I'm OK with the recommendation, but we need to give MBK a heads' up that we're going to penalize for loans where the information is not provided in case any of the conduits complain to him.

-----Original Message-----
From: Riggi, Marjan
Sent: Wednesday, August 03, 2005 6:12 PM
To: Siegel, Jay; DiRienz, Mark; Kornfeld, Warren; Fabrikant, Bruce; Person, Denise; Fellows, Eric; Gupta, Pramila
Subject: Second Lien IOs

For discussion at the Chairs' meeting:
We are starting to see more second lien interest-only loans in closed end second deals. We also need to take into account that probably most CES loans we see in deals now are attached to first IO's even-if they are not interest only themselves. We had briefly discussed this in one of the Chairs' meetings a few weeks ago but never concluded anything. I think we should now ask issuers to provide the first lien information (whether they are interest only or not) and begin using adjustments for this feature.

We had come up with the following table in the meeting but didn't have a final vote on it:

Lien Position

First	Not IO	Not IO	IO	IO	NA	NA
Second	Not IO	IO	Not IO	IO	Not IO	IO
Adjustment	0%	2%	10%	15%	10%	15%

Since second lien interest only loans have small balances they should be subject to not a significant payment shock especially since they are fixed rate and don't also have to be reset to a higher rate. So I propose to decrease these preliminary hits to also take into account that here we only have to worry about frequency of default.

Lien position

First	Not IO	IO	IO	NA	NA
Second	IO	Not IO	IO	Not IO	IO
Adjustment	0%	10%	12.5%	10%	12.5%