مؤسسة الخليج للاستثمار
Gulf Investment Corporation

Confidential Discussion Material

ACA
Capital

Khaleej II – Alternative Investment

Synthetic CDO of Asset-Backed Securities

Managed by:

ACA Management, L.L.C.

September 2005

Merrill Lynch

Global Markets & Investment Banking Group

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Presentation to Khaleej II CDO, Ltd.

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Gulf Investment Corporation

1. Executive Summary

Executive Summary
Investment Opportunity

Khaleej II Limited

- **USD 751,125,000 million CDO backed by a portfolio of investment grade Asset-Backed Securities in the form of credit default swaps** (“**ABS CDS**”)
  - Selected and managed by ACA Management L.L.C.
    - ACA will purchase 14% of the Sub Notes in Khaleej II to align interests
  - Restricted, defensive management aimed at avoiding defaults and protecting investor value
  - **100% of assets are investment grade ABS, with no Corporate CDO bucket**
    - Effective diversification for credit and CDO investors

- **Khaleej II is one of the first Managed CDOs to use the new “Pay-As-You-Go” Credit Default Swap of ABS technology** for a more efficient ramp up and management of the portfolio
  - Khaleej II uses the ISDA Dealer Standard contract for Credit Default Swaps on ABS
    - Standardised Credit Event and settlement procedures that mimic cash ABS investments
  - Khaleej II is a full capital structure CDO avoiding any use of the correlation or “single tranche” market
    - Full payment waterfall structure as with all Cash CDOs

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Executive Summary
Investment Opportunity

Khaleej II Limited

- **By using Synthetic technology on both the asset side and the liability side of the CDO, Khaleej II provides investors with a way to efficiently obtain exposure to the ABS market** by minimizing interest rate risk and ramp-up uncertainty.
  - All assets bought and traded as CDS of ABS
  - 80% of the liability structure is in credit default swap form (the super senior swap) dramatically reduces debt liability cost
- At closing the portfolio will be 100% ramped up and full disclosed
  - Fast ramp up enabled by the use of CDS of ABS
- Reinvestment Period of 4 years to September 2009 after which the portfolio will amortise
  - Sub Note holders will have rights to call the transaction from September 2009
- Mandatory Auction Calls from September 2013
- <u>**Unique investment opportunity:**</u>
  - **100% ABS portfolio with no corporate bucket**
    - No sub-investment grade assets permitted
  - **More attractive yield than SIV Capital Notes**

Executive Summary
Collateral Manager(1)

ACA Management L.L.C.

- **ACA Management L.L.C. ("ACA Management") is the Collateral Manager**
  - A strong ownership: Aegon N.V., BankAmerica Investment Corporation, Chestnut Hill ACA L.L.C., Insurance Partners Entities, FWACA Investors L.P., Stephens Group Inc., Third Avenue Trust.

- ACA Management is one of very few asset managers with extensive management experience of all of:
  - Cash CDOs
  - Synthetic CDOs / Credit Derivatives
  - ABS in Cash and Synthetic form
  - Munis

- **ACA Management currently has 13 CDOs under management totaling USD 10 billion across credit and ABS**
  - **<u>No tranche of any ACA managed CDO has been downgraded or put on negative watch to date</u>**
  - No asset in any CDO portfolio managed by ACA has defaulted to date

.(1) all information on this page has been provided by ACA as of 31/8/05

Executive Summary

Investment Rationale

Asset-backed Securities

- **ABS market have proven stability of ratings and low historical defaults**
  - Significantly lower default rates, higher recovery rates and greater rating stability than corporate bonds (1)
    - ABS average 1yr default rate of 0.1%; RMBS/CMBS average 1yr default rates of 0.2% for 1993-2003 period
    - Historic recovery rate of 'Baa2' rated RMBS of 65%
    - Long term (1983-2003) average % of ABS and CDOs having unchanged ratings of 92.3%
- Conservative rating agency approaches of rating ABS assets
- The superior granularity of many ABS assets optimises diversity
- Consumer assets such as residential mortgage, credit cards and auto loans exhibit the strongest stability
- By focusing entirely on the ABS market, Khaleej II seeks to provide diversification and also an attractive risk/return profile

(1) *Please refer to Section 3 "ABS Market Overview"*

Executive Summary
Investment Alternatives

Subordinated Notes [1]

- USD 40,500,000 Sub Note issuance
- IRR to call date in Sep 2010 of **<u>11.22% p.a. or 6.93% p.a. over the 5yr swap rate</u>**[1]

Class D Notes

- USD 24,375,000 Class D Note issuance
- Rated BBB by Standard and Poor's [2]
- Stated coupon of six month **<u>USD LIBOR + 2.75% p.a.</u>**

Class C Notes

- USD 20,625,000 Class C Note issuance
- Rated A by Standard and Poor's [2]
- Stated coupon of six month **<u>USD LIBOR + 1.40% p.a.</u>**

(1) IRR projections based on a zero default and zero trading gains/losses assumption
(2) Can defer interest for a maximum of 2 semi-annual periods within the terms of its rating

Executive Summary
Investment Alternatives

Class B Notes

- USD 41,250,000 Class B Note Issuance
- Rated AA by Standard & Poor's
- Stated coupon of six month **USD LIBOR + 0.85% p.a.**

Class A Notes

- USD 24,375,000 Class A Note issuance
- Rated AAA by Standard and Poor's [2]
- Stated coupon of six month **USD LIBOR + 0.55% p.a.**

Combination Notes [1]

- AA principal rated Combination Note comprised of 80% Class B Notes and 20% Sub Notes at a zero default **IRR of 6.64% p.a. to the call in September 2010 or 2.36% p.a. over the current 5yr USD swap rate**
- A principal rated Combination Note comprised of 76% Class B Notes and 24% Sub Notes at a zero default **IRR of 6.92% p.a. or 2.64% p.a. over the current 5 year USD swap rate**
- Rated by Standard and Poor's for repayment of principal
- All other combination notes possible for various ratings using Classes A through D

(1) *IRR based on zero defaults and zero trading gains/losses*

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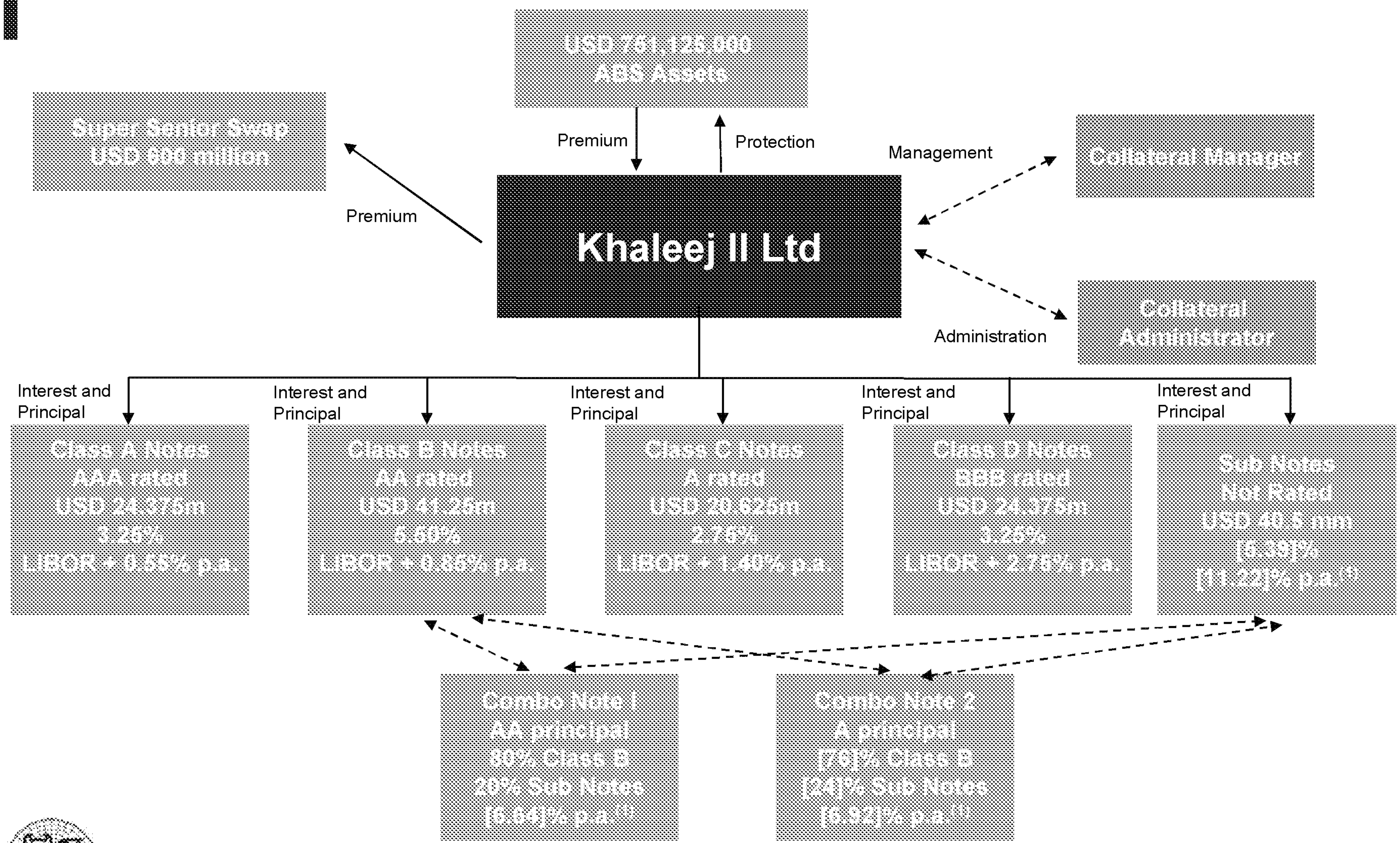
2. Transaction Structure & Return Analysis

Transaction Structure

Structure Diagram



(1) Assumes call date of Sep 2010

Transaction Structure
Capital Structure

Capital Structure

Class	Rating (S&P)	Size USD	Size %	Subordination	Return
Super Senior	AAA	USD 600,000,000	79.89%	20.00%	Not Offered
Class A Notes	AAA	USD 24,375,000	3.25%	16.75%	LIBOR + 0.55% p.a.
Class B Notes	AA	USD 41,250,000	5.50%	11.25%	LIBOR + 0.85% p.a.
Class C Notes	A	USD 20,625,000	2.75%	8.50%	LIBOR + 1.40% p.a.
Class D Notes	BBB	USD 24,375,000	3.25%	5.25%	LIBOR + 2.75% p.a.
Sub Notes	N/A	USD 40,500,000	5.39%	0.00%	11.22% p.a.

Transaction Structure

Summary of Terms

Summary	
Co-Issuers:	Khaleej II Limited
Collateral Manager:	ACA Management LLC
Arrangers and Co - Lead Managers:	Gulf Investment Corporation Merrill Lynch International
Collateral Administrator:	LaSalle Bank NA
Trustee:	LaSalle Bank NA
Non-Call Period	4 years
Reinvestment Period	4 years
Auction Call	8 years
Expected Redemption:	5-7 years [1]
Listing:	Cayman Islands Stock Exchange

(1) A 67% majority of the Subordinated Note holders can call the transaction on any payment date after year 5

Transaction Structure

Summary of Criteria and Tests

Key Eligibility Criteria

- At the time of inclusion, ABS assets must meet, among others, the following criteria[(1)]
  - **An investment grade rating** from S&P and not rated below investment grade by Moody's
  - **USD denominated only**
  - **ABS Asset must be residential mortgage, commercial mortgage, credit card, auto leases or ABS CDO**
  - **No corporate CDOs**, high yield CBOs, Trust Preferred CDOs, emerging market CDOs, CDO Squared, tobacco litigation bonds, manufactured housing assets, aircraft leases, or catastrophe bonds permitted
  - **No asset may have a weighted average life longer than 8.25 years**
  - **The S&P Evaluator Test must be passed** (i.e. the inclusion of an asset must not cause the downgrade of a tranche)

(1) *For a complete list and detail of the Eligibility Criteria please see the Offering Memorandum*

Transaction Structure

Summary of Criteria and Tests

Key Portfolio Profile Tests

- These tests are applied at the time of inclusion of an ABS Asset in the portfolio and ensure there is no significant drift in the Portfolio composition during the reinvestment period[1]
  - **Diversity**
    - The portfolio must contain a minimum of 60 obligors
      - No obligor may represent more than 2.5% of the portfolio
      - No more than 8 obligors may represent more than 2.25% of the portfolio each
      - No more than 10 obligors may represent more than 2.0% of the portfolio each
      - No more than 14 obligors may represent more than 1.75% of the portfolio each
      - No more than 30 obligors may represent more than 1.5% of the portfolio each
    - No more than 25% of the portfolio may be Commercial Mortgage Backed Securities
    - No more than 15% of the portfolio may be CDOs of ABS
    - No more than 10% of the portfolio may be CLOs and these must be rated A/ A2 or higher
  - **Weighted Average Life**
    - No more than 2% of the portfolio may have a WAL longer than 6.9 years
    - No more than 7% of the portfolio may have a WAL longer than 5.9 years
    - No more than 27% of the portfolio may have a WAL longer than 4.9 years

(1) *For a complete list and detail of the Portfolio Profile Tests please see the Offering Memorandum*

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Transaction Structure

Summary of Criteria and Tests

Key Collateral Quality Tests

- These tests are applied at the time of inclusion of an ABS asset in the portfolio and ensure maintenance of the Portfolio collateral quality[1]

ABS Test	Current Level (as of 8/26/05)	Test Level
Maximum Weighted Average Moody's Rating Factor	[425]	[500]
Minimum Moody's Diversity Score	[11]	[10]

Fees and Note Coverage Tests

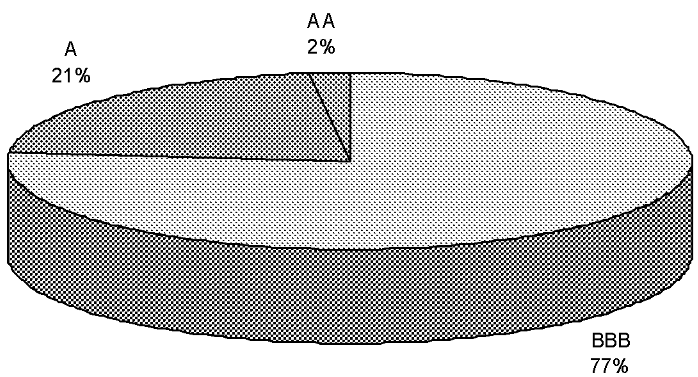
- Investment Manager Fees
  - Base Management Fee — 15bps per annum
  - Subordinated Management Fee — 15bps per annum
  - Performance Management Fee — None

(1) *For a complete list and detail of the Collateral Quality Tests please see the Offering Memorandum*

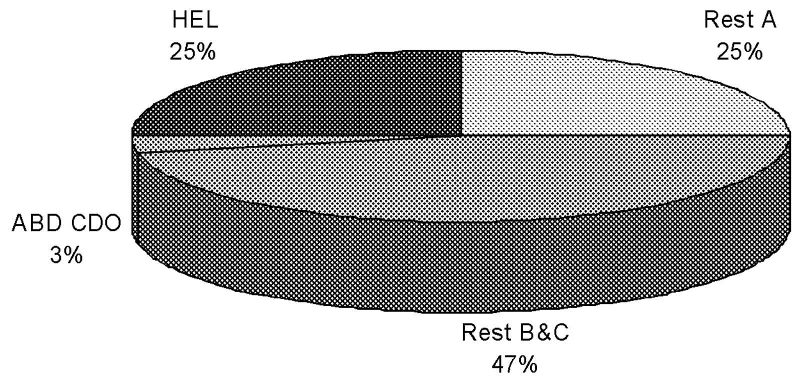
Transaction Structure

Initial Portfolio Profile (1)

Ratings



Industry



(1) *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. Consequently the actual structure of the final transaction including the composition of the collateral may bary from those illustrated and the variation may be material.*

Transaction Structure (1)

Interest & Principal Waterfalls

Priority of Payments

Interest Proceeds Payment Waterfall

1. Interest Proceeds
2. Structuring and Placement Fees
3. Administrative Fees and Expenses
4. Senior Management Fee
5. Sequential pay starting with the Super Senior Swap premium down to Class D Notes Interest
6. Subordinated Management Fee
7. Equity Payments

Principal Payment Waterfall

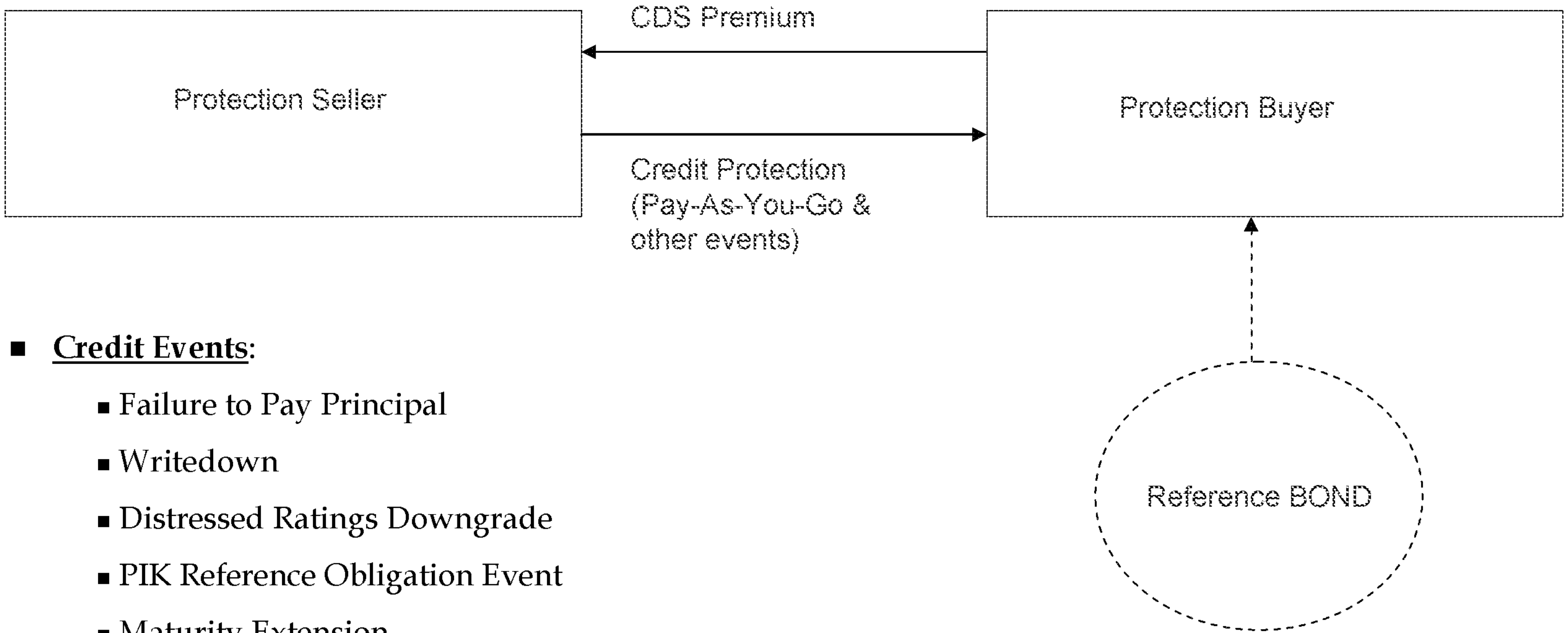
1. Principal Paydowns
2. After the Reinvestment Period, Notional Reduction of Senior and Super Senior Swaps and then sequential Redemption of Funded Notes beginning with the Class A Notes
3. During the Reinvestment Period, reallocation of notional to new reference entities
4. Equity Payments

(1) *All information on this slide is for illustrative purposes only. This transaction is at a structuring phase and the actual structure of the transaction may differ from those presented herein. Please see the Offering Memorandum for a more detailed description of the cashflow waterfalls*

Transaction Structure

PAYGO Credit Default Swaps of ABS

Overview of 'Pay-As-You-Go' CDS



- **<u>Credit Events</u>:**
  - Failure to Pay Principal
  - Writedown
  - Distressed Ratings Downgrade
  - PIK Reference Obligation Event
  - Maturity Extension
- **<u>Settlement:</u>**
  - Physical Settlement or PAYGO payment
  - No Cash Settlement

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Transaction Structure

PAYGO Credit Default Swaps of ABS

Overview of 'Pay-As-You-Go' CDS

- **Standardised Contract:**
  - Merrill Lynch and other major dealers have over the last year worked on and agreed a standardised form of Credit Default Swap contract referencing Asset-Backed Securities
  - This is a major innovation in the ABS market much as the invention of Credit Default Swaps in the corporate credit market in the late 1990s, enabling asset managers, dealers and investors to buy and sell default risk on ABS with ease
  - Only now that standardised contracts exist is it prudent and feasible to execute Khaleej II as a managed CDOs of Synthetic ABS so that the manager can trade the underlying assets with confidence in market liquidity
- **PAYGO CDS Reference a single identified ABS Asset**
  - The "Pay-As-You-Go" or "PAYGO contract references a single ABS asset as a Reference Obligation only to mimic the risk/return profile of owning the single cash ABS asset
  - Credit Events therefore only apply to that single ABS asset and only that ABS asset may be delivered on a Physical Settlement
- **Khaleej II uses an even more "investor friendly" form of the standardised dealer PAYGO contract**
  - As with Corporate CDS, when the contracts are used in a managed CDO context, Rating Agencies, the Manager and Super Senior investors require provisions to further protect investors

(1) *A principal writedown may be an actual writedown of principal or an "implied" writedown calculated by comparing the face amount of the performing collateral with the principal amount of the Reference Obligation (and pari passu and senior liabilities)*

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Transaction Structure

PAYGO Credit Default Swaps of ABS

Overview of 'Pay-As-You-Go' CDS

- Credit Events [1]:
  - Failure to Pay Principal
    - The ABS issuer fails to pay principal in full when due subject to any grace period
  - Maturity Extension
    - The ABS asset's legal maturity is extended through an amendment of its terms
  - Writedown
    - The principal amount outstanding of the ABS asset is written down or implied to be written down by the attribution of losses in the underlying asset portfolio
    - Writedowns that are subsequently reversed are reimbursed to the structure
  - Distressed Ratings Downgrade
    - The ABS asset is downgraded to 'CCC' or lower by S&P
  - PIK Reference Obligation Event
    - The ABS Asset "PIK"s for 24 months if rated 'A' or stronger on close or 40 months if rated below 'A'

(1) *Please refer to the Offering Memorandum and transaction documentation for the full definitions of Credit Events*

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Transaction Structure

PAYGO Credit Default Swaps of ABS

Overview of 'Pay-As-You-Go' CDS(1)

- **Interest Shortfall**
  - Interest Shortfall is an event under which the ABS Asset is unable to pay its stated interest due to interest cash flow shortfall in the underlying assets during that interest period
  - Interest Shortfall reduces the CDS premium paid by the buyer, and if insufficient, can lead to a payment by the protection seller to the extent of such shortfall mimicking the cash flows under a cash ABS
  - Interest Shortfall is not a Credit Event and is reimbursable
  - In Khaleej II, **Interest Shortfall is capped at the CDS premium** and can therefore never lead to a payment by Khaleej II under its PAYGO CDS contracts

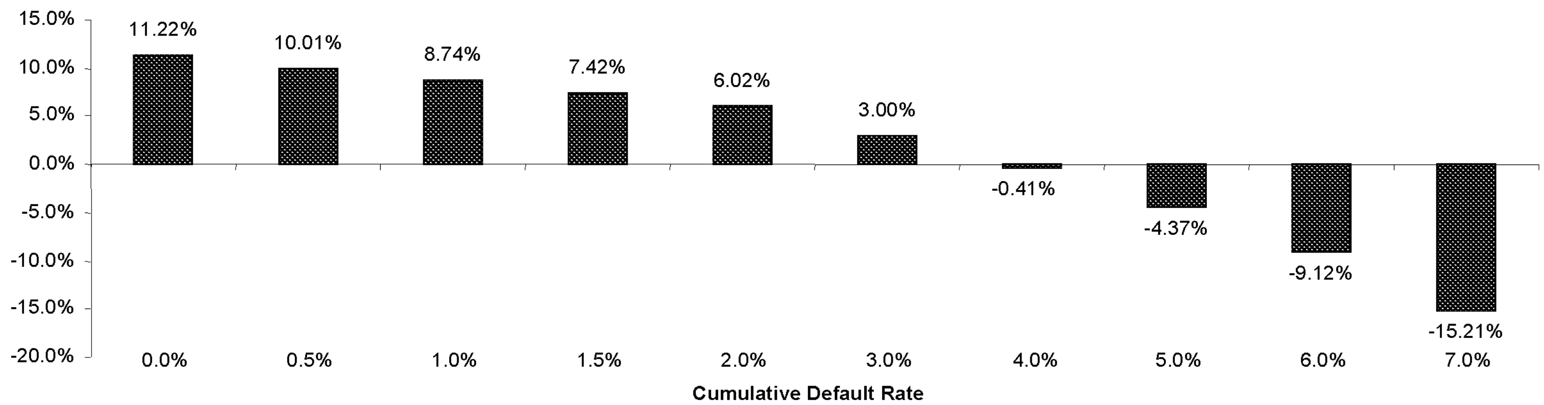
- **Settlement:**
  - There is no provision for Cash Settlement thereby removing the risk of poor recoveries due to weak dealer bids on a defaulted asset
  - Failure to Pay Principal and Writedown Credit Events lead to the payment by the Protection Seller (Khaleej II) of the amount of the "missing principal" or amount that is written down – these are "**PAYGO amounts**" - or a Physical Settlement under which Khaleej II will pay par against delivery of the ABS Asset from Merrill Lynch
  - Maturity Extension, Distressed Ratings Downgrade and PIK Reference Obligation Event lead to a Physical Settlement
    - ACA, as manager of Khaleej II can work out or sell delivered ABS Assets in their discretion to maximise recovery for the investors

(1) Please refer to the Offering Memorandum and transaction documentation for the full definitions of Interest Shortfall and Settlement procedures

Transaction Highlights
Transaction Analysis

Hypothetical Illustration of Equity Share IRR[(1)(2)(3)]

- Assumes call date of Sep 2010



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(2) Please see Structured Finance Market Overview for details

(3) Forward LIBOR refers to the curve containing the expected rates that investors in the market are willing to pay to borrow money for a 3-month period at some given point in the future. For this information, Forward LIBOR was set on [8/26/2005]

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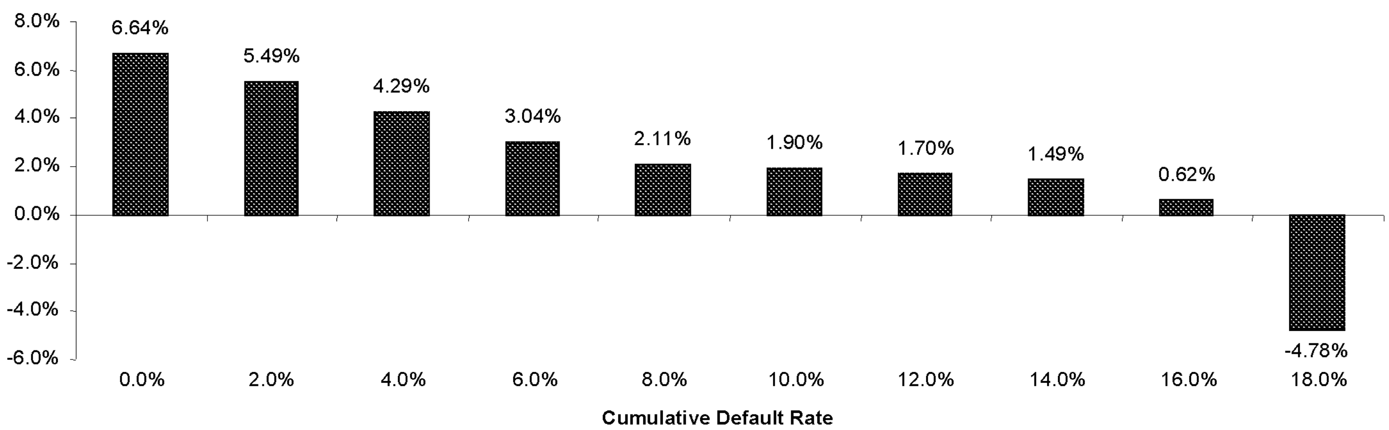
Transaction Highlights

Combination Note – [80]% Class B Notes & [20]% Equity Shares

Hypothetical Illustration of [AA]-rated Combination Note IRR(1)(2)(3)(4)

- Assumes call date of Sep 2010



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(1) This material includes illustrative return information that is based in part on hypothetical assumptions. 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.*** Such results are presented for illustrative purposes only and are based on various assumptions, not all of which are described herein. No representation or warranty is made by Merrill Lynch as to the likely realization 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. The actual performance of any securities issued will differ, and may differ substantially, from that set forth in the attached illustrations. No representation is made that such illustrations 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 information in the graph above should not be considered a prediction of the performance of the Issuer or the Preference Shares. 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. Merrill Lynch nor ACA Capital assumes any responsibility for the accuracy or validity of the results of such models.

(2) The Combination Note consists of [80]% Class B Notes and [20]% Equity Shares

(3) Combination Note is rated to principal only.

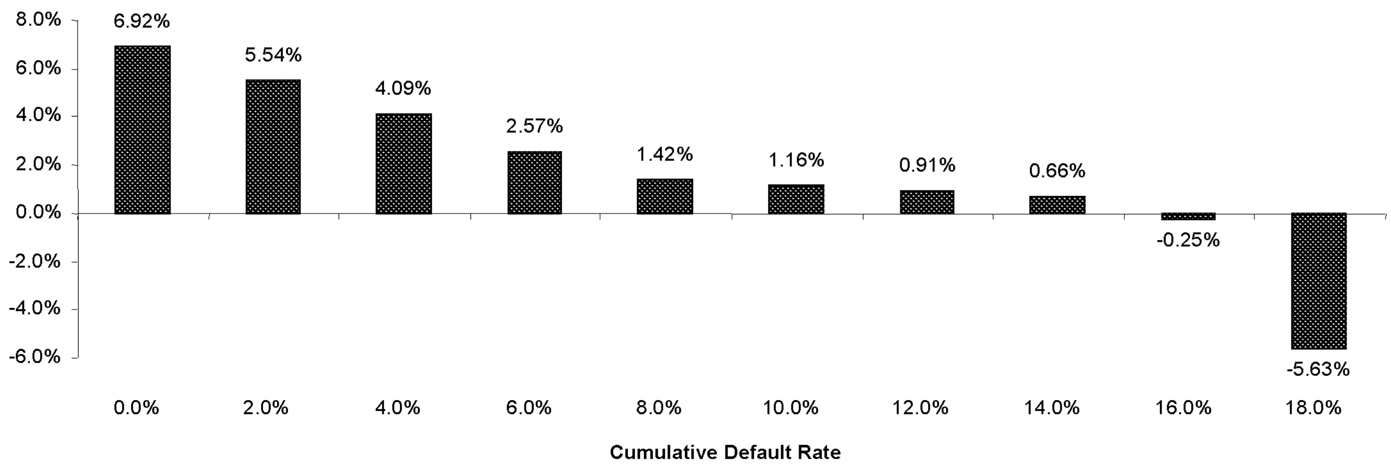
(4) Forward LIBOR refers to the curve containing the expected rates that investors in the market are willing to pay to borrow money for a 3-month period at some given point in the future. For this information, Forward LIBOR was set on [8/26/2005]

Transaction Highlights

Combination Note – [76]% Class B Notes & [24]% Equity Shares

Hypothetical Illustration of [A]-rated Combination Note IRR(1)(2)(3)(4)

- Assumes call date of Sep 2010



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 Khaleej II. For these and other reasons, there are limitations on the value of this or any hypothetical illustration.

This information is not intended to be either an express or an implied guaranty of investment performance.

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(1) This material includes illustrative return information that is based in part on hypothetical assumptions. 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.*** Such results are presented for illustrative purposes only and are based on various assumptions, not all of which are described herein. No representation or warranty is made by Merrill Lynch as to the likely realization 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. The actual performance of any securities issued will differ, and may differ substantially, from that set forth in the attached illustrations. No representation is made that such illustrations 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 information in the graph above should not be considered a prediction of the performance of the Issuer or the Preference Shares. 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. Merrill Lynch nor ACA Capital assumes any responsibility for the accuracy or validity of the results of such models.

(2) The Combination Note consists of [76]% Class B Notes and [24]% Equity Shares

(3) Combination Note is rated to principal only.

(4) Forward LIBOR refers to the curve containing the expected rates that investors in the market are willing to pay to borrow money for a 3-month period at some given point in the future. For this information, Forward LIBOR was set on [8/26/2005]

Transaction Highlights

Structuring Assumptions (1)(2)(3)

Structuring Assumptions

- **Distribution Dates** - Distribution Dates occur quarterly.
- **Mandatory Auction Call** - [8] years.
- **Reinvestment Period –** [4] years.
- **Interest Rates** – Reference Obligations accrue interest at the 3M LIBOR curve plus their applicable spreads. The Notes accrue interest at the 3M LIBOR curve plus applicable spreads. The 3M LIBOR curve is the forward curve as of [8/26/2005].
- **Reset Frequency** - CDO assets and liabilities are assumed to reset based on the same quarterly LIBOR rates.
- **Yield Calculations** – Preference Shares (and Preference Shares combo) yields are calculated using annual compounding.

(1) These assumptions are general and are not conclusive or exhaustive. Actual Reference Portfolio 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.
(2) Definitions and other terms will be fully described in the Offering Circular.
(3) The assumptions shown are for illustrative purposes only. No representation or warranty is made by Merrill Lynch and ACA Capital or any of their affiliates as to the likely realization of the assumptions set forth above or that such assumptions are accurate or complete or do not contain errors, or that alternative assumption would not be more appropriate or produce significantly different results than those set forth herein. Future market or economic conditions that differ from those on which the assumptions are based may have a negative impact of the results of the illustrations contained herein. The assumptions have certain inherent limitations, and will be affected by any changes in the structure or assets for this transaction

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3. ABS Market Overview

Structured Finance Market Overview

Historical Defaults[1] [2] [3]

Khaleej II invests in a portfolio of credit default swaps referencing investment grade ABS, RMBS, and CMBS ("Structured Finance Securities")

Historical default rates for Baa-Rated Structured Finance Securities

RMBS one-year average default rate (1993 – 2003)	~0.2% [4]
CMBS one-year average default rate (1993 – 2003)	~0.2% [5]
ABS one-year average default rate (1993 – 2003)	~0.1% [6]

(1) *Moody's Investors Service, "Default & Loss Rates of Structured Finance Securities: 1993-2003", December 2004.*
(2) *The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".*
(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 Reference Portfolio. Past performance is not a guarantee or indication of future performance.*
(4) *This number denotes the average annual number of material impairments in Baa-rated (original rating) RMBS analyzed in the study. The total number of RMBS analyzed in this study across all rating categories is 5,292.*
(5) *This number denotes the average annual number of material impairments in Baa-rated (original rating) CMBS analyzed in the study. The total number of CMBS analyzed in this study across all rating categories is 3,430.*
(6) *This number denotes the average annual number of material impairments in Baa-rated (original rating) ABS (excluding Manufactured Housing which are prohibited in typical transactions) analyzed in the study. The total number of ABS analyzed in this study across all rating categories is 11,396.*

Structured Finance Market Overview

Historical Recovery Rates of Structured Finance Securities[1][2][3]

- A Moody's study on recovery rates of RMBS/HEL has concluded the following:
  - Moody's estimates that the recovery rate for Baa-Rated RMBS/HEL is 65%.[1]
    - Structured Finance Securities may receive more substantial cashflow in respect of interest and principal after a default than comparable corporate securities would.[1][4]
    - The Moody's estimated recovery rate of Baa-rated RMBS/HEL securities is more than 1.5x the historical recovery rates of Baa-rated corporate bonds.[1][4]
  - Moody's assumes that "commercial mortgage-backed securities (CMBS) and non-HEL ABS would, on average, sustain the same level of loss severity by rating category as those in RMBS and HEL. This assumption is based on Moody's research on loss severity rates to date for defaulted CMBS and non-HEL ABS securities over different seasoning horizons and Moody's study of final loss severity rates for defaulted RMBS and HEL securities." [5]

In contrast, the average recovery rate for corporate bonds from 1982-2004 is approximately 42% [4]

(1) Source: Moody's Investors Service, "Default & Loss Rates of Structured Finance Securities: 1993 - 2003", September 2004. Recovery rate determined by loss severity based on rating at origination and loss based on original balance.
(2) The data discussed in this Overview relates only to historical investment performance. Future investment performance may vary. See "Important Notice".
(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 Reference Portfolio. Past performance is not a guarantee or indication of future performance.
(4) Source: Moody's Investors Service, "Default & Recovery Rates of Corporate Bond Issuers", January 2005. Recovery rate is measured on an issue-weighted basis. Based on senior unsecured ratings.
(5) Source: Moody's Investors Service, "Default & Loss Rates of Structured Finance Securities: 1993 - 2003", September 2004, p. 3

Structured Finance Market Overview (1)

Rating Stability(1) (2)

According to a recent Moody's study, the long-term historical average (1983–2004) of unchanged ratings of Structured Finance Securities and CDOs was 92.3%, which compares favorably to the 77.6% 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 (2004 only)

Rating from:	Rating to: Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	99.15%	0.33%	0.22%	0.22%	0.09%	0.08%	0.03%
Aa	6.67%	90.52%	1.46%	0.39%	0.18%	0.30%	0.48%
A	1.45%	4.56%	91.30%	1.55%	0.52%	0.17%	0.45%
Baa	0.29%	0.92%	3.70%	90.58%	2.48%	0.73%	1.29%
Ba	0.19%	0.25%	1.02%	2.952%	86.47%	4.13%	5.02%
B			0.11%	0.22%	3.65%	81.07%	14.94%
Caa or below						0.70%	99.30%

Structured Finance Securities and CDOs (1983-2004)

Rating from:	Rating to: Aaa	Aa	A	Baa	Ba	B	Caa or below
Aaa	98.97%	0.69%	0.20%	0.07%	0.03%	0.02%	0.03%
Aa	5.70%	91.01%	2.12%	0.71%	0.19%	0.19%	0.13%
A	1.12%	2.85%	92.83%	2.05%	0.66%	0.24%	0.25%
Baa	0.40%	0.60%	2.54%	90.48%	3.34%	1.34%	1.29%
Ba	0.13%	0.10%	0.71%	3.38%	86.12%	3.72%	5.84%
B	0.06%		0.08%	0.47%	2.00%	85.98%	11.42%
Caa or below					0.05%	0.42%	99.53%

(1) *Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.*

(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 Reference Portfolio. Past performance is not a guarantee or indication of future performance.*

Structured Finance Market Overview

Rating Stability (cont'd)[1][2][3]

Rating stability in Structured Finance Securities and CDOs was more than 10 percentage points higher than in corporate bonds in 2004; it has been higher since 1983.

(1) *Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.*

(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 Reference Portfolio. Past performance is not a guarantee or indication of future performance.*

(3) *"Structured" refers to Structured Finance Securities including CDOs*

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4. Risk Factors

Risk Factors

An investment in the Securities described in this Material, 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.

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.

Investment in CDO Equity. CDO preference shares 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 preference shares 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 preference share 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. Reference Portfolio deterioration is the cause for these ratios to be triggered. This may result in a cutoff of cashflow to CDO preference shares for some time and potential phantom income tax issues. Equity investors are leveraged. Spread movement in the Reference Portfolio will have exaggerated mark-to-market effect on client positions. However, only defaults affect the potential cashflow equity investors receive. CDO preference shares are a purchase of a stream of cashflows. These cashflows are amortizing in nature, i.e., clients do not normally receive their full principal at maturity. CDO preference share returns are projected in terms of the IRR of this stream of cashflows. The earlier cash is received, the higher the IRR will be.

Risk of Loss Except as otherwise provided herein, the source of the payments of interest and principal on the Notes will be the fixed amounts payable under the Credit Default Swaps, underlying assets and eligible investments. However, each Physical Settlement Amount in respect of Pay-As-You-Go credit events and Physical Settlement Amount in respect of other credit events (less recoveries realized within two years of such credit event) under the Credit Default Swaps will reduce the fixed amounts payable by the Swap Counterparty to the Issuer under the Credit Default Swaps and will reduce the amount of underlying assets and eligible investments in the Collateral Account. As a result, the Notes will bear the risk of loss from Credit Events.

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 Reference Portfolio 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. Except as otherwise described in, and subject to, the priority of payments that will be set forth in the offering circular, during a sequential pay period no payment of principal of any class of Notes will be made until Super Senior exposure is eliminated or 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 synthetic leveraged investment in the Reference Portfolio. Therefore, it is expected that changes in the value of the Preference Shares will be greater than the change in the value of the Reference Portfolio, 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 Reference Portfolio. The use of leverage generally magnifies the issuer's opportunities for gain and risk of loss.

Average Life of the Offered Securities. The average life of each class of Offered Securities is expected to be shorter than the number of years until their stated maturity. Such average lives will be affected by numerous factors described in the Offering Circular.

Limited Recourse Obligations. The Notes are limited recourse debt obligations of the Issuer. The Notes are payable solely from the underlying assets and eligible investments in the Collateral Account, payments by the Swap Counterparty and other collateral pledged by the Issuer to secure the Notes and, following liquidation of all of the collateral and payment of the proceeds thereof, the obligation of the Issuer to pay any remaining amounts on the Notes will be extinguished. None of the Holders of the Notes, the Placement Agent, the Swap Counterparty, the Portfolio Servicer, the Trustee or any of their affiliates or any other Person or entity will be obligated to make payments on the Notes. Consequently, the Holders of the Notes must rely solely on distributions under the Credit Default Swaps, underlying assets , eligible investments and other collateral pledged to secure the Notes for the payment of principal thereof and interest thereon. If payments under the underlying assets, eligible investments, the Credit Default Swaps and other collateral are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following realization of the collateral pledged to secure the Notes, none of the Issuer, the Placement Agent, the Swap Counterparty, the Portfolio Servicer, the Trustee or any of their affiliates nor any other Person shall be obligated to pay any deficiency and all outstanding claims under the Notes shall be extinguished.

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 Reference Portfolio 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

No Legal or Beneficial Interest in Reference Obligations. Under the Credit Default Swaps, the Issuer will have a contractual relationship only with the Swap Counterparty, not with the Reference Entities. Consequently, the Credit Default Swaps do not constitute a purchase or other acquisition or assignment of any interest in any Reference Obligation. Moreover, the Swap Counterparty will not grant the Issuer or the Trustee any security interest in any Reference Obligation, and the Swap Counterparty will not be required to own or hold any Reference Obligations. The Issuer and the Trustee, therefore, will have rights solely against the Swap Counterparty in accordance with the Credit Default Swaps , and will have no recourse against any Reference Entities. Under the Credit Default Swaps, none of the Issuer, the Trustee, the Noteholders or any other entity will have any rights to acquire from the Swap Counterparty (or to require the Swap Counterparty to transfer, assign or otherwise dispose of) any interest in any Reference Obligation. In addition, the Issuer will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Issuer will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation.

Certain Conflicts of Interest. The activities of Merrill Lynch, and their respective affiliates will result in certain conflicts of interest.

Issuer; Collateral Manager's Performance. The Issuer is a newly formed entity and has no prior operating history. The issuer has no employees and is dependent on the employees of the Collateral manager to make decisions on its behalf in accordance with the terms of the transaction documentation. As a result, the success of the Issuer will be highly dependent on the expertise of the Collateral Manager. Consequently, the loss of one or more of the individuals employed by the Collateral Manager to manage the Issuer's investment program could have a significant adverse effect on the performance of the issuer. Furthermore, the prior investment results of the Collateral Manager are not indicative of the Issuer's future investments results. The nature of, and risk associated with, the Issuer's future investments may differ substantially from those investment strategies undertaken historically. There can be no assurance that the Issuer's investments strategies will perform as well as the past investments of the Collateral Manager or persons associated with the Collateral Manager. The Collateral Manager's performance history is intended only to give potential investors information concerning the past experience of the Collateral Manager and is not a representation or warranty by the Collateral Manager, Merrill Lynch or any other person as to the actual composition or performance of the Issuer's portfolio of Collateral. The nature and risks associated with the Issuer's future investments may differ materially from those investments and strategies historically under taken by the Collateral Manager.

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 summary risk factors presented above are generic to the investment category, do not present all of the risks specific to this transaction or the Reference Portfolio 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

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 debt 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.

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 Limited Partnership Interests).

Relationship of Merrill Lynch with Reference Entities. Reference Entities may include entities to which ML&Co, MLI, and their respective affiliates (collectively, "Merrill Lynch") have, or do not have, credit exposure. In the event that MLI does not have any interest in a Reference Obligation, it may take a "short" position or it may sell protection at the same or different spreads in a credit default swap with a third party. The Issuer has no legal or beneficial ownership of, or interest (whether by way of security interest or otherwise) in, any obligation of any Reference Entity or Reference Obligation, and Merrill Lynch will not be, and will not be deemed to be acting as, the agent or trustee of the Issuer in connection with the exercise of, or the failure to exercise, any of the rights or powers (if any) of Merrill Lynch arising under or in connection with its holding of any such obligation. Merrill Lynch may deal in any Reference Obligation and may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business transactions with, any Reference Entity and may act with respect to such transactions in the same manner as if the Credit Default Swaps and the Notes did not exist and without regard to whether any such action might have an adverse effect on the Reference Entity, the Issuer or the Holders of the Notes. Although Merrill Lynch may have entered into and may from time to time enter into business transactions with Reference Entities, Merrill Lynch at any time may or may not hold obligations of, or have any business relationship with, any particular Reference Entity. Merrill Lynch may vote its interest (if any) in the obligations of any Reference Entity, purchase or sell such obligations, provide bid and offer prices with respect thereto, affect the market value thereof, and otherwise participate in the secondary market for such obligations as if the Notes did not exist, regardless of whether any such action might have an adverse effect on any Reference Obligation or the Holders of the Notes.

Possible Insufficiency of the payments on the Reference Portfolio to Make Payments When Due on the Notes and Preference Shares. There can be no assurance that the Fixed Amounts payable under the Credit Default Swaps and the distributions from the eligible investments in the Collateral Account will be sufficient to make payments on the Notes and the Preference Shares. If distributions under the Credit Default Swaps and the eligible investments are insufficient to make payments on the Notes, the Issuer will have no assets available for payment of the deficiency. The Issuer's ability to make interest payments, principal repayments and distributions in respect of the Notes and the Preference Shares will be constrained by the terms of the Credit Default Swaps, including, in the event that the Credit Default Swaps are terminated, the requirement to pay a Swap Termination Payment to the Swap Counterparty.

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 Reference Portfolio 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

Credit Exposure to Underlying Assets. The Holders are exposed to the credit of the underlying assets. If the issuer of the underlying assets is late in making any payment of interest or principal with respect to the underlying assets, the related payments to the Holders in respect of the Notes will be deferred until the Payment Date relating to the Due Period in which such payment is received by the Trustee. If the Swap Agreement is terminated, the Trustee will, out of the proceeds of the underlying assets, pay all amounts due the Swap Counterparty under the Swap Agreement (including any Swap Termination Payment) and all expenses of the Issuer before distributing the remaining proceeds to the Holders. The amounts so distributed to the Holders could be substantially less than the Holders' original investment in the Notes and could even be zero.

Leveraged Credit Exposure to Reference Obligations; Limited Provision of Information about Reference Obligations. The obligation of the Issuer to make payments to the Swap Counterparty under the Credit Default Swaps creates significantly leveraged exposure to the credit risk of each Reference Obligation. If a Credit Event with respect to a Reference Obligation occurs on or after [September 2005], the Issuer will be obligated under the Credit Default Swaps to pay a Physical Settlement Amount to the Swap Counterparty. Physical Settlement Amounts paid under the Credit Default Swaps will reduce the fixed amounts payable by the Swap Counterparty to the Issuer under the Credit Default Swaps and will reduce the amount of underlying assets and eligible investments in the Collateral Account and, thus, reduce the funds available to pay principal and interest due and payable on the Notes and distributions on the Preference Shares. If the Issuer delivers underlying assets or eligible investments to the Swap Counterparty to pay a Physical Settlement Amount or Swap Termination Payment, the Swap Counterparty will receive any interest accrued on such underlying assets or eligible investments, and as a result the payments on the Notes and distributions on the Preference Shares will be reduced. Prospective purchasers of the Notes and the Preference Shares should consider and determine for themselves the likely levels of Credit Events during the term of the Notes and the impact of such Credit Events on their investment. The concentration of the Reference Pool in any one industry or geographic region, in any one originator or servicer or in any one type of Asset-Backed Security will subject the Notes and the Preference Shares to a greater degree of risk of loss resulting from defaults within such industry or geographic region, defaults by such originator or servicer or defaults among that type of Asset-Backed Security.

The Credit Default Swaps present risks in addition to those resulting from direct purchases of the Reference Obligations. The Issuer will have a contractual relationship only with the Swap Counterparty. In addition, in the event of the insolvency of the Swap Counterparty, the Issuer will be treated as a general creditor of the Swap Counterparty and will not have any claim with respect to the Reference Obligations. Consequently, the Issuer will be subject to the credit risk of the Swap Counterparty as well as that of the Reference Obligations. As a result, the Credit Default Swaps entered into with the Swap Counterparty will subject the Noteholders and Preference Shareholders to an additional degree of risk with respect to defaults by the Swap Counterparty as well as to the risk of defaults by the Reference Entities.

No information on the credit quality of the Reference Obligations is provided herein. The Noteholders and Preference Shareholders will not have the right to obtain from the Swap Counterparty, the Issuer, the Portfolio Servicer or the Trustee information on the Reference Obligations or information regarding any obligation of any Reference Entity (other than the information set forth in the monthly reports delivered pursuant to the Indenture). Neither the Swap Counterparty nor the Portfolio Servicer will have any obligation to keep the Issuer, the Trustee or the Noteholders and Preference Shareholders informed as to matters arising in relation to any Reference Obligation, including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event. None of the Issuer, the Trustee or the Noteholders and Preference Shareholders will have the right to inspect any records of the Swap Counterparty relating to the Reference Obligations.

A prospective investor should review the prospectus, prospectus supplement or other offering materials (and any servicer or trustee reports) for each Reference Obligation prior to making a decision to invest in the Notes or 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 Reference Portfolio 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

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 [September 2013], then the Swap Counterparty will determine whether terminating the Credit Default Swaps and liquidating the underlying assets under the conditions specified in the Indenture would raise sufficient funds to redeem all outstanding Notes and Preference Shares according to the requirements specified in the Indenture. If such conditions are met, the Swap Counterparty will instruct the Trustee to liquidate the Collateral Account and use the proceeds to pay off the balances of the outstanding notes in their entirety. If such conditions are not satisfied and the termination is not successfully conducted on such Payment Date, the Swap Counterparty will make the same attempt on each Payment Date thereafter. However, the Notes will not be redeemed until the conditions are satisfied.

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 4 years after the closing date. It is anticipated that if a coverage test is breached, interest proceeds will be applied to first reduce the Super Senior Swap exposure and deposit proceeds in the Collateral Account. In addition, it is anticipated that if the Notes have not been paid in full prior to [September 2013], and subject to satisfaction of certain conditions, the proceeds in the Collateral Account plus or minus the termination payment under the Credit Swap will be 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.

Termination of the Credit Default Swaps. In the circumstances specified in the Master Agreement, the Issuer or the Swap Counterparty may terminate the Master Agreement and the Credit Default Swaps . The Master Agreement is subject to early termination by the Issuer in the event of an "event of default" by the Swap Counterparty or a "termination event" (as such terms are defined in the Master Agreement) affecting the Swap Counterparty under the Master Agreement. The Master Agreement is subject to early termination by the Swap Counterparty in the event of an "event of default" by the Issuer or a "termination event" affecting the Issuer under the Master Agreement.

Under the Master Agreement, with respect to an "event of default" or a "termination event," the non-defaulting party or the non-affected party may designate the Early Termination Date and will use the valuation method, second method and loss, set forth in the Master Agreement to determine the Swap Termination Payment payable to or by the Issuer or, as applicable, the Swap Counterparty. Following the effective designation of an Early Termination Date, no further payments, other than the Swap Termination Payment, will be required to be made by either the Issuer or the Swap Counterparty under the Master Agreement.

Selection of Reference Obligations. With respect to the selection of the Reference Obligations for inclusion in the portfolio, the Swap Counterparty will not act as an advisor to the Issuer or the Noteholders but will be acting solely in the Swap Counterparty's own commercial interests. While the Noteholders may review the Reference Obligations in the portfolio on the Closing Date, during the ramp-up period subsequent to the Closing Date, the Swap Counterparty will add additional Credit Default Swaps without any consent from the Issuer or the Noteholders which additions may substantially change the characteristics of the portfolio from the Closing Date. All additions, however, must meet certain criteria set forth in the Master Agreement which criteria will be available to the Noteholders on or prior to the Closing Date.

Declaration of Credit Events. In addition, whether and when to declare a Credit Event and to deliver any notice that a Credit Event has occurred will be in the sole discretion of the Swap Counterparty, and none of the Swap Counterparty, the Calculation Agent or any of their affiliates will have any liability to any Noteholder or any other person as a result of giving (or not giving) any such notice.

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 Reference Portfolio 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

Non registration under the Securities Act; Restrictions on Transfer of the Securities. The Securities have not been and will not be registered under the Securities Act or under any U.S. state securities "Blue Sky" laws or the securities laws of any other jurisdiction and are being issued and sold in reliance on exemptions from registration provided by such laws and may only be transferred in a transaction that does not make the co issuers subject to the registration requirements of the Investment Company Act. Therefore, none of Securities may be sold or transferred unless such sale or transfer is in compliance with the transfer restrictions set forth in the Offering Circular. In addition, transfers are subject to the restrictions resulting from the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Credit Ratings. The credit ratings of the Reference Obligations represent the rating agencies opinions regarding such Reference Obligations' credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Therefore, the ratings assigned to the Reference Obligations by the rating agencies may not fully reflect the true risks which the Issuer is assuming by entering into the Credit Default Swaps relating to each Reference Obligation. Also, the rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that a Reference Obligation's current financial condition may be better or worse than a rating indicates.

In addition, the ratings assigned to the Reference Obligations by each rating agency may be downgraded or withdrawn at any time.

Actual Losses not Required. The Swap Counterparty will not be required to own or hold any Reference Obligations. As a result, upon the occurrence of a Credit Event, the Issuer will be required to pay Physical Settlement Amounts although the Swap Counterparty may not have incurred any actual losses.

The market value of any or all of the Reference Obligations on the Relevant Date may be less than the principal or par amount thereof or the Reference Obligation Notional Amount thereof. Nevertheless, if any Reference Obligation experiences a Credit Event, the Type Two Physical Settlement Amount will be calculated based on the difference between its Reference Obligation Notional Amount and its Final Price (which is an estimate of its market value on the Valuation Date).

With respect to the selection of the Reference Obligations for inclusion in the portfolio (that the Swap Counterparty may or may not own), the Swap Counterparty will not act as an advisor to the Issuer or the Noteholders but will be acting solely in the Swap Counterparty's own commercial interests. While the Noteholders may review the Reference Obligations in the portfolio on the Closing Date, during the ramp-up period subsequent to the Closing Date, the Swap Counterparty will add additional Credit Default Swaps without any consent from the Issuer or the Noteholders which additions may substantially change the characteristics of the portfolio from the Closing Date. All additions, however, must meet certain criteria set forth in the Master Agreement which criteria will be available to the Noteholders on or prior to the Closing Date.

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 Reference Portfolio 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

Significant Fees Reduce Notional Amount and Financing Payment Available for Payments of Interest on the Notes. 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 underlying assets, structuring and placement agency fees payable to Merrill Lynch and legal, accounting, rating agency and other fees. These fees and expenses will reduce the amount of the gross proceeds of the offering available to purchase underlying assets and therefore the notional amount of the total return swap will be less than it would otherwise be. Because the financing payment paid by MLI to the Issuer is based upon the notional amount of the total return swap, the amount available to pay interest to the Noteholders will be less as a result of upfront fees and expenses. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.

Hypothetical Illustrations, Forecasts and Estimates. Any hypothetical illustrations, forecasts and estimates contained herein are forward looking statements and are based upon assumptions that are disclosed herein. Hypothetical illustrations are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the hypothetical illustrations will not materialize or will vary significantly from actual results. Accordingly, the hypothetical illustrations are only an estimate. Actual results may vary from the hypothetical illustrations, and the variations may be material.

Certain hypothetical performance analyses are based on assumptions that may prove to be incorrect. Prospective investors should understand those assumptions and evaluate whether they are appropriate for their purposes. Certain analyses are based on mathematical models that use hypothetical inputs to calculate results. As with all models, results may vary significantly depending upon the values of the inputs used. Models used in any analysis may be proprietary, making the results difficult for any third party to reproduce. Moreover, hypothetical performance analyses will address only certain aspects of the characteristics of the Offered Securities and will not provide a complete assessment of the results that may follow from all possible contingencies (including default, interest rate and other scenarios and certain economic features of the Offered Securities, including call features and cash flow diversion events). Prospective investors should consider whether the behavior of these securities should be tested based on assumptions different from those used to prepare these analyses.

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 Reference Portfolio 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

ACA Capital

Gulf Investment Corporation

5. About the Collateral Manager

All information in this section has been supplied herein by ACA

ACA Capital

Gulf Investment Corporation

ACA Capital Overview

ACA Capital Overview
Business Strategy

- Specialty financial services company
  - Assume, manage and trade credit risk
- Two principal operating divisions: Three business groups
  - Municipal Finance
    - Financial guaranty insurance company
    - Only "A" (S&P) rated financial guarantor in business
  - Structured Finance
    - Proprietary CDOs
      - Asset (collateral) management platform
      - Will assume credit exposure to some portion of equity tranche
    - Structured Credit
      - Diversified credit selection and trading platform
      - Alternative executions (principally synthetic)

ACA Capital Overview
Equity and Ownership Structure

- Successful private equity process produced several competing offers to invest
- $170 million of new equity capital – September 30, 2004
- $326 million of S&P qualified statutory capital
- $604 million of claims paying resources
- S&P "A" rating reaffirmed July 5, 2005 stable outlook

Investors	2004 Investment	Total Ownership	Board Seats
Bear Stearns	$105.0mm	34.5%	3
Stephens Group	$16.7mm	16.5%	1
Third Avenue	$16.7mm	15.7%	1
Chestnut Hill	$16.7mm	13.7%	1
AEGON	$2.5mm	5.0%	Observer
Management & Others	$12.4mm	14.6%	2 (Mgmt.) + 2 (Ind.)
Total	$170.0mm	100.0%	10

ACA Capital Overview
Capital Strategy

- Commitment to long-term bondholder and counterparty security
  - Durability and stability emphasized
- Philosophy is to maintain insurance company capital at close to "AA" margin of safety while pursuing an "A" rated business strategy

ACA Capital Overview

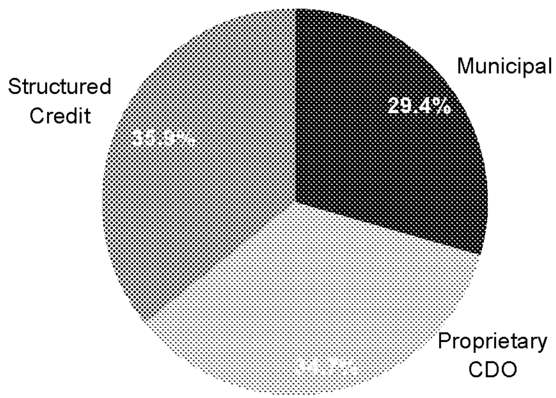
Business Model Dynamics

Product Line	Underlying Risk	Earnings
Municipal Finance	■ Low Investment Grade to Marginally Non-Investment Grade Municipal Credits	■ Paid upfront, earn over life of transaction ■ Upfront cash invested in high-quality fixed-income investment portfolio ■ Average life—30 years
Structured Finance → Proprietary CDOs	■ Investment Grade Corporate & ABS Securities, Leveraged Loans ■ Some direct exposure to CDO equity	■ Earned when paid ■ Fees—risk-free and risk-based ■ Average life ▶ABS and CLO CDOs—7 years ▶CDS CDOs—5 years
Structured Finance → Structured Credit	■ Highly structured credit risk at various levels (from AAA to equity)	■ Installment payments—earned when paid ■ Average life—1 to 5 years

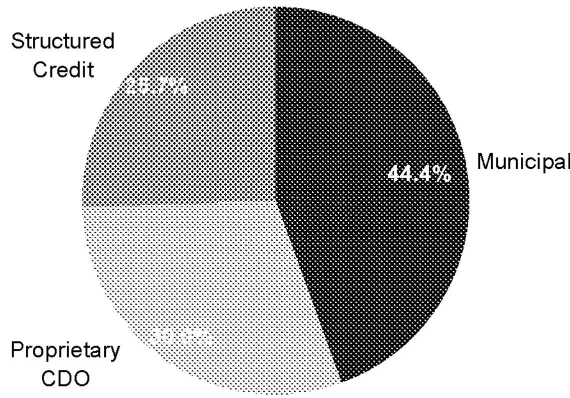
ACA Capital Overview

2005 Business Mix - Projected

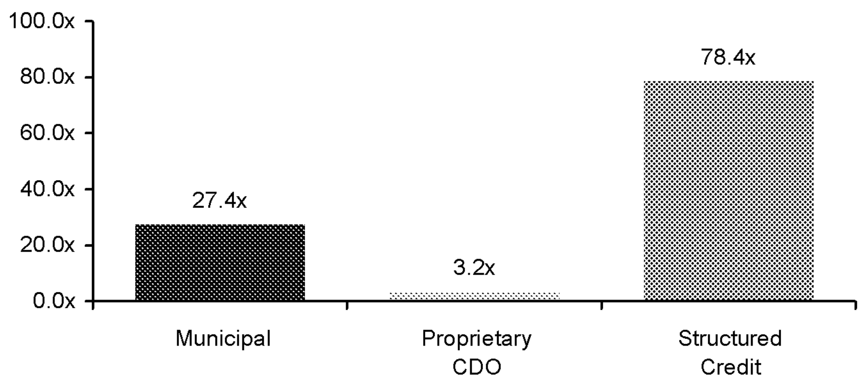
Contribution to Net Income



Contribution to Cash Flow



Leverage (S&P) Capital (1)



(1) *As of December 31, 2004.*

ACA Capital Overview
Senior Management Team

- **Alan Roseman, Chief Executive Officer**
  - Ambac, Capital Re, ACE
  - 24 Years of Industry Experience
- **Edward Gilpin, Executive Vice President & Chief Financial Officer**
  - MBIA, Prudential
  - 21 Years of Industry Experience
- **William Tomljanovic, Executive Vice President & Head of Structured Finance**
  - Chase, Capital Re, Prudential
  - 22 Years of Industry Experience
- **Ruben Selles, Executive Vice President & Head of Municipal Finance**
  - Shearson Lehman Brothers, Moody's, Ambac
  - 27 Years of Industry Experience
- **Joseph Pimbley, Executive Vice President & Head of Institutional Risk Management**
  - Sumitomo Mitsui Banking Corp, FGIC, Moody's, Citigroup
  - 12 Years of Industry Experience

ACA Capital

Gulf Investment Corporation

Asset Manager Overview

Asset Manager Overview

Investment Philosophy

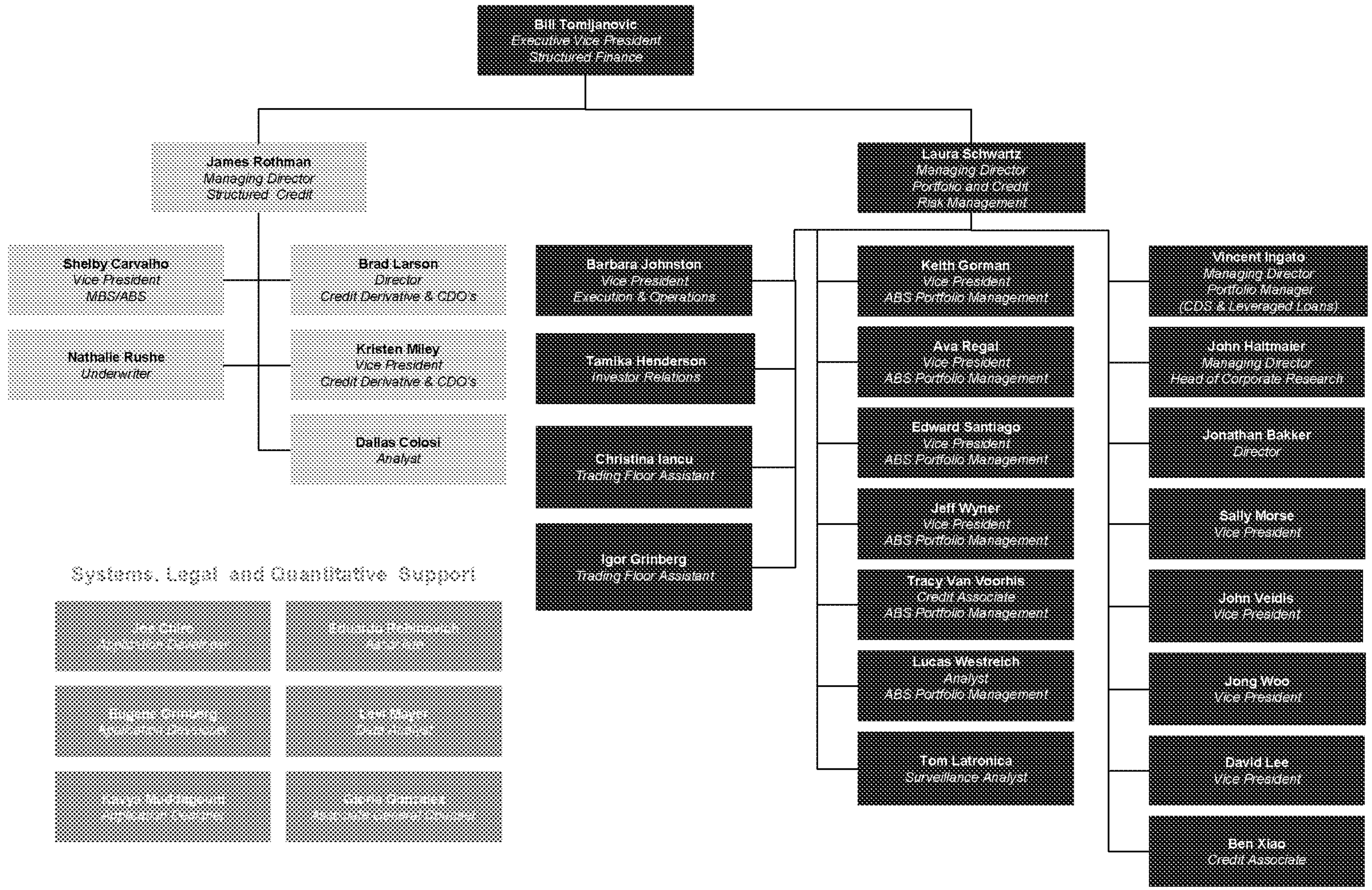
- Focus primarily on ABS and Corporate markets and identify attractive opportunities in several ways
- Asset selection and asset management premised on credit fundamentals and then optimized for relative value
- ACA Management will utilize proprietary models to stress and confirm the adequacy of cash flows
- More than 25 professionals in Structured Finance, 19 of which are fully dedicated to the CDO asset management business representing a combination of skills and experience relating to credit underwriting and capital markets analysis and execution
- Preserve Capital
- Willing to use excess spread to hedge or sell deteriorated credits
- Defensive trading
- Minimize real market value exposure
- Minimize maturity and interest rate risk through asset/liability matching and hedging

Asset Manager Overview
Core Competencies in Analyzing Credit Risk

ACA Capital's Structured Finance Group has extensive capabilities in analyzing credit risk in a variety of areas including:

- **Corporate Securities**
  - Credit Default Swaps
  - High Grade Bonds
  - Crossover Bonds
- **Leveraged Loans**
  - Traditional as well as middle market loans
- **Asset Backed Securities**
  - CLO's, CBO's, CSO's
  - Consumer Assets and Receivables
  - Corporate Assets and Receivables
- **Real Estate**
  - Commercial Mortgages
  - Residential Mortgages

Asset Manager Overview
Structured Finance Organizational Chart



Asset Manager Overview

13 Proprietary CDOs Originated to Date

- No classes of notes have been downgraded or put on credit watch negative
- No credit events/defaults have occurred in the underlying assets

	ACA CDS 2001-1	ACA CDS 2002-1	ACA CDS 2002-2	Argon 49	ACA CLO 2005-1
Type	CDS	CDS	CDS	CDS	LL
Date Closed	01/25/02	06/26/02	04/09/03	05/25/05	7/8/05-priced
Notional Portfolio (MM)	$1,000	$1,000	$1,000	$65	$300
Asset Quality	BBB/BBB+	BBB/BBB+	BBB/BBB+	BBB/BBB-	B+
ACA Equity	$22.5	$22.0	$25.0	N.A.	$5.0
Investment Bank	COMMERZBANK	UBS Investment Bank	WestLB	Merrill Lynch	BEAR STEARNS

	ACA ABS 2002-1	ACA ABS 2003-1	Grenadier Funding	ACA ABS 2003-2	ACA ABS 2004-1	Zenith Funding	ACA ABS 2005-1	ACA ABS 2005-2	Khaleej II
Type	ABS	ABS	ABS	ABS	ABS	ABS	ABS	ABS	Syn ABS
Date Closed	07/29/02	05/20/03	07/21/03	11/16/03	05/27/04	12/21/04	03/02/05	8/30/05	7/22/05 priced
Notional Portfolio (MM)	$400	$400	$1,500	$725	$450	$1,500	$452	$450	$750
Asset Quality	BBB/BBB-	BBB/BBB+	AA	BBB/BBB+	BBB/BBB+	AA-	BBB/BBB+	BBB/BBB-	BBB/BBB+
ACA Equity	$18.0	$18.0	$22.5	$33.5	$10.0	$13.0	$4.4	$2.25	$5.6
Investment Bank	CREDIT SUISSE FIRST BOSTON	Bank of America	citigroup	UBS Investment Bank	Merrill Lynch	citigroup	RBS Greenwich Capital	UBS Investment Bank	Merrill Lynch

ACA Capital is the manager on $10.0bn of CDOs and has invested approximately $200 million in the equity of the CDOs it manages.

Asset Manager Overview
Proprietary CDO in Ramp Up

Lancer Funding	
ABS	Type
3rd Qtr 05	Date Closed
$1,500	Notional Portfolio (MM)
AA-	Asset Quality
25% exp	ACA Equity
UBS Investment Bank	Investment Bank

Asset Manager Overview

ABS CDO Experience

ACA ABS 2002-1

$400 Million, Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 5/20/03	Current 6/05
Moody's Weighted Average Rating Factor	**Max**	400	347	655
Moody's Diversity Score	**Min**	20	25	27
S&P Minimum Average Recovery Rate	**Min**	30%	36.9%	33.5%
S&P CDO Monitor	**P/F**	Pass	Pass	Fail
Overcollateralization Test (Class C)	**Min**	101.5%	104.02%	102.72%
Number of Defaulted Positions				0

ACA ABS 2003-1

$400 Million, Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 5/20/03	Current 6/05
Moody's Weighted Average Rating Factor	**Max**	400	289	301
Moody's Diversity Score	**Min**	18	20	28
S&P Minimum Average Recovery Rate	**Min**	50%	53%	35%
S&P CDO Monitor	**P/F**	Pass	Pass	Pass
Overcollateralization Test (Class D)	**Min**	100.0%	104.54%	104.97%
Number of Defaulted Positions				0

ACA ABS 2003-2

$725 Million, Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 3/18/04	Current 6/05
Moody's Weighted Average Rating Factor	**Max**	350	277	287
Moody's Diversity Score	**Min**	19	19.31	26
S&P Minimum Average Recovery Rate	**Min**	60%	61%	38%
S&P CDO Monitor	**P/F**	Pass	Pass	Pass
Overcollateralization Test (Class C)	**Min**	101.6%	105.05%	105.07%
Number of Defaulted Positions				0

ACA ABS 2004-1

$450 Million, Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 8/17/04	Current 6/05
Moody's Weighted Average Rating Factor	**Max**	350	346	344
Moody's Diversity Score	**Min**	15	15	19
S&P Minimum Average Recovery Rate	**Min**	48.75%	52.3%	52%
S&P CDO Monitor	**Min**	Pass	Pass	Pass
Overcollateralization Test (Class C)	**Min**	101.0%	104.02%	104.20%
Number of Defaulted Positions				0

ACA ABS 2005-1

$452 Million, Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 8/17/04	Current 6/05
Moody's Weighted Average Rating Factor	**Max**	365	338	334
Moody's Diversity Score	**Min**	15	15	15
S&P Minimum Average Recovery Rate	**Min**	33.50%	36.43%	36.72%
S&P CDO Monitor	**Min**	Pass	Pass	Pass
Overcollateralization Test (Class C)	**Min**	103.7%	103.7%	101.7%
Number of Defaulted Positions				0

ACA Capital

Asset Manager Overview
CDS CDO Experience

ACA CDS 2001-1

$1 Billion, 5-Year Synthetic Investment Grade Corporate Credits

		Trigger	Effective Date 2/14/02	Current 6/05
Weighted Average Rating Factor	**Max**	260	219	433
Diversity Score	**Min**	54	55	57
Overcollateralization Test	**Min**	113.2%	129.4%	124.34%
Number of Defaulted Positions				0

ACA CDS 2002-2

$1 Billion, 5-Year Synthetic Investment Grade Corporate Credits

		Trigger	Effective Date 5/9/03	Current 6/05
Weighted Average Rating Factor	**Max**	260	216	347
Diversity Score	**Min**	54	58	58
Overcollateralization Test	**Min**	112.5%	120.80%	121.43%
Number of Defaulted Positions				0

ACA CDS 2002-1

$1 Billion, 5-Year Synthetic Investment Grade Corporate Credits

		Trigger	Effective Date 8/22/02	Current 6/05
Weighted Average Rating Factor	**Max**	260	215	215
Diversity Score	**Min**	54	55	57
S&P CDO Monitor	**P/F**	Pass	Pass	Pass
Overcollateralization Test	**Min**	112.0%	121.89%	122.02%
Number of Defaulted Positions				0

Asset Manager Overview
High Grade ABS CDO Experience

Grenadier Funding, Limited

$1.5 Billion, High Grade Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 1/20/04	Current 6/05
Moody's Weighted Average Rating Factor	Max	30	8.1	13
Moody's Diversity Score	Min	25	25.16	49
S&P Minimum Average Recovery Rate	P/F	65%	65.7%	68.0%
Number of Defaulted Positions				0

Zenith Funding, Limited

$1.5 Billion, High Grade Multi Sector ABS Collateralized Debt Obligation (CDO)

		Trigger	Effective Date 6/15/05	Current 6/17/05
Moody's Weighted Average Rating Factor	Max	40	40	40
Moody's Diversity Score	Min	16	25.16	23
S&P Minimum Average Recovery Rate	P/F	77%	78%%	66.56%
Number of Defaulted Positions				0

ACA Capital

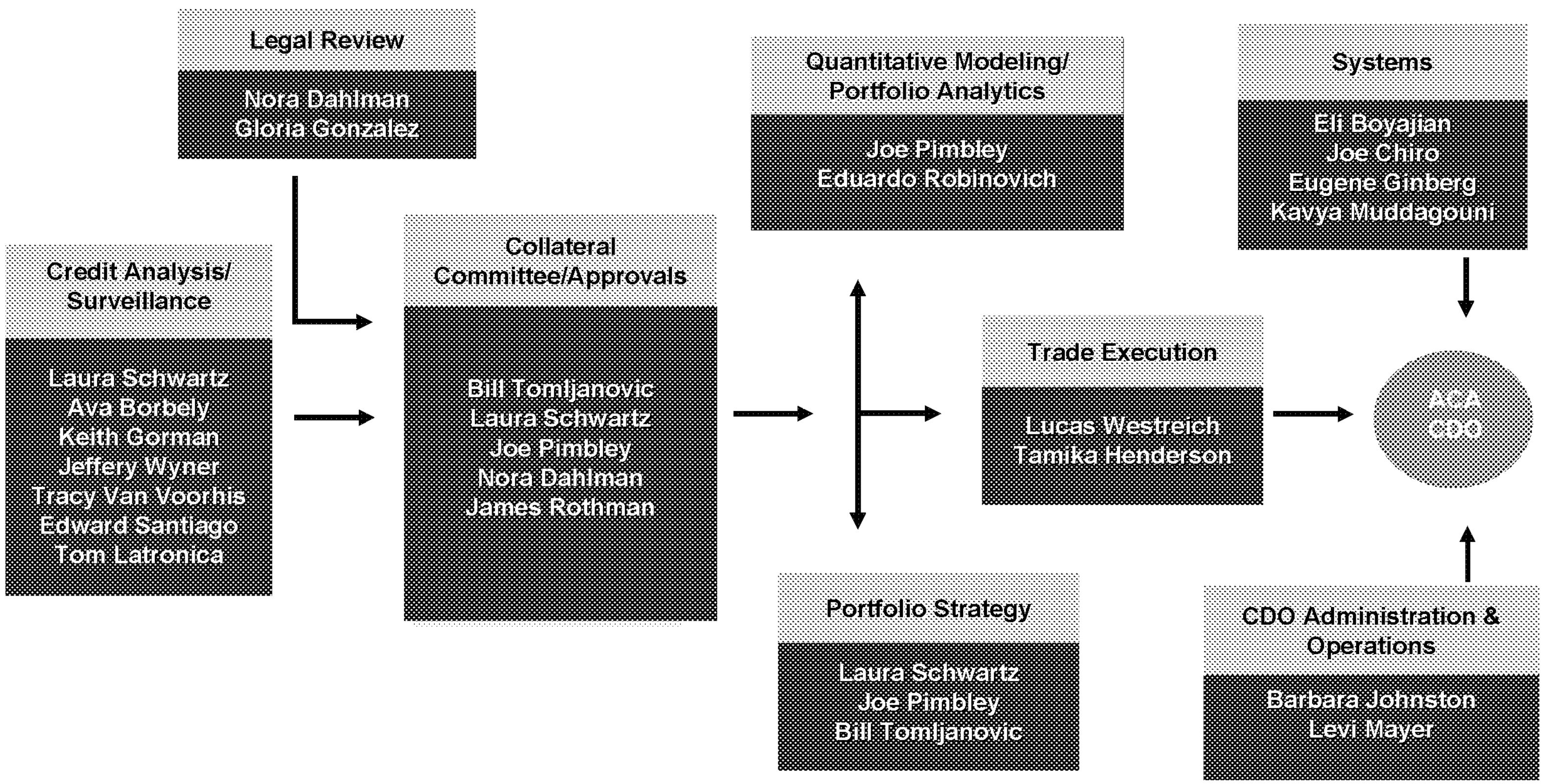
Gulf Investment Corporation

ABS Credit Process

ACA Capital employs a business strategy that emphasizes the identification of and participation in undervalued sectors or issues in where credit and structural fundamentals remain solid. The objective is to create and maintain a diversified portfolio of investments that offer long-term value. Each credit deemed eligible for investment will be subject to the analytical considerations and procedures as defined in the next pages.

ABS Credit Process

ABS CDO Process



ABS Credit Process

ABS Credit Selection Process

The asset-backed securities selection process requires an evaluation of the following factors:

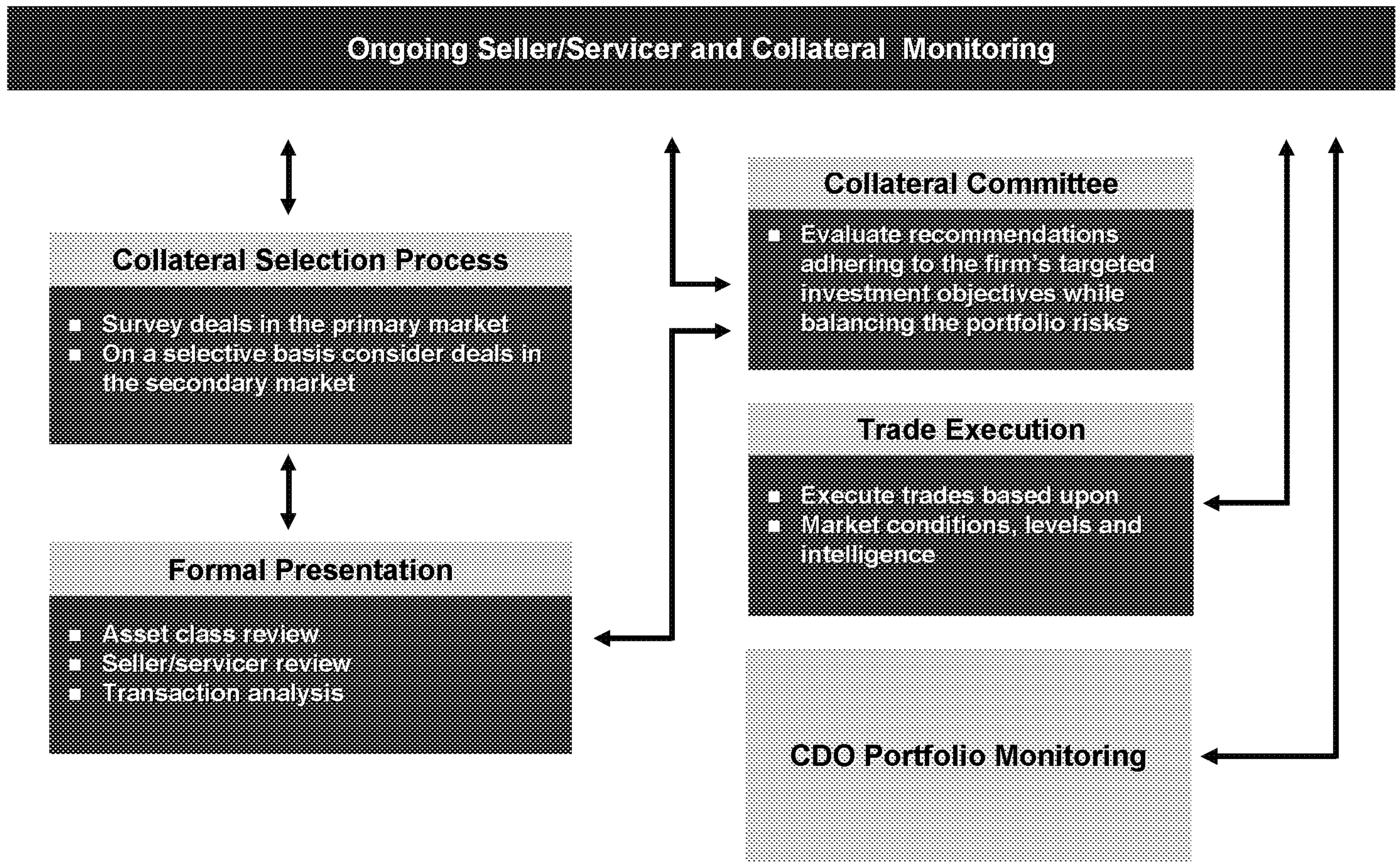
1) **Asset Class Analysis**

2) **Seller/Servicer Analysis**

3) **Deal Analysis:**
   - Collateral Analysis
   - Structural Analysis
   - Legal Analysis
   - Relative Analysis/CDO Compliance

ABS Credit Process

ABS Credit Selection Process



ACA Capital

ABS Credit Process

ABS Credit Selection Process (Cont'd)

Collateral Committee Presentation:

- The industry review of the asset class, a tiered list of seller/servicers within the sector under review, an in depth written review of transactions being considered (which is described in more depth in the next section) and all back up research documents are presented to the Collateral Committee for discussion and approval

Collateral Committee Discussions and Voting:

- The Committee has 5 voting members. The voting members represent senior management in the Structured Finance Department as well as a Legal Representative. A majority vote, including an affirmative vote by the committee chairperson, is required for all decisions
- Credits approved by the committee are eligible to be included in the portfolio. The portfolio strategy team will be responsible for recommending the final portfolio shaping (relative value determination and portfolio limits)

ABS Credit Process

ABS Credit Analysis Criteria

Seller/Servicer Criteria

ACA Capital will rank each seller/servicer according to a tiering system with the following criteria:

- Tier One – Strong companies with established track records and proven performance
- Tier Two – Below investment grade, un-rated or private companies with established Track records and proven performance
- Tier Three – Companies with material issues relating to financial strength, performance or capabilities

ABS Credit Process

ABS Credit Analysis Criteria (Cont'd)

Seller/Servicer Analysis

ACA Capital will consider the following with respect to each seller/servicer:

- Market position
- Credit and service ratings
- Management experience and integrity
- Business cycle risks
- Origination process: underwriting guidelines, staff experience
- Collections process: consistent and clear reporting of delinquencies and write-offs
- Industry standard collections, MIS and cash management systems
- Financial strength
  - Profitability
  - Liquidity
  - Capitalization
  - Cash flow

ABS Credit Process

ABS Credit Analysis Criteria (Cont'd)

Seller/Servicer Analysis (Cont'd)

Below investment grade companies will undergo additional analysis including:

- Establishment of a spread sheet containing financial statements from the most recent three years
- Description of the parent and inter-company relationships with statements of guarantors and related companies, if any, demonstrating that inter-company relationships will not have material negative impact on transactions
- Special emphasis on events of servicing transfer and the availability of warm/hot back-up servicers

ABS Credit Process

ABS Credit Analysis Criteria (Cont'd)

Collateral Analysis

- Asset Level Analysis
  - Coupon
  - Age
  - LTV
  - Credit Quality
  - Geographic Diversification
  - Obligor Diversification
  - Collateral Quality
  - Loan/Lease Characteristics
- Historical Static Pool Data: delinquencies, loss, recoveries, prepayments
- Collateral origination channel: wholesale / retail
- Portfolio growth rate, expectation of and timing of excess spread generated by the loan pool
- Set expected net losses and loss curve

ABS Credit Process

ABS Credit Analysis Criteria (Cont'd)

Structural Analysis

- Analyze the first loss/spread account structure with respect to liquidity and credit
  - Over-collateralization – funding schedule, caps and floors
  - LOC
  - Spread Account
  - Recourse to Seller – seller must be investment grade in such a case
  - Use and application of excess spread for credit enhancement
    - Stress test defaults to evaluate adequacy of first loss/spread account
    - Existence of minimum floor/cap and how it is structured
    - Rate at which the spread account builds up over-time
- Triggers' effect on cash flows: loss, delinquency, yield, etc.
- First dollar loss breakeven analysis based on: prepayments, CDR, severity, seasoning
- Residual value risk analysis
- Interest and principal payment waterfall (sequential, pro-rata, turbo)
- Seller incentives to protect servicing income
- Liquidity demands on the structure
- Analyze refinancing or tail/balloon risk in the transaction
- Seller/servicer collateral substitution rights
- Cash management
  - Collection and processing of the cash
  - Existence / duration of any commingling risk
- Selective Legal Analysis of SPEs, security, rights and remedies

ABS Credit Process

ABS Credit Analysis Criteria (Cont'd)

Relative Value of the Collateral

- Identify competing spreads for benchmark issues in this asset sector and other sectors
- Trading at premium, par or discount
- Call/Extension risk
- Determine the collateral's prepayment risk (high, medium, low)
- The effect of prepayment risk on the interest rate mismatch risk in the pool based on the structure of the hedge
- The historical past 12 month (month to month) volatility in the price of the security if available, or in securities in this asset sector
- Equity price and historical volatility on the seller/servicer for such collateral as well as the BondScore score, if available
- Issue size/liquidity
- The security issue's fit within the diversity, maturity, yield, rating criteria of the CDO

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ABS Surveillance

ABS Surveillance

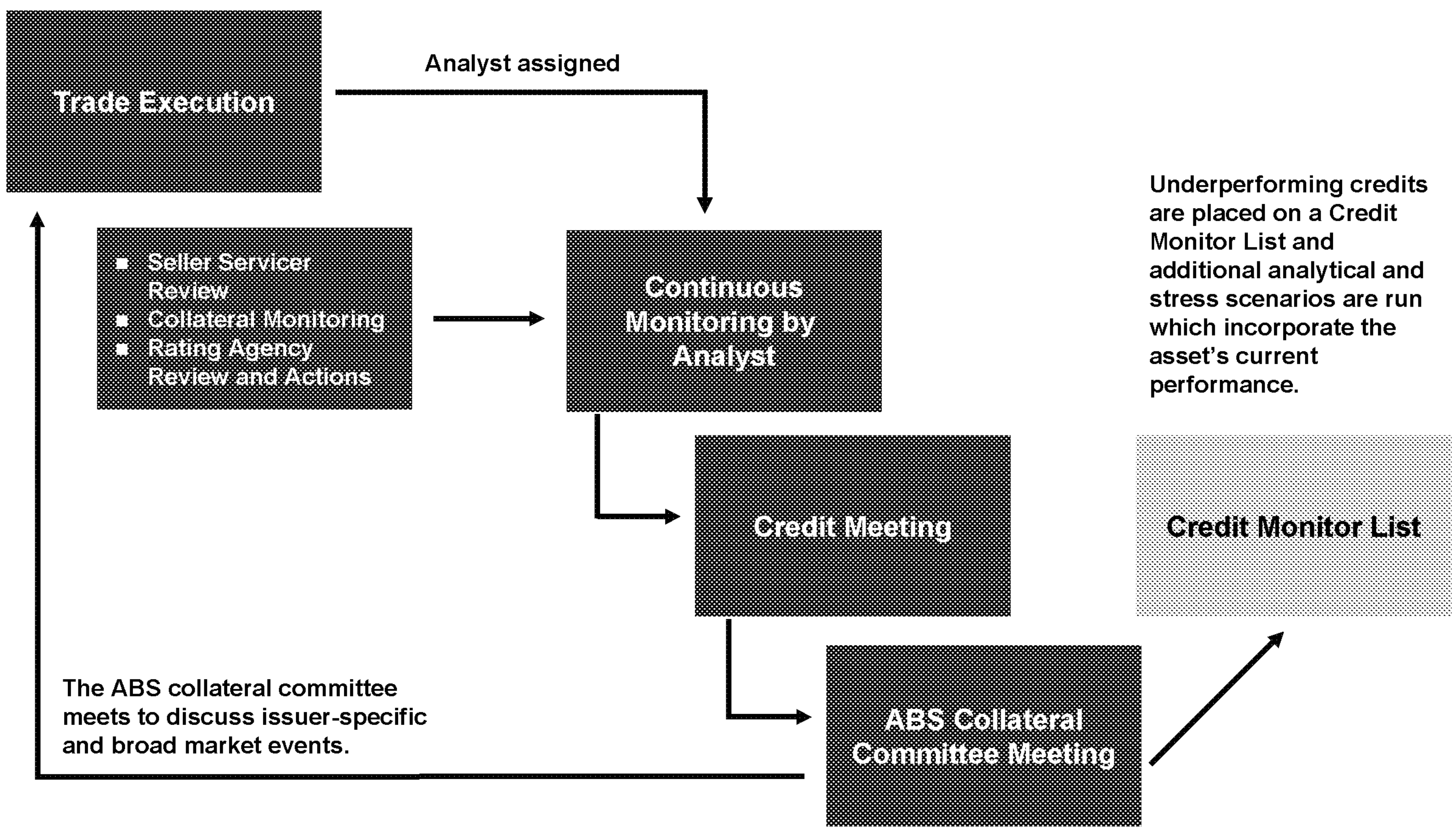
Surveillance And Reporting Analysis (SARA)

- Work hand-in-hand with portfolio management system to allow optimization of Risk vs. Return (Process)
- Store critical data for each credit exposure
- Tool for portfolio strategy team to monitor exposure and minimize potential negative credit developments (actual systems)
- A medium to deliver information to investors for monitoring performance of the CDO structure and portfolio

ACA Capital has retained significant equity in all of its deals to date on its own corporate balance sheet. As an equity investor, we are highly motivated to protect against first dollar loss and are therefore motivated to protect our note holders as well.

ABS Surveillance

ABS Collateral Level Surveillance Overview



ABS Surveillance

ABS Collateral Level Surveillance Overview

Monthly Review

Analysts review monthly trustee reports on the performance of the underlying collateral constituting the securities purchased by the CDO

- Charts and trend line analysis on delinquencies, defaults/charge-offs, gross losses, recoveries, net losses, comparison of actual performance to expected performance
- Trigger analysis – how far or close is the specific bond's structure from hitting its Triggers
- Status of the spread account/first loss- what is the level, has it been reduced, how much on a month by month basis
- First dollar loss break-even analysis
- Most recent price from two market makers on the underlying security
- Current rating of the security
- Review credit watch for upgrade/downgrade
- Rating of seller/servicer

ABS Surveillance

ABS Collateral Level Surveillance Overview (Cont'd)

Ongoing

- Analysts collect all pertinent news on issuers under their coverage and incorporate such information into the issuer performance tab in the monitoring system
- Analysts are responsible for notifying the Portfolio Strategy Team and Collateral Committee members of any substantive events in addition to required reporting at the monthly surveillance meeting
- Analysts review dealer research for data that will assist in performance evaluation and trading ideas for sectors and issuers they cover
- Analysts contact dealer analysts for additional data as needed to track sector and issuer performance and maintain a file for dealer fixed-income and equity research for each issuer
- Analysts maintain regular contact with major rating agencies and closely monitor all agency reports and announcements

ABS Surveillance

ABS Collateral Level Surveillance Overview

Seller/Servicer Monitoring

Quarterly/Yearly Review

- Analysts review all public information when issuers report earnings and participate in conference calls and visit seller/servicers' origination and servicing operations. If necessary, the analyst will contact the appropriate individuals at the issuer to clarify any issues not satisfactorily addressed by the earnings report and conference call. Annual due diligence site inspections are completed on all small seller/servicers and most larger ones

ACA Capital

ABS Surveillance

ABS Deal Level Surveillance Overview

ACA CDO portfolio strategy team works closely with the quantitative structuring group when making trade decisions on individual credits. Prior to execution, portfolio strategy team will evaluate at a minimum the following characteristics regarding the CDO portfolio:

- Hypothetical portfolios are created and stressed under various scenarios to calculate expected cash flows
- Overcollateralization Triggers are recalculated under various scenarios to understand How the traded credit may affect such triggers in the immediate payment period
- The Rating Factor Score is recalculated to understand the impact on the overall credit quality of the CDO portfolio
- Industry and issuer concentrations are recalculated to ensure that the risk of the CDO portfolio is not exposed to one particular concentration
- Expected cash flow to the first loss piece
- Break even loss analysis is conducted at each CDO tranche level
- All underlying assets of the CDO are marked-to-market
- Compliance with all rating agency eligibility criteria and cash-flow requirements

ABS Surveillance

Loss / Delinquency Surveillance

CUSIP	Collateral Name	Current Ratings	Original Ratings	Exposure	Deal Age	WALA	Pool Factor	Current Support (%)	CNL (%)	CPR	DQ 60 [illegible]	Moody's Factor	Current Factor	CNL Limit	CNL Test
12489WDV3	CBASS 2001-CB3 B1	Baa2/BBB/BBB	Baa2/BBB/BBB	$2,000,000	46	75	0.2444	8.55	[illegible]	28.92	[illegible]	17	1	[illegible]	Fail
12489WDU5	CBASS 2001-CB3 M2	A2/A/A	A2/A/A	$1,000,000	46	75	0.2444	21.03	[illegible]	28.92	[illegible]	17	1	[illegible]	Fail
12506YBM0	CDC 2003-HE3 A2	Aaa/AAA/AAA	Aaa/AAA/AAA	$1,504,971	23	26	0.337	56.62	[illegible]	67.42	[illegible]	17	0.1505	[illegible]	Pass
12506YBD0	CDCMC 2003-HE2 A	Aaa/AAA/AAA	Aaa/AAA/AAA	$0	26	28	0.2686	69.79	[illegible]	67.43	[illegible]	17	0.0819	[illegible]	Pass
12506YBH1	CDCMC 2003-HE2 B1	Baa1/BBB+/BBB+	Baa1/BBB+/BBB+	$5,999,941	26	28	0.2686	14.89	[illegible]	67.43	[illegible]	17	1	[illegible]	Pass
22540VTV4	CSFB 2002-AR2 IIM2	A2/A/A	A2/A/ -	$4,154,000	42	42		18.28	[illegible]	49.25	[illegible]	15	1	[illegible]	Pass
22540VL83	CSFB 2002-S12 M2	A2/AA/A	A2/A/ -	$1,152,821	39	42	0.0712	76.69	[illegible]	55.57	[illegible]	9	0.2005	[illegible]	Fail
22541N7L7	CSFB 2003-CF14 A1	Aaa/AAA/ -	Aaa/AAA/ -	$4,685,808	26	26	0.3676	56.41	[illegible]	33.19	[illegible]	17	0.2284	[illegible]	Pass
12667FS89	CWALT 2004-J13 2A2	Aaa/AAA/NR	Aaa/AAA/NR	$14,619,062	7	7		11.41	[illegible]	24.46	[illegible]	15	0.8199	[illegible]	Pass
12667FD51	CWALT 2004-J13 B	Baa2/BBB/BBB	Baa2/BBB/NR	$6,000,000	7	7	0.8558	0.76	[illegible]	25.16	[illegible]	15	1	[illegible]	Pass
12667GNJ8	CWALT 2005-J4 B-1	Baa2/BBB/NR	Baa2/BBB/NR	$1,000,000	2	2	0.9544	1.56	[illegible]	21.47	[illegible]	15	1	[illegible]	Pass
12667GNH2	CWALT 2005-J4 M-2	A2/A/NR	A2/A/NR	$3,750,000	2	2	0.9544	3.65	[illegible]	21.47	[illegible]	15	1	[illegible]	Pass
126671NE2	CWL 2001-BC3 B2	Baa2/BBB/NR	Baa2/BBB/ -	$0	47	49	0.1257	9.87	[illegible]	35.21	[illegible]	17	0.3068	[illegible]	Fail
126671PK6	CWL 2002-1 B2	Baa2/BBB/BBB	Baa2/BBB/	$459,020	40	42	0.1192	12.32	[illegible]	39.5	[illegible]	17	0.2295	[illegible]	Fail
126671WX0	CWL 2003-SD1 A2	Aaa/AAA/AAA	Aaa/AAA/AAA	$490,692	30	73	0.2249	84.91	[illegible]	39.73	[illegible]	17	0.02	[illegible]	Pass
126671ZE9	CWL 2003-SD2 A2	Aaa/AAA/AAA	Aaa/AAA/AAA	$1,773,224	27	58	0.2982	62.05	[illegible]	39.29	[illegible]	17	0.1182	[illegible]	Pass
152314ED8	CXHE 2001-C M2	A2/A/A	A2/A/ -	$2,484,720	45	48	0.2636	10.01	[illegible]	29.58	[illegible]	17	0.4969	[illegible]	Fail
152314EN6	CXHE 2002-A MF2	A2/A/A	A2/A/A	$2,546,705	42	43	0.329	11.5	[illegible]	30.12	[illegible]	17	0.6408	[illegible]	Fail
152314FU9	CXHE 2002-C B1	Baa2/BBB/BBB	Baa2/BBB/ -	$5,000,000	35	36	0.2847	7.9	[illegible]	36.33	[illegible]	17	1	[illegible]	Fail
251510CF8	DBALT 2003-4XS A5	Aaa/AAA/AAA	Aaa/AAA/NR	$9,000,000	20	20	0.5209	9.6	[illegible]	36.54	[illegible]	15	1	[illegible]	Pass
251547AR6	DFCS 1998-I M	Caa2/ - /B-	Aa3/ - /AA	$10,000,000	90	93	0.3395	12.64	[illegible]	10.08	[illegible]	11	1	[illegible]	Fail
251563BZ4	DMSI 2004-1 3A4	Aaa/AAA/AAA	Aaa/AAA/NR	$5,000,000	18	18		5	[illegible]	36.8	[illegible]	15	1	[illegible]	Pass
251563DL3	DMSI 2004-2 A5	Aaa/AAA/NR	Aaa/AAA/NR	$7,000,000	17	17	0.561	5.5	[illegible]	42.38	[illegible]	15	1	[illegible]	Pass
251563DR0	DMSI 2004-2 M3	Baa1/BBB+/NR	Baa1/BBB+/NR	$1,023,000	17	17	0.561	0.35	[illegible]	42.38	[illegible]	15	1	[illegible]	Pass
251563EB4	DMSI 2004-3 1M2	A2/A/ -	A2/A/	$4,375,000	15	15		1.1	[illegible]	37	[illegible]	15	1	[illegible]	Pass
251563EC2	DMSI 2004-3 1M3	Baa1/BBB+/ -	Baa1/BBB+/	$875,000	15	15		0.35	[illegible]	37	[illegible]	15	1	[illegible]	Pass
251563EN8	DMSI 2004-4 1A5	Aaa/AAA/AAA	Aaa/AAA/NR	$5,000,000	14	14		5.5	[illegible]	30.28	[illegible]	15	1	[illegible]	Pass
251563ES7	DMSI 2004-4 1M2	A2/A/NR	A2/A/NR	$2,175,000	14	14		1.6	[illegible]	30.28	[illegible]	15	1	[illegible]	Pass
291701CN8	EFLOT 1998-2 A5	- /AAA/AAA	- /AAA/AAA	$1,639,429	85	87	0.0694	65.46	[illegible]	38.13	[illegible]	9	0.1456	[illegible]	Pass
291701CP3	EFLOT 1998-2 A6	- /AAA/AAA	- /AAA/AAA	$3,490,739	85	87	0.0694	65.46	[illegible]	38.13	[illegible]	9	0.179	[illegible]	Pass
291701CR9	EFLOT 1998-2 M1	- /AA+/AA	- /AA/AA	$1,996,304	85	87	0.0694	45.26	[illegible]	38.13	[illegible]	9	0.1322	[illegible]	Pass
268668BS8	EMCM 2003-A A1	Aaa/AAA/AAA	Aaa/AAA/AAA	$0	27	87	0.512	45.78	[illegible]	37.13	[illegible]	17	0.3842	[illegible]	Pass
268668CJ7	EMCM 2003-B A1	Aaa/AAA/AAA	Aaa/AAA/AAA	$0	23	83	0.5644	44.1	[illegible]	32.22	[illegible]	17	0.4391	[illegible]	Pass
32027NFJ5	FFML 2003-FF5 M-6	Baa3/BBB-/BBB-	Baa3/BBB-/BBB-	$2,000,000	19	20	0.539	1.86	[illegible]	35.68	[illegible]	15	1	[illegible]	Pass
32027NNV9	FFML 2004-FF8 B-2	Baa2/BBB/BBB+	Baa2/BBB/BBB+	$5,000,000	7	11	0.8246	4.73	[illegible]	31.87	[illegible]	15	1	[illegible]	Pass
32027NGW5	FFML 2004-FFH1 M7	Baa1/BBB+/BBB+	Baa1/BBB+/	$6,908,000	16	19	0.6689	7.1	[illegible]	31.74	[illegible]	15	1	[illegible]	Pass
32027NGX3	FFML 2004-FFH1 M8	Baa2/BBB/BBB	Baa2/BBB/	$3,000,000	16	19	0.6689	5.01	[illegible]	31.74	[illegible]	15	1	[illegible]	Pass
32027NJA0	FFML 2004-FFH2 M3	Aa3/AA-/AA-	Aa3/AA-/NR	$5,000,000	13	15	0.7845	18.04	[illegible]	35.5	[illegible]	15	1	[illegible]	Pass
32027NJF9	FFML 2004-FFH2 M8	Baa2/BBB/BBB	Baa2/BBB/NR	$5,000,000	13	15	0.7845	6.88	[illegible]	35.5	[illegible]	15	1	[illegible]	Pass
32027NLY5	FFML 2004-FFH3 M-8	Baa2/BBB/BBB	Baa2/BBB/BBB	$5,000,000	10	11	0.8673	4.9	[illegible]	25.36	[illegible]	15	1	[illegible]	Pass
32027NLT6	FFML 2004-FFH3 M3	Aa3/AA-/AA-	Aa3/AA-/NR	$20,000,000	10	11	0.8673	12.45	[illegible]	25.36	[illegible]	15	1	[illegible]	Pass
32027NLZ2	FFML 2004-FFH3 M9	Baa3/BBB-/BBB-	Baa3/BBB-/BBB-	$5,000,000	10	11	0.8673	3.75	[illegible]	25.36	[illegible]	15	1	[illegible]	Pass
32027NPM7	FFML 2004-FFH4 M-10	Baa2/BB+/BBB	Baa2/NR/BBB	$4,744,000	7	8	0.9235	5.04	[illegible]	18.46	[illegible]	15	1	[illegible]	Pass
32027NPH8	FFML 2004-FFH4 M-6	A1/A-/A	A1/A-/A	$1,250,000	7	8	0.9235	10.88	[illegible]	18.46	[illegible]	15	1	[illegible]	Pass
32027NPL9	FFML 2004-FFH4 M-9	Baa1/BBB-/BBB	Baa1/BBB-/BBB+	$1,000,000	7	8	0.9235	6.55	[illegible]	18.46	[illegible]	15	1	[illegible]	Pass
32027NTG6	FFML 2005-FFH1 B-1	Baa1/NR/BBB+	Baa1/NR/BBB+	$5,000,000	2	3	0.9831	5.65	[illegible]	8.94	[illegible]	15	1	[illegible]	Fail
36228FNR3	GSAMP 2003-FM1 B-1	Baa1/BBB+/A-	Baa1/BBB+/A-	$6,000,000	28	31	0.2055	18.64	[illegible]	64.26	[illegible]	9	1	[illegible]	Pass
36228FNQ5	GSAMP 2003-FM1 M2	A2/A/A+	A2/A/A+	$4,000,000	28	31	0.2055	29.59	[illegible]	64.26	[illegible]	9	1	[illegible]	Pass
2254W0AK1	HEAT 2002-5 B1	Baa2/BBB+/BBB+	Baa2/BBB+/BBB+	$7,000,000	31	33	0.2437	12.34	[illegible]	40.41	[illegible]	17	1	[illegible]	Pass
22541N3P2	HEAT 2003-3 A4	Aaa/AAA/AAA	Aaa/AAA/AAA	$1,593,768	27	28	0.3128	55.26		60.58	[illegible]	17	0.4554	[illegible]	N/A
22541N3S6	HEAT 2003-3 M1	Aa2/AA/AA	Aa2/AA/AA	$5,000,000	27	29	0.2959	35.82	[illegible]	58.53	[illegible]	17	1	[illegible]	Pass
22541N5J4	HEAT 2003-3 M3	A3/A-/A-	A3/A-/A-	$6,000,000	27	29	0.2959	17.24	[illegible]	58.53	[illegible]	17	1	[illegible]	Pass
22540V3V2	HEMT 2002-1 M2	A2/A/A	A2/A/ -	$2,685,583	37	41	0.0651	69.89	[illegible]	65.19	[illegible]	9	0.2686	[illegible]	Pass
22541NQY8	HEMT 2002-4 M2	A2/AA-/BB+	A2/A/NR	$2,440,598	32	36	0.1114	65.06	[illegible]	59.81	[illegible]	9	0.4437	[illegible]	Fail
22541NYT0	HEMT 2003-1 M2	A2/A/A	A2/A/ -	$3,000,000	30	33	0.1657	46.78	[illegible]	51.62	[illegible]	9	1	[illegible]	Fail
68240MAF5	HLOT 1998-1A M1	- /AA/AA	- /AA/AA	$1,924,910	83	91	0.0723	64	[illegible]	39.86	[illegible]	9	0.1386	[illegible]	Pass
45254NDD6	IMM 2002-6F M2	A2/A/A	A2/A/A	$2,034,434	33	33	0.2697	1.75	[illegible]	38.36	[illegible]	15	0.2543	[illegible]	Fail
45254NEP8	IMM 2003-5 M1	Aa2/AA+/AA	Aa2/AA+/AAA	$3,794,637	27	39	0.2875	12.36	[illegible]	68.32	[illegible]	15	0.2663	[illegible]	Pass
22540A6C7	INDMH 1998-1 M	C/ - /C	Aa3/ - /AA	$11,699,000	88	93	0.2955	100	[illegible]	14.35	[illegible]	11	1	[illegible]	Fail
045413BB6	INDMH 1998-2 M1	- /CCC/C	- /AA/AA	$18,360,000	84	92	0.2676	5.42	[illegible]	12.81	[illegible]	11	1	[illegible]	Fail
464126BM2	IRWHE 2001-2 B1	Baa3/BBB/BBB	Baa3/BBB/ -	$2,991,936	46	50	0.1573	9	[illegible]	44.5	[illegible]	9	0.3021	[illegible]	Fail
542514CA0	LBMLT 2002-1 M3	Baa2/BBB-/BB	Baa2/BBB-/BBB	$16,958,957	39	41	0.1551	2.45	[illegible]	44.77	[illegible]	17	0.7639	[illegible]	Fail
542514JS4	LBMLT 2004-6 M6	Baa2/A-/NR	NR/A-/NR	$4,000,000	9	10	0.8175	1.53	[illegible]	36.02	[illegible]	15	1	[illegible]	Pass
61909QAE6	MABS 2002-NC1 M2	A2/AA/A	A2/A/A	$5,000,000	33	35	0.1833	35.88	[illegible]	56.5	[illegible]	17	1	[illegible]	Pass
61909QAF3	MABS 2002-NC1 M3	Baa2/BBB/BBB	Baa2/BBB/BBB	$5,000,000	33	35	0.1833	14.34	[illegible]	56.5	[illegible]	17	1	[illegible]	Pass

ABS Surveillance

Surveillance

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ABS Credit Monitor List

Collateral Name	CUSIP	Legal Name	Moody's Rating (Trade/ Current)	S&P Rating (Trade/ Current)	Fitch Rating (Trade/ Current)	Exposure ($MM)	Latest Price	ACA Deals	Credit Quality	Latest Comment
ABFS 2002-3 M2	000759CW8	ABFS MORTGAGE LOAN TRUST	/A2	/A	A/A-	5.00	97.09	ACA ABS 2003-1	3	(Apr 5 2005 2:35PM) - On April 4, 2005 ABFS announced it plans to shut down its operations through a Chapter 11 liquidation. The company intends to begin laying employees off on April 11 and close its headquarters by July. As part of the liquidation, ABFS will sell the servicing rights in all of its transactions. It is expected that the short term effects of servicing transfer will cause an up-tick in 30 day delinquencies, but will not have a long term effect on our bond's performance or cash flow. ACA's analysis of ABFS 2002-3, Class M-2 concludes that the potential servicing transfer would not result in loss of principal or loss in yield for the class.
ABFS 2002-4 M1	000759DB3	ABFS MORTGAGE LOAN TRUST	/Aa2	/AA	AA/AA-	4.50	100.24	ACA ABS 2003-1	3	(Apr 5 2005 2:36PM) - On April 4, 2005 ABFS announced it plans to shut down its operations through a Chapter 11 liquidation. The company intends to begin laying employees off on April 11 and close its headquarters by July. As part of the liquidation, ABFS will sell the servicing rights in all of its transactions. It is expected that the short term effects of servicing transfer will cause an up-tick in 30 day delinquencies, but will not have a long term effect on our bond's performance or cash flow. ACA's analysis of ABFS 2002-4, Class M-1 concludes that the potential servicing transfer would not result in loss of principal or

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Systems

Systems
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Deal Level Data

Legal Name: STRUCTURED ASSET INVESTMENT LOAN TRUST 2004-9 Edit
Bloomberg Shelf Name: SAIL

Issue Date: 9/30/2004
Country where Issued: UNITED STATES
Currency of Issue: USD

CDO Deal: No
Servicer: AURORA LOAN SERVICES INC.
Originator: STRUCTURED ASSET SECURITIES CORP.
Seller: STRUCTURED ASSET SECURITIES CORP.
Underwriter: LEHMAN BROTHERS INC.

Servicer Credit Ratings

Moody's	SQ1
S&P	Strong
Fitch	RPS1

ACA Analyst: Keith Gorman

Deal Structure Description: SENIOR-SUB/OVERCOLLATERALIZATION

Deal Level Exposure

Tranche	Original Face (MM)	Current Face (MM)	Coupon/Margin	Weighted Avg Purchase Price	Weighted Avg Purchase Spread	Most Recent Price	Most Recent Spread	Date	Moody's	S&P	Fitch	
M6	3.0	3.0	185.0000	100.00	185.00	0.00	0.00	-	Baa2	BBB+	BBB+	Rating History

Tranche Level Data (General Information)

Select Tranche: M6 Add Tranche
Add To Credit Monitor List

CUSIP: 86358EMY9
Margin: 185.0000
Business Day Rule: Following

ACA Capital

Systems
Trading and Execution

Reports | Institutions | Collateral | Trades | ACA Deals | Credit Analysis | Analytics | Tools | Search:

View ABS Trade

Return to Trade Activity

Trade Data

ACA Deal:	ACA ABS 2004-2 (Greenwich Deal)	Trade Ticket:	ABS16841-1
Collateral:	*Residential Asset Mortgage Products, Inc. 2004-RS9 M-II-4 (RAMP 2004-RS9 M-II-4)*		
Counterparty:	LEHMAN BROTHERS SPECIAL FINANCING		
Buy/Sell:	Buy		
Trade Status:	Verified By Operations		

Trade Date:	9/17/2004	Trade Original Face:	4,000,000.00	Trade WAL:	4.07
Settle Date:	9/29/2004	Spread:	180.00	Accrued Interest:	0.00
Trade Purpose:	Pre Close	Price:	100.0000000	Clearing Party:	
Trader:	jnathoo	Trade Factor:	1.000000000	Accrual Days:	0
Prepay Speed:	30	Principal to Pay:	4,000,000.00	Amount Due:	4,000,000.00
Prepay Type:	CPR	Modified Duration:		Effective DM:	180

Collateral Data

Cusip:	76112BCQ1	Stated Margin:	180.0000	Moody's Rating:	Baa1
ACA ID:	RAMP4RS9MII4	Coupon Type:	Floater	S&P Rating:	BBB+
ACA Analyst:		Original Prepay Speed:	30.0000	Fitch Rating:	NR
Legal Final Date:	9/25/2034				
Currency:	USD	Original Prepay Type:	CPR	Day Count:	N/A

Generate Excel Trade Ticket

Comment	Commented By	Date/Time
wrong counterparty	bjohnston	10/4/2004 10:21:57 AM
corrected counterparty	bjohnston	10/4/2004 10:27:47 AM

Systems
ABS External Information Sources & Tools

Credit Analysis

- Standard & Poor's
- Moody's Research
- Fitch
- Edgar
- Morningstar, Hoovers, Smartmoney
- Sector Research Reports

Collateral Data & Other

- INTEX
- Bloomberg
- Realpoint
- TREPP

Systems

Internal Information Sources and Tools

Portfolio Management and Surveillance

SARA – Surveillance and Reporting Analytics

- Internally developed collateral database monitoring systems

CDO Portfolio Evaluator

- Internal CDO compliance application

CDO Wizard

- Internal risk management and pricing application for CDO's

Cash Flow Server

- Internally developed application which generates projected cash flows