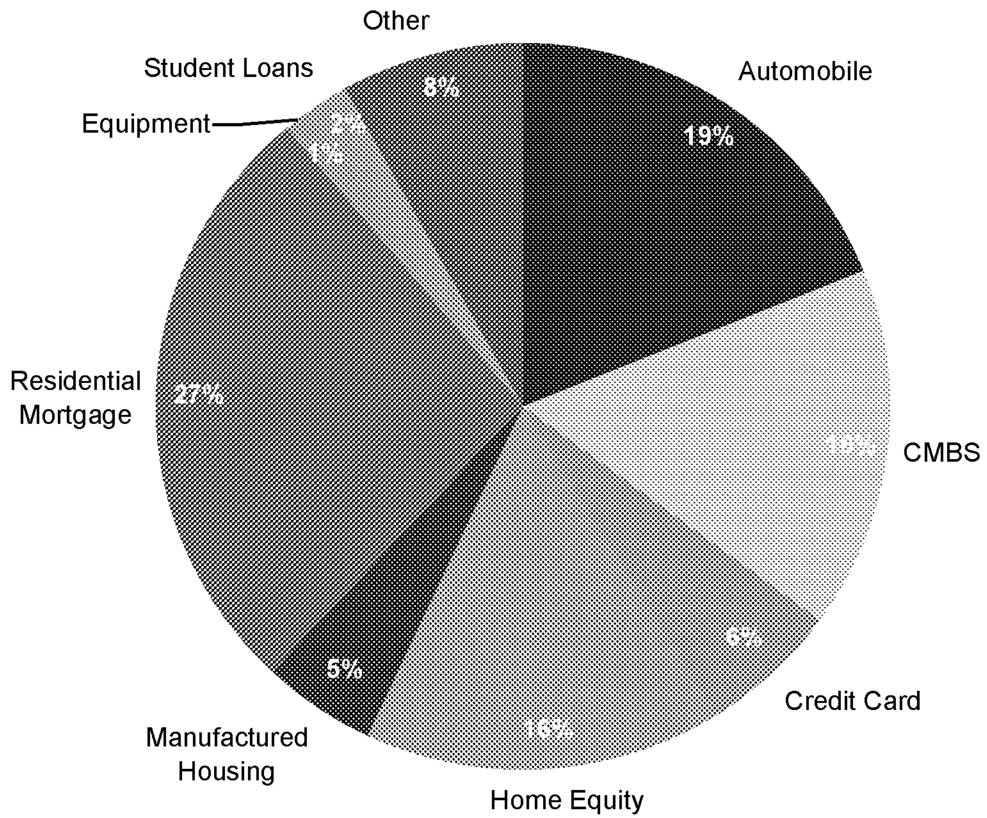
Western Asset's non-government agency ABS, CMBS and RMBS assets under management totaled approximately $25.4 billion as of September 30, 2004

(1) *As of September 30, 2004*
(2) *Figures may include Western Asset Management Company Limited and Western Asset Management Company (Asia).*

Introduction to Western Management

Structured Products — Purchase History

Cumulative Structured Products Purchases 1990–2003[1]



From 1990 – 2003, Western Asset purchased over $111.6 billion of Structured Products

(1) *Figures may include Western Asset Management Company Limited and Western Asset Management Company (Asia).*

WESTERN ASSET

B. Structured Finance Management Expertise

WESTERN ASSET

Structured Finance Management Expertise

Western Asset Management Company

- Western Asset is an active participant and seasoned player in the CDO and credit derivative markets
- Ten CDOs under management including seven structured product CDOs and three investment grade corporate synthetic CDOs. Total CDOs under management represent $6.27 billion of aggregate credit risk
- In addition, Western Asset was retained by an institutional investor to monitor the reference portfolio for a $500 million synthetic CDO structured by a third party

Structured Product CDOs Under Management

Western Asset has been elected to assume the responsibilities of replacement collateral manager on two structured product CDOs in which management has been transferred

Transaction	Issuance/ Engagement Date	Transaction Size	Comments
Arroyo CDO I	August 2001	$400 million	■ First CDO of diversified structured products ■ Primarily investment grade portfolio
Pasadena CDO	June 2002	$500 million	■ Second CDO of diversified structured products ■ Primarily investment grade portfolio
Diversified Asset Securitization Holdings II ("DASH II")	November 2002	$500 million	■ Western Asset was selected by the noteholders of DASH II to assume the replacement collateral manager responsibilities for this transaction
Beacon Hill CBO, Ltd.	April 2003	$270 million	■ Western Asset was selected by the noteholders of Beacon Hill CBO to assume the replacement collateral manager responsibilities for this transaction
Coronado CDO	September 2003	$500 million	■ Third CDO of diversified structured products ■ Primarily investment grade portfolio
Palisades CDO, Ltd	July 2004	$600 million	■ Fourth CDO of diversified structured products ■ Primarily investment grade portfolio
Sierra Madre Funding, Ltd	July 2004	$1,500 million	■ Fifth CDO of diversified structured products ■ Primarily investment grade portfolio

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Structured Finance Management Expertise in Transactions Originated

Arroyo CDO I

Collateral Quality Tests

Test	Current Level[1]	Test Level
Moody's Diversity Score	30.32	21
Moody's Rating Factor	1,016	405
Weighted Average Coupon	7.55%	7.55%
Weighted Average Spread	2.12%	1.75%
Weighted Average Life	5.42	5.50

Pasadena CDO

Collateral Quality Tests

Test	Current Level[1]	Test Level
Moody's Diversity Score	28	21
Moody's Rating Factor	425	405
Weighted Average Coupon	7.32%	7.27%
Weighted Average Spread	2.14%	2.04%
Weighted Average Life	4.00	5.80

Coronado CDO

Collateral Quality Tests

Test	Current Level[1]	Test Level
Moody's Diversity Score	37.34	25
Moody's Rating Factor	277	450
Weighted Average Coupon	6.77%	6.21%
Weighted Average Spread	2.11%	2.00%
Weighted Average Life	4.36	5.00

(1) As of 12/31/04.

WESTERN ASSET

Structured Finance Management Expertise in Transactions Originated

Palisades CDO, Ltd.

Collateral Quality Tests

Test	Current Level(1)	Test Level
Moody's Diversity Score	35	20
Moody's Rating Factor	338	450
Weighted Average Coupon	6.81%	6.33%
Weighted Average Spread	2.25%	1.96%
Weighted Average Life	3.55	6.75

Sierra Madre Funding, Ltd.

Collateral Quality Tests

Test	Current Level(2)	Test Level
Moody's Diversity Score	21.2	20
Moody's Rating Factor	35	50
Weighted Average Coupon	6.44%	6.10%
Weighted Average Spread	0.92%	0.85%
Weighted Average Life	4.45	5.50

(1) As of 11/30/04.
(2) As of 12/31/04.

WESTERN ASSET

C. Investment & Credit Process

Investment & Credit Process

Investment Philosophy

Western Asset's investment philosophy centers upon a team approach

Western Asset's Investment Objectives:

- Provide institutional fixed-income clients with diversified, value-oriented portfolios that are tightly-controlled and managed for the long term
- Combine traditional analysis with innovative technology to add value by exploiting significant inefficiencies that exist in the fixed-income market across all sectors

Active Management to Enhance Value:

- Active management via multiple strategies
- Active sector and issue selection
- Enhance value while at the same time preventing any one strategy's underperformance from seriously and adversely affecting returns
- Enhance strategies by opportunistic trading to exploit market inefficiencies over the course of an economic cycle

Team Investment Approach:

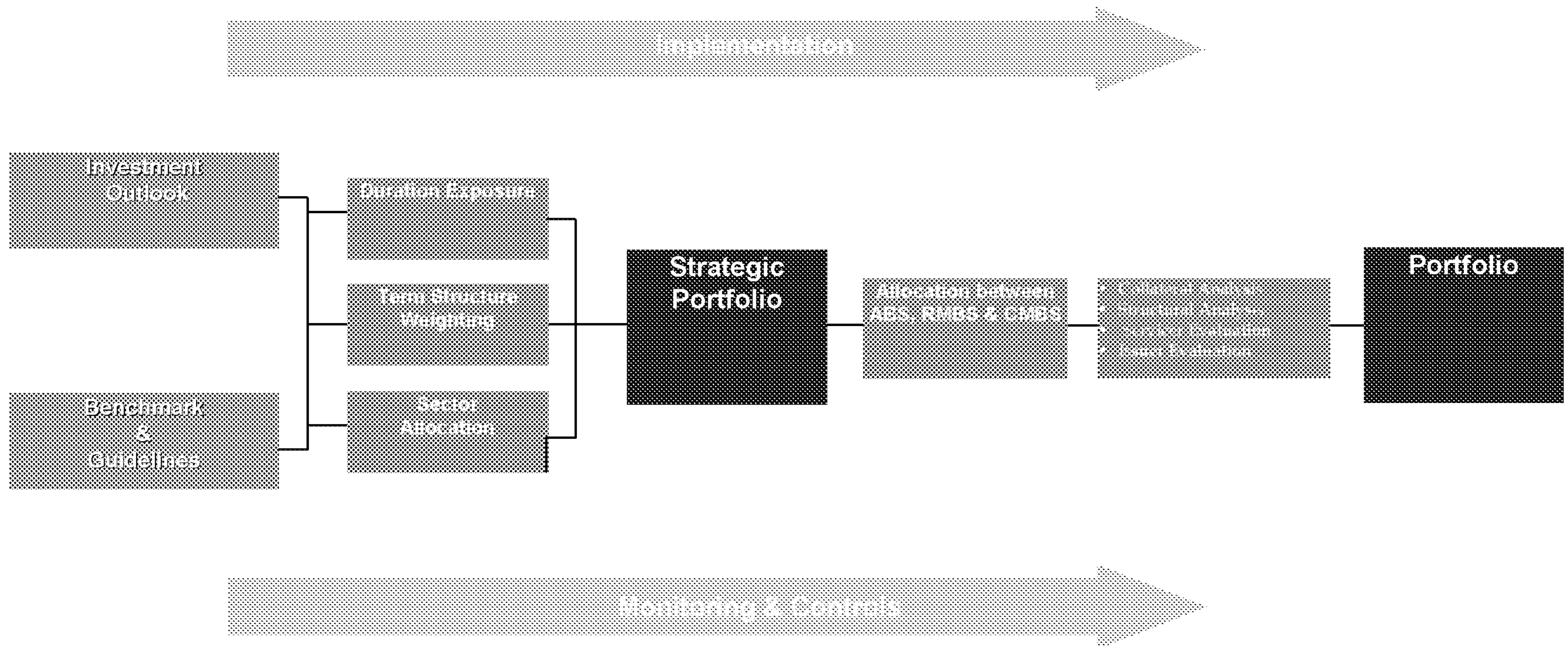
- Portfolios are managed by uniting groups of specialists dedicated to different market sectors
- While the investment responsibilities of each group are distinct, successful implementation involves a fluid and inseparable interaction between them
- Portfolios benefit from a consensus shaped by the expertise of all the team members

WESTERN ASSET

Investment & Credit Process

Portfolio Construction

Western Asset's overall investment process combines a global portfolio allocation strategy with rigorous issuer and security-specific fundamental analysis



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Investment & Credit Process

Structured Products Credit Methodology

Issuer Review

- Financial review
- Underwriting consistency
- Historical and future growth trends
- Changes to competitive environment

Collateral Analysis

- Expected default rate
- Loss severity on liquidation
- Sensitivity to economic conditions
- Past collateral performance

Servicer Review

- Financial condition
- Historical performance
- Potential conflicts of interest
- Quality of reporting
- Excess capacity

Structural Analysis

- Cashflow waterfall
- Performance triggers
- Issuer economics
- Legal risks
- Term vs.revolving structure
- Ability to transfer servicing

Investment & Credit Process

Investment Case Study — Anticipating an Upgrade(1)

The Trade	■ Bought $10 million of a certain Security in the secondary market in May 2001
Investment Rationale	■ Diversified pool of commercial mortgages with a substantial amount of seasoning ■ Collateral had performed extremely well as continued amortization of the underlying loans provided incentives for borrowers to keep paying ■ Cumulative losses were extremely low at the time of purchase ■ Western Asset believed that the bond offered great value and was due for another upgrade based on the performance and the amount of deleveraging that had occurred
Limiting the Downside	■ As a result of the deleveraging, subordination had increased at time of purchase for this class, providing additional protection from losses for the Securities
Result	■ A few months after Western Asset purchased the bond, it was upgraded by S&P and by Fitch ■ Bond was trading at a higher price as of January, 2004 ■ Current subordination has continued to increase

(1) The case study above represents successful application of Western Asset's credit process but may not be indicative of future results.

Investment & Credit Process

Investment Case Study – Early Exit(1)

The Trade	■ Bought certain Lease Securities bonds in June 2001
Investment Rationale	■ Diversified pool of 41 aircraft ■ 34 narrowbody planes with an average age of 7 years ■ Geographically diverse lessee base ■ Experienced aircraft lessor and servicer with self contained maintenance staff and facility
Early Warning Signs	■ Air traffic plummeted after September 11, 2001 ■ Re-lease rates decreased by as much as 35% from original expectations ■ Several lessees experienced severe financial stress
Course of Action	■ Western Asset had several conference calls with the senior managers of the lessor and the servicer to understand industry conditions ■ Western Asset gathered additional market intelligence and information from rating agencies and Street research professionals ■ Western believed that the industry did not have the demand to justify current lease rates and that the industry would undergo further consolidation
Result	■ Western Asset believed that the bond would deteriorate further and chose to sell the position ■ Western Asset sold the position in September 2001 ■ The bond was downgraded by Moody's and Fitch during summer 2003 and was downgraded by Moody's and Fitch during summer 2004 ■ As of October 2004, the bond is trading at a lower price than that in September 2001

(1) *The case study above represents successful application of Western Asset's credit process but may not be indicative of future results.*

Investment & Credit Process

Investment Case Study – Avoiding a Headline[1]

The Trade	■ Considered a certain Healthcare Security in May 2002 as new issue ■ Western Asset passed on this trade
Investment Rational	■ 2001 audited financial statement not filed ■ Issuer was a private company with limited SEC filings ■ Issuer/servicer was reluctant to meet for one-on-one meetings ■ Issuer could not provide detailed servicing analytics to support raw servicing data
Due Diligence Procedures	■ Western Asset attended marketing meetings with issuers and bankers ■ Western requested one-on-one meetings with issuer to discuss receivables and servicing ■ Western requested multiple servicer remittance runs to determine the depth and capability of the servicer/issuer
Course of Action	■ Western Asset passed on this trade and decided to observe performance of this transaction in anticipation of possible future trades
Result	■ 6 months after the issuance of the bond, the issuer was confronted with fraud allegations and is currently under investigation by the SEC and Justice Department ■ Bond downgraded by Moodys ■ As of October 2004, the bond has no available market

(1) The case study above represents successful application of Western Asset's credit process but may not be indicative of future results.

Investment & Credit Process

Ongoing Credit Monitoring

- Active communication is maintained among all structured product specialists and portfolio managers on trades and positions
- Exposures are monitored daily for news, changes in status and outlook by the structured product specialists
- All security holdings are priced and analytical data updated based on market changes
- Existing holdings and potential purchases are analyzed using internal and external systems including:
  - Trepp
  - Bond Studio
  - Intex
  - Rating agency web sites
  - Bloomberg
  - Dealer web sites
  - Dealer web sites
  - CMO Passport
  - iCDO
  - ABSNet
  - YieldBook
  - Realpoint
- All transactions are reviewed by the head of the Structured Products Group
- Internal intranet provides quick links to all trustee websites and facilitates the update of monthly deal remittance reports
- Reports sent directly by issuers that provide detailed performance statistics on collateral -transactions are reviewed as received
- Securities on internal watch list are monitored and high risk transactions are updated as necessary
- Additional due diligence on watch list securities is performed such as:
  - contacting rating agencies
  - monitoring industry competitors
  - monitoring similar transactions by the same issuer
  - contacting the deal servicer and/or special servicer

WESTERN ASSET

D. Biographies

WESTERN ASSET

Biographies

Name	Experience	Education
Travis M. Carr	11 Years	■ Western Asset Management Company – Product Development Executive, 2000- ■ Pacific Investment Management Company – Global Portfolio Associate, 1997-2000 ■ Royal Thrift & Loan Company – Secondary Market Analyst, 1994-1997 ■ Home State Financial Corporation – Mortgage Broker, 1993-1994 ■ University of California, Los Angeles, B.A.
Stephen P. Fulton	21 Years	■ Western Asset Management Company – Product Specialist, 2000- ■ Greenwich Capital Markets – Senior Vice President, Fixed Income, 1996-1999 ■ Lehman Brothers, Inc. – Senior Vice President, Fixed Income, 1994-1996 ■ J.P. Morgan Securities, Inc. – Vice President, 1992-1994 ■ Goldman, Sachs & Co. – Vice President, Fixed Income, 1985-1992 ■ Gibraltar Savings – Portfolio Manager, 1983-1985 ■ Amos Tuck School, Dartmouth College, M.B.A. ■ University of California, Los Angeles, B.A.
Ronald D. Mass	17 Years	■ Western Asset Management Company – Portfolio Manager/Research Analyst, 1991- ■ The First Boston Corporation – Research Associate, 1987-1990 ■ University of California, Los Angeles, B.A. ■ Chartered Financial Analyst
Jeffrey T. Katz	10 Years	■ Western Asset Management Company – Research Analyst, 1998- ■ Pacific Investment Management Co. – Senior Associate, 1995-1998 ■ Republic National Bank of New York – Associate, 1994-1995 ■ Anderson Graduate School of Management, UCLA, M.B.A. ■ University of Florida, B.S.

There is no guarantee that specific individuals will continue to provide services to Western Asset Management or that additional personnel will not be involved in the management of the portfolio.

Biographies

Name	Experience	Education
Deborah Slogoff	10 Years	■ Western Asset Management Company – Research Analyst, 2002- ■ Goldman, Sachs & Co. – Credit Derivatives Associate, 2001-2002 ■ Duff & Phelps Credit Rating Co. – Monitoring Manager, 1996-1999 ■ Sanford Bernstein & Co., Inc. – Financial Advisor Associate, 1994-1996 ■ Anderson Graduate School of Management, UCLA, M.B.A. ■ University of Michigan, B.A.
Adam K. Patros	10 Years	■ Western Asset Management Company – Research Analyst, 2000- ■ Pacific Investment Management Company – Pricing Specialist, 1997-2000 ■ Pacific Life Insurance Company – Annuity Service Representative, 1995-1997 ■ Long Term Credit Bank of Japan, Ltd. – Funding Clerk, 1995 ■ Independent Capital Management – Financial Consultant, 1994 ■ University of Wisconsin, Madison, B.S. ■ Chartered Financial Analyst
Jason A. Smith	6 Years	■ Western Asset Management Company – Research Analyst, 2003- ■ Bear Sterns & Co. – Collateralized Debt Obligations, Vice President, 1999-2003 ■ Merrill Lynch & Co. – Private Client Services, Intern, 1998-1999 ■ New York University, B.S.
Greg E. Handler	4 Years	■ Western Asset Management Company – Research Analyst, 2002- ■ Gould Asset Management – Financial Consulting Intern, 2001-2002 ■ National Economics Research Associates – Economic Consulting/Research Intern, 2001 ■ Pomona College, Claremont, B.S. ■ Universidad de Salamanca, Spain

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Biographies

Name	Experience	Education
James J. Flick	17 Years	■ Western Asset Management Company – Portfolio Manager, 1998- ■ Transamerica Investment Services – Portfolio Manager, 1996-1998 ■ Lehman Brothers Inc. – Senior Vice President, Fixed Income, 1994-1995 ■ J.P. Morgan Securities, Inc. – Senior Vice President, Fixed Income, 1993-1994 ■ Citicorp Securities Inc. – Vice President, Fixed Income, 1990-1992 ■ Goldman, Sachs & Co. – Associate, Fixed Income, 1987-1990 ■ University of Chicago, M.B.A. ■ Ohio State University, B.S.
Carl L. Eichstaedt	18 Years	■ Western Asset Management Company – Portfolio Manager, 1994- ■ Harris Investment Management – Portfolio Manager, 1993-1994 ■ Pacific Investment Management Company – Portfolio Manager, 1992-1993 ■ Security Pacific Investment Managers – Director, Fixed Income, 1990-1992 ■ Chemical Securities Inc. – Vice President, Fixed Income, 1986-1990 ■ Kellogg Graduate School of Management, Northwestern University, M.B.A. ■ University of Illinois, B.S. ■ Chartered Financial Analyst
James V. Nelson	25 Years	■ Western Asset Management Company – Co-Director of Credit Research, 1991- ■ Kidder Peabody & Company – Director of Industrial Research, 1987-1991 ■ The First Boston Corporation – Vice President, Fixed Income Research, 1982-1987 ■ Standard & Poor's Corporation – Rating Officer, 1979-1982 ■ New England School of Law, J.D. ■ Columbia University, M.B.A. ■ Canisius College, B.A.

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Biographies

Name	Experience	Education
Jeffrey D. Van Schaick	23 Years	■ Western Asset Management Company – Co-Director of Credit Research, 1981 ■ Lewis and Clark College, B.A. ■ Chartered Financial Analyst
S. Kenneth Leech	27 Years	■ Western Asset Management Company – Chief Investment Officer, 1990 ■ Greenwich Capital Markets – Portfolio Manager, 1988-1990 ■ The First Boston Corporation – Fixed Income Manager, 1980-1988 ■ National Bank of Detroit – Portfolio Manager, 1977-1980 ■ The Wharton School, University of Pennsylvania, M.B.A., B.S., B.A., 1972-1976

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WESTERN ASSET

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 of 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"), as well as a PFIC.
  - 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 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.
- Holding this investment should generally not cause a tax-exempt investor to 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.
- [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.]
- US investors in Preference Shares generally will be required to report certain information about their purchase to the Internal Revenue Service, and investors in Notes and Preference Shares may in some cases be subject to additional reporting requirements under recent tax shelter regulations. A US investor [(including a US tax-exempt entity)] that acquires Preference Shares at issuance will be required to file a Form 926 or a similar form with the IRS. **In the event that a US Investor fails to file any such required form, such US investor 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 investor.**
- 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 FINAL OFFERING CIRCULAR TO BE PROVIDED