Declaration

Independence VII CDO, Ltd.

A CDO Managed by:

Declaration Management & Research LLC

March 2006

Merrill Lynch

Global Markets & Investment Banking Group

CONFIDENTIAL

Declaration

Important Notice

This Confidential Discussion Material (this “Material”) outlines certain characteristics of a proposed collateralized debt obligation transaction (“CDO”). This Material is presented solely for purposes of discussion to assist prospective investors in determining whether they have a preliminary interest in investing in a transaction with the general characteristics described herein. This transaction is in a structuring phase and there may be material changes to the structure, terms and assets prior to the offering of any of the CDO securities (the “Securities”).

AN INVESTMENT IN THE SECURITIES WILL NOT BE APPROPRIATE FOR ALL INVESTORS. STRUCTURED INVESTMENT PRODUCTS, LIKE THE OFFERED SECURITIES, ARE COMPLEX INSTRUMENTS, AND TYPICALLY INVOLVE A HIGH DEGREE OF RISK AND ARE INTENDED FOR SALE ONLY TO SOPHISTICATED INVESTORS WHO ARE CAPABLE OF UNDERSTANDING AND ASSUMING THE RISKS INVOLVED. ANY INVESTOR INTERESTED IN PURCHASING THE SECURITIES SHOULD CONDUCT ITS OWN INVESTIGATION AND ANALYSIS OF THE PRODUCT AND CONSULT ITS OWN PROFESSIONAL ADVISERS AS TO THE RISKS INVOLVED IN MAKING SUCH A PURCHASE.

AN INVESTMENT IN THE SECURITIES IS EXPECTED TO HAVE LIMITED LIQUIDITY. NO SECONDARY MARKET EXISTS FOR THE SECURITIES AND NONE MAY DEVELOP.

A SIGNIFICANT OR TOTAL LOSS OF INVESTMENT COULD OCCUR. PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

CERTAIN TAX FILINGS ARE REQUIRED TO BE MADE AS A RESULT OF YOUR INVESTMENT IN THESE SECURITIES. SEE TAX CONSIDERATIONS IN THIS MATERIAL AND IN THE OFFERING CIRCULAR.

This Material is not an offer to sell, or a solicitation of an offer to buy, the Securities or any other investment. Any such offering of the Securities will only be made pursuant to a final Offering Circular relating to the Securities (the “Offering Circular”), which will contain material information not contained herein and to which the prospective purchasers are directed. In the event of any such offering, this Material will be superceded, amended and supplemented in its entirety by the Offering Circular (including any preliminary version thereof).

None of the Issuer, the Co-Issuer, Declaration Management & Research LLC (the "Collateral Manager"), Merrill Lynch or any of their respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation as to past or future performance of the Issuer, the Co-Issuer or any other entity. Certain information herein is presented in summary form and is not complete. The information contained herein does not purport to contain all of the information that may be required to evaluate the Securities and any recipient is urged to read the Offering Circular relating to the Securities and should conduct its own independent analysis of the data referred to herein. The Collateral Manager and Merrill Lynch disclaim any and all liability relating to this information, including, without limitation, any express or implied representation or warranty for statements contained in and omissions from this information. Prospective investors should not construe this Material, the Offering Circular or any prior or subsequent communication as legal, accounting or tax advice. In addition, certain information contained herein has been provided by third parties and has not been independently verified by Merrill Lynch, and Merrill Lynch makes no representation or warranty, express or implied, as to the accuracy or the completeness of such information. Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.

This Material is confidential and proprietary to Merrill Lynch, Pierce, Fenner & Smith, Incorporated and its affiliates (collectively, “Merrill Lynch”) and, accordingly, except as described below, this Material is to be treated as strictly confidential and not disclosed directly or indirectly to any party other than the recipient and its advisers or used for any purpose other than to make a preliminary analysis of the Securities. Notwithstanding anything to the contrary, recipients of this Material and each employee, representative or other agent of any such recipient may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Issuer and all materials of any kind, including opinions or other tax analyses, that are provided to the recipients relating to such tax treatment and tax structure. This authorization to disclose such tax treatment and tax structure does not permit disclosure of information identifying the Issuer, the Collateral Manager or any other party or the pricing (except to the extent pricing is relevant to tax structure or tax treatment) of the CDO.

No person has been authorized to give any information or make any representations other than the information contained herein, as amended and superceded by the information contained in the Offering Circular relating to the eventual offering, if any, of the Securities. The Securities described herein, if offered, will not be registered with the U.S. Securities and Exchange Commission. This document may not be disseminated other than (1) within the United States of America, to investors that are (A)(i) "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") or (ii) “accredited investors” within the meaning of Rule 501(a) under the Securities Act and, in each case, who are also (B)(i) "qualified purchasers" within the meaning of Section 3(c)(7) of the U.S. Investment Company Act of 1940, as amended ("Investment Company Act") or (ii) "knowledgeable employees" with respect to the issuer of the Securities within the meaning of Rule 3c-5 promulgated under the Investment Company Act and (2) outside the United States of America, to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. The offer or sale of the Securities may be further restricted by law and the restrictions set forth in the Offering Circular. Potential investors are required to inform themselves of and to observe any legal restrictions on their involvement in the transaction. Additional net worth and/or sophistication requirements may be required of individual non-US persons. Application will be made to list the Notes on the Irish Stock Exchange Limited (“Irish Stock Exchange”). There can be no assurance that listing on the Irish Stock Exchange will be granted. Application will be made to list the Preference Shares on Channel Islands Stock Exchange (“CISX”). There can be no assurance that listing on the CISX will be granted.

None of the Issuer, the Co-Issuer, the Collateral Manager or Merrill Lynch expects to update or otherwise revise the information contained herein except by means of the Offering Circular. The securities and obligations of the Issuer and the Co-Issuer are not issued by, obligations of, or guaranteed by the Collateral Manager, Merrill Lynch, their respective affiliates, or other organizations or its investment professionals

(Continued)

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

Important Notice

Prior to making an investment decision, an investor should conduct such investigations as such investor deems necessary in order to determine if an investment in the Securities is appropriate and suitable for such investor and should consult such investor's own legal, accounting and tax advisers in order to determine the consequences of an investment in the Securities and to make an independent evaluation of such investment. With respect to institutional and private clients, Merrill Lynch is acting in the capacity of an arm's length contractual counterparty and distributor and not in the capacity of a corporate financial advisor or fiduciary.

Forward Looking Statements: Any hypothetical illustrations, forecasts and estimates contained in this Material are forward looking statements and are based upon assumptions. 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. No representation is made that any returns indicated will be achieved or that all assumptions have been considered or stated. Further, there is no assurance that the actual portfolio will be purchased and sold in a manner consistent with the assumptions. Accordingly, the hypothetical illustrations are only an estimate. Actual results will differ and may vary substantially from the hypothetical illustrations shown. In addition, 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 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 Securities, including call features and cash flow diversion events). Prospective investors should understand the assumptions used in any analysis and evaluate whether they are appropriate for their purposes. Prospective investors should further consider whether the behavior of these Securities should be tested based on assumptions different from those used to prepare the analyses. Neither the Collateral Manager or Merrill Lynch assume any duty to update any forward looking statement.

Note to Historical Data: Any historical investment results of any person or entity described in this Material are not indicative of the Issuer's future investment results. Such results are intended only to give potential investors information concerning the general experience of the relevant person or entity as a collateral manager or adviser and is not intended as a representation or warranty by Merrill Lynch, the Collateral Manager, or any other person or entity as to the actual composition of or performance of any future investments that would be made by the Issuer. The nature of, and risks associated with, the Issuer's future investments may differ substantially from (and will be subject to constraints that were not applicable to) those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as, or in a manner similar to, the past investments of any such persons or entities. For these reasons, there are limitations on the value of the hypothetical illustrations contained herein. This Material is provided to you on the understanding that as a sophisticated investor, you will understand and accept its inherent limitations, 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.

For UK investors only: This document is only addressed to and directed at persons in member states of the European Economic Area who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) ("Qualified Investors"). In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") and Qualified Investors falling within Article 49(2)(a) to (d) of the Order, and (ii) to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the European Economic Area other than the Untied Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons. In addition to being a Qualified Investor, an investor must also have at least U.S.$5 million (or equivalent) in net investments. This document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

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

Declaration

Independence VII CDO, Ltd.

Table of Contents

Declaration

1. Transaction Summary

Declaration

Transaction Summary

This transaction is in a structuring phase and there may be material changes to the structure, terms and assets prior to the offering of any securities.

- Independence VII CDO, Ltd. ("Independence VII" or the "Issuer") is a newly formed mezzanine collateralized debt obligation ("CDO") incorporated under the laws of the Cayman Islands that will be managed by Declaration Management & Research LLC ("Declaration" or the "Collateral Manager").
- Independence VII plans to issue $603.80 MM of securities (the "Offered Securities") backed by a portfolio of Asset-Backed Securities ("ABS"), Residential Mortgage Backed Securities ("RMBS")(1), Commercial Mortgage Backed Securities ("CMBS" and collectively with ABS and RMBS, "Structured Finance Securities"), a bucket of securities issued by other CDOs ("CDO Securities")(2) and Synthetic Securities(3) of which the reference obligation(s) are any of the foregoing.
- It is anticipated that the portfolio will consist of approximately [57]% Structured Finance Securities, [9]% CDO Securities, and [34]% Synthetic Securities.
- Structured Finance Securities have historically exhibited lower default rates, higher recovery upon default and better rating stability than comparably rated corporate bonds. Consequently, CDOs of which the underlying collateral consists primarily of Structured Finance Securities have historically outperformed other CDO types. (5)
- Independence VII will issue the following eight Classes of Offered Securities to be backed primarily by Structured Finance Securities, CDO Securities and Synthetic Securities(6):

Assets held by Independence VII

Structured Finance & CDO Securities,

and Synthetic Securities referencing Structured Finance & CDO Securities

Securities Issued by Independence VII

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

$30.0MM Class A-2
Aaa/AAA/AAA
Moody's/S&P/Fitch

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

$28.50MM Class C
Aa3/AA-/AA-
Moody's/S&P/Fitch

$15.0MM Class D
A3/A-/A-
Moody's/S&P/Fitch

24.9MM Class E
Baa2/BBB/BBB
Moody's/S&P/Fitch

$5.4MM Class F
Ba1/BB+/BB+
Moody's/S&P/Fitch

$19.4MM Preference Shares
Not Rated

NOTE: A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. Please see "Risk Factors — Credit Ratings."

(1) *RMBS includes: "RMBS – Prime" which are securities that have a weighted average FICO above 700; "RMBS – Midprime" which are securities that have a weighted average FICO between 625 and 700; and "RMBS – Subprime" which are securities that have a weighted average FICO below 625. A FICO score is a credit score, a method of determining the likelihood that credit users will pay their bills.*

(2) *These elements of underlying collateral already exist as investment vehicles. They should not be confused with the Offered Securities.*

(3) *Please see "Risk Factors – Synthetic Securities" for further information relating to the risks of investing in Synthetic Securities.*

(5) *Standard and Poor's, "Rating Transitions 2004: Global CDO Rating Trends Show Improved", January 21, 2005; " Rating Transitions 2004: U.S. CMBS Upgrades Overwhelm Downgrades Amid Improved Real Estate Fundamentals", January 13, 2005; " Rating Transitions 2004: U.S. ABS Rating Stability Improves Despite Adverse Behavior of Manufactured Housing Securities", January 20, 2005; "Rating Transitions 2004: U.S. RMBS Stellar Performance Continues to Set Records", January 21, 2005.*

(6) *Please see "Transaction Highlights – Structuring Assumptions" for a description of modeling assumptions.*

Declaration

2. Asset Class Selection

Declaration

A. Structured Finance Market Overview

Declaration

Structured Finance Securities Market Overview

Historical Defaults (1) (2) (5)

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

Historical default rates for Baa-Rated Structured Finance Securities →

RMBS 1-year cumulative impairment rate (1993 – 2004)	~0.08% (2)
CMBS 1-year cumulative impairment rate (1993 - 2004)	~0.00% (3)
ABS 1-year cumulative impairment rate (1993 – 2004)	~0.03% (4)
ABS CDO Security(6) impairment rate	not available

NOTE: The data discussed in this Overview relates only to historical investment performance. Past performance is no guarantee of future performance or success. See "Important Notice – Note to Historical Data".

For this page, and for the study referenced, "impairment" is defined as uncured payment defaults or securities downgraded to Ca or C. Impairment rates calculated using original ratings.

A default with respect to a Synthetic Security may be triggered even in situations where the corresponding cash asset has not experienced a payment default, e.g., in the case of counterparty default, "soft" credit events, and ratings downgrades. See "Risk Factors – Synthetic Securities."

(1) Source: Moody's Investors Service, "Default & Loss Rates of Structured Finance Securities: 1993-2004," July 2005.

(2) This number denotes the cumulative percentage of material impairments of Baa-rated RMBS from 1993-2004. The total number of RMBS ratings outstanding in 2004 across all rating categories is 5,750.

(3) This number denotes the cumulative percentage of material impairments of Baa-rated CMBS from 1993-2004. The total number of CMBS ratings outstanding in 2004 across all rating categories is 3,496.

(4) This number denotes the cumulative percentage of material impairments of Baa-rated ABS from 1993-2004. The total number of ABS ratings outstanding in 2004 across all rating categories is 9,993.

(5) Certain of the information contained has been obtained from third party sources and neither Merrill Lynch, the Collateral Manager nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential Investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. Past performance is not a guarantee or indication of future performance.

(6) ABS CDO Securities are a subset of CDO Securities, which are backed by Asset Backed Securities.

Structured Finance Securities Market Overview

Historical Recovery Rates of Structured Finance Securities [1][2][5]

- A Moody's study on recovery rates of RMBS/Home Equity Loans ("HEL") collateral has concluded the following:
  - Moody's estimates that the recovery rate for Baa-rated RMBS/HEL is approximately 65%.[1]
- Structured Finance Securities, including RMBS/HEL securities, may receive more substantial cashflow in respect of interest and principal after a default than comparable corporate securities.
- 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."[3]

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

(1) *Source: Moody's Investors Service, "Default & Loss Rates of Structured Finance Securities: 1993-2004," July 2005. Data is based on a limited number of defaults. Moody's records the number of defaulted RMBS/HEL Securities that originated as Baa as 93. Data for recovery rates is updated through January 2005, with defaults identified as of December 31, 2004. Information includes both matured and non-matured tranches.*

(2) *The data discussed in this Overview relates only to historical investment performance. Past performance is no guarantee of future performance or success. See "Important Notice – Note to Historical Data". Certain of the information contained herein has been obtained from third party sources and neither Merrill Lynch, the Collateral Manager nor any of their respective affiliates makes any representation or warranty, express or implied as to the accuracy or the completeness of such information. Certain of the information is presented in summary form. Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.*

(3) *Source: Moody's Investors Service, "Default & Loss Rates of Structured Finance Securities: 1993 - 2003", September 2004, p. 3. There can be no assurance that the future default rates of CMBS and non-HEL ABS will comport with Moody's assumptions.*

(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) *The recovery value with respect to a Synthetic Security referencing a Structured Finance Security or CDO Security is dependent on settlement mechanics set forth in the terms and conditions of such Synthetic Security which may be substantially different from the manner in which recovery is paid on the corresponding cash asset. The recovery value with respect to a Synthetic Security referencing a Structured Finance Security or CDO Security may therefore not be the same as the recovery value with respect to such Structured Finance Security or CDO Security. See "Risk Factors – Synthetic Securities."*

Note: Published data on ABS CDO recovery rates is not currently available.

Declaration

Structured Finance Securities 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 CDO Securities was 92.3%, which compares favorably to the 77.6% average of unchanged ratings of corporate bonds in each year for the same period.[1]

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%

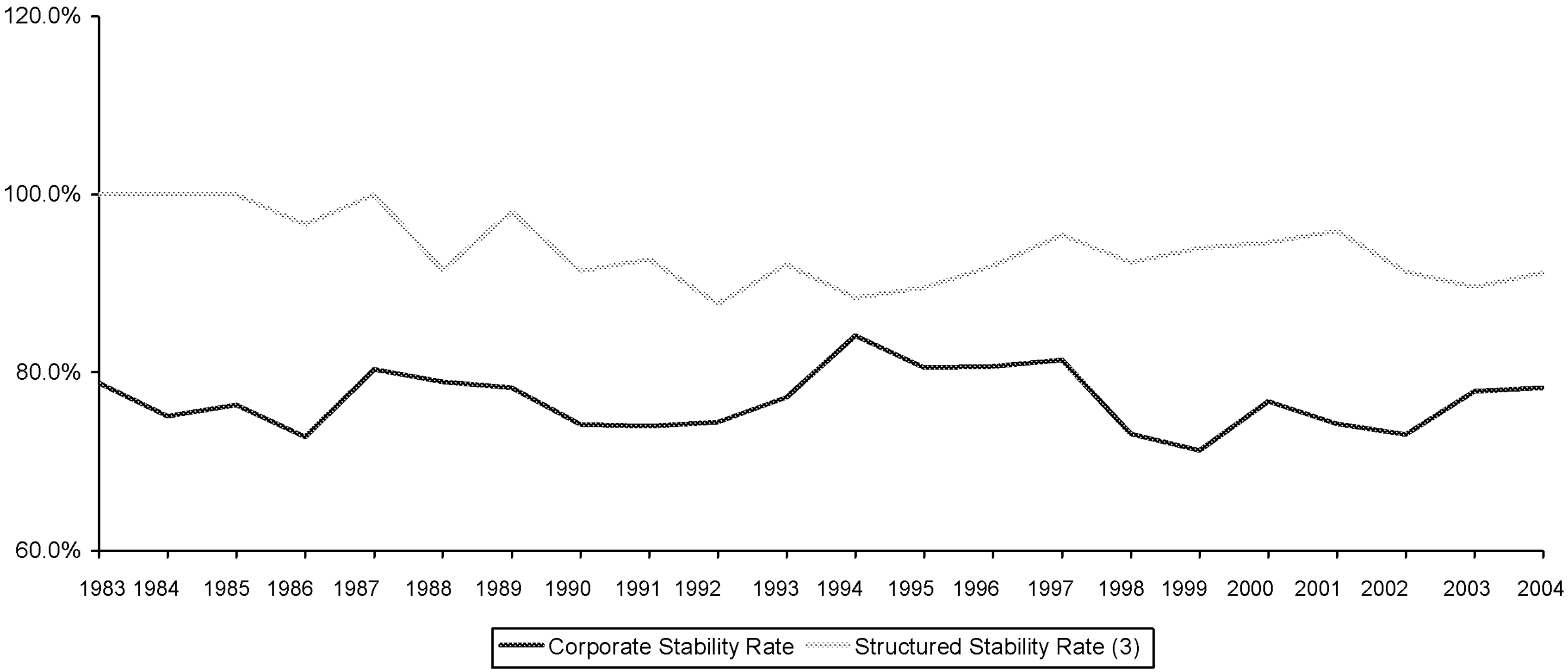
(1) *Source: Moody's Investors Service, "Structured Finance Rating Transitions: 1983-2004", February 2005.*

(2) *Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral. The data discussed in this Overview relates only to historical investment performance. Past performance is no guarantee of future performance or success.*

Structured Finance Securities Market Overview

Rating Stability (cont'd) (1) (2) (4)

Rating stability in Structured Finance Securities and CDO Securities has been higher than in corporate bonds every year from 1983 to 2004, and was more than 10 percentage points higher than in corporate bonds in 2004.

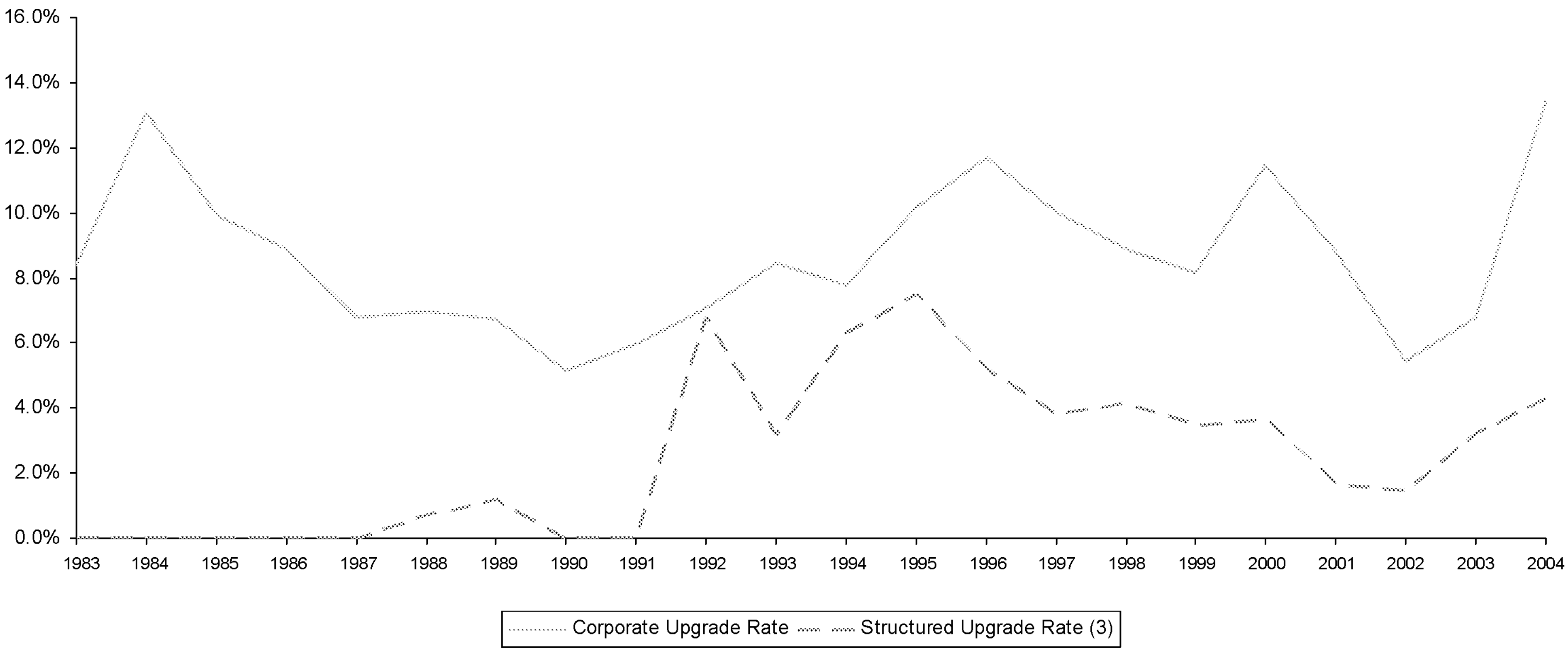


(1) Source: "*Structured Finance Rating Transitions: 1983-2004*", *Moody's Investors Service, February 2005.*
(2) *Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.*
(3) *"Structured Stability Rate" refers to the rating stability for Structured Finance Securities and CDO Securities.*
(4) *The data discussed in this Overview relates only to historical investment performance. Past performance is no guarantee of future performance or success.*

Declaration

Structured Finance Securities Market Overview

Ratings Volatility - Upgrade Rates (1) (2) (4)

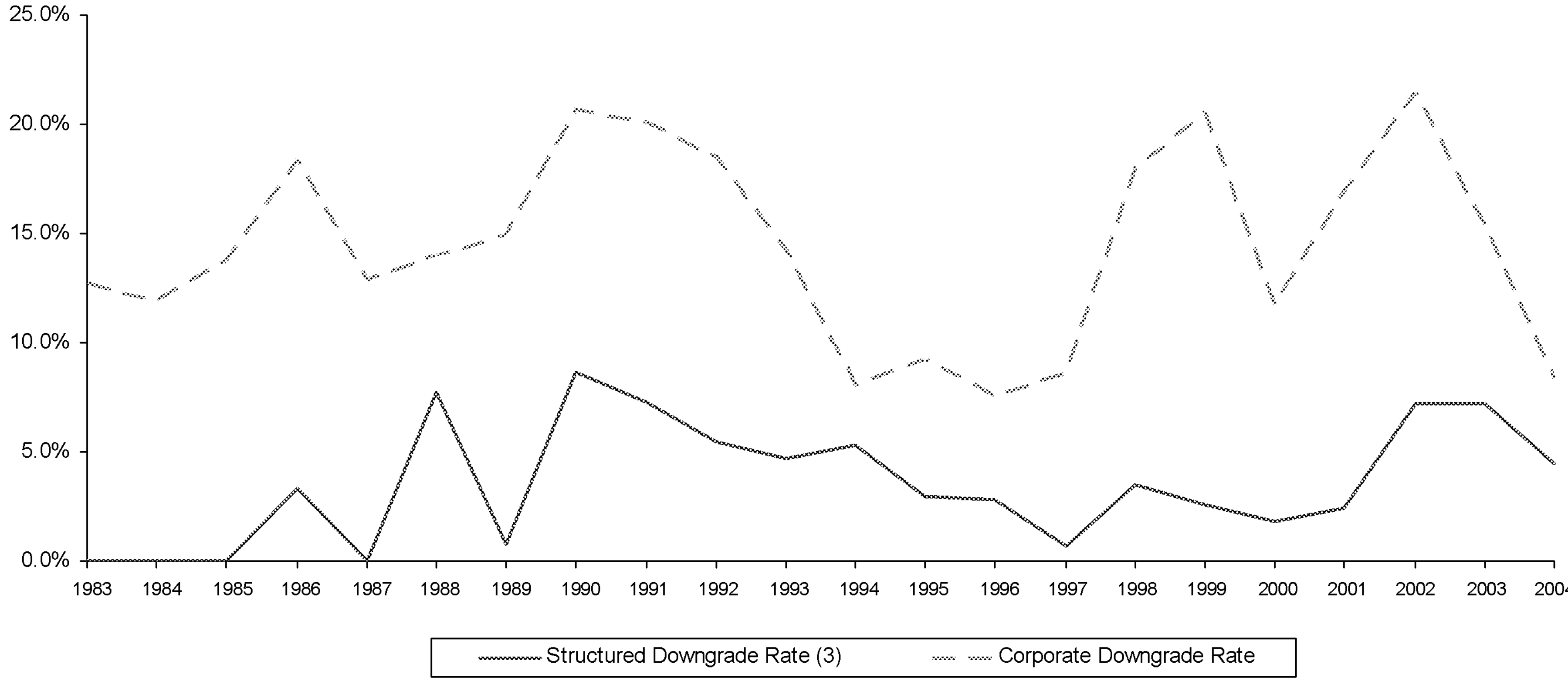


(1) Source: "*Structured Finance Rating Transitions: 1983-2004*", *Moody's Investors Service, February 2005.*
(2) *Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.*
(3) *"Structured Upgrade Rate" refers to the rating upgrades for Structured Finance Securities and CDO Securities.*
(4) *The data discussed in this Overview relates only to historical investment performance. Past performance is no guarantee of future performance or success.*

Declaration

Structured Finance Securities Market Overview

Ratings Volatility - Downgrade Rates (1) (2) (4)



(1) *Source: "Structured Finance Rating Transitions: 1983-2004", Moody's Investors Service, February 2005.*
(2) *Potential investors are urged to conduct their own investigation regarding the underlying asset class including reviewing any sources cited herein and obtaining additional information regarding the underlying collateral.*
(3) *"Structured Downgrade Rate" refers to the rating downgrades for Structured Finance Securities and CDO Securities.*
(4) *The data discussed in this Overview relates only to historical investment performance. Past performance is no guarantee of future performance or success.*

Declaration

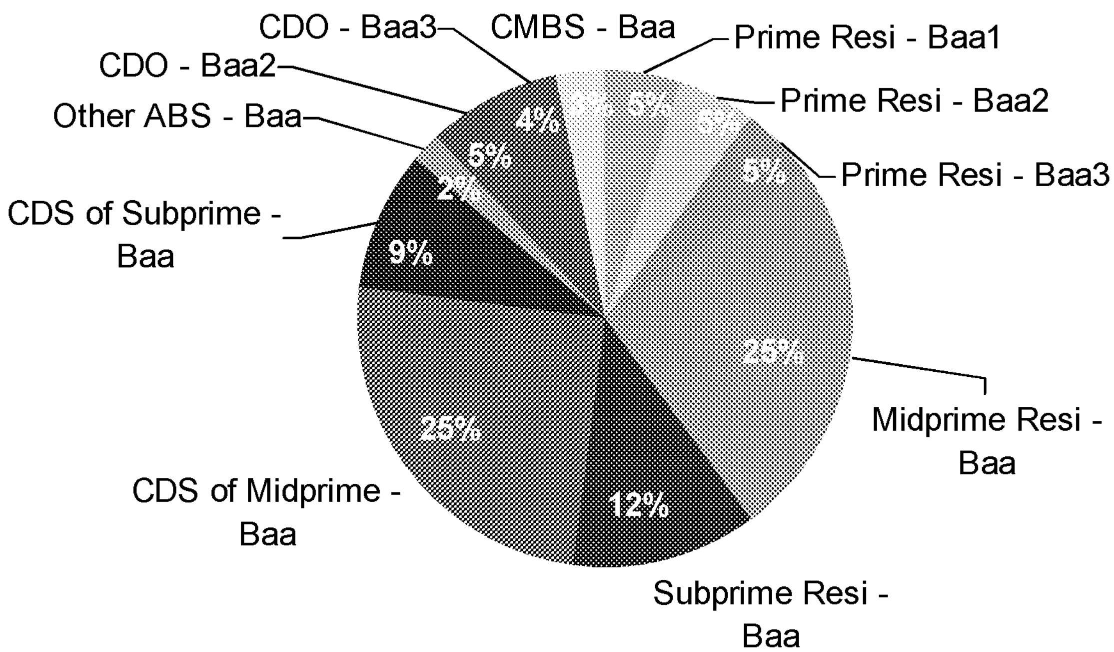
B. Independence VII Portfolio

Declaration

Independence VII Portfolio

Portfolio Composition for Illustrative Purposes

Representative Portfolio [1][2] - ***This transaction is in a structuring phase and there may be material changes to the structure, terms and assets prior to the offering of any securities.***



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

Up to [40]% of the portfolio may be composed of Synthetic Securities. Synthetic Securities may reference obligations in any of these asset classes but are expected to primarily reference ABS CDO Securities. Please see "Risk Factors – Synthetic Securities" for additional risks relating to Synthetic Securities.

(1) *The Representative Portfolio is a target portfolio assumed for modeling purposes, and therefore the actual portfolio of the Issuer is expected to vary from the Representative Portfolio. Depending on the availability and relative prices of the various different types of collateral, the actual portfolio may vary significantly from the Representative Portfolio. The actual portfolio on the ramp-up completion date may be materially different from the one presented above and the portfolio may change over time.*

(2) *It is expected that the assets held by Independence VII, which back the Offered Securities will consist of [Baa] rated (i) Asset Backed Securities including RMBS and (ii) ABS CDO Securities. It is anticipated that up to [9.0]% of the assets held by Independence VII may consist of such CDO Securities; provided that the securities issued by any one CDO may not exceed [1.0]% of the portfolio. As a result, potential investors in the Offered Securities must understand that if they hold debt or equity issued by other CDOs, their credit exposure to such CDO Securities will increase to the extent securities issued by those CDO Securities are also included in the assets of Independence VII.*

Declaration

3. Transaction Highlights

Declaration

Transaction Highlights(1)

Summary of Terms

Type ABS CDO Cash Flow Transaction — **Manager** Declaration Management & Research

Issuer Independence VII CDO, Ltd. — **Total Size** $603.80MM

	CLASS A1 NOTES (2)(9)	CLASS A2 NOTES (2)	CLASS B NOTES (2)	CLASS C NOTES (2)	CLASS D NOTES (2)	CLASS E NOTES (2)	CLASS F NOTES (2)	PREFERENCE SHARES (2)
Principal	$420,000,000	$30,600,000	$60,000,000	$28,500,000	$15,000,000	$24,900,000	$5,400,000	$19,400,000
% of Liabilities	69.6%	5.1%	9.9%	4.7%	2.5%	4.1%	0.9%	3.2%
Coupon Type	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Residual
Expected Rating	Aaa/AAA/AAA (7)	Aaa/AAA/AAA (7)	Aa2/AA/AA (7)	Aa3/AA-/AA- (7)	A3/A-/A- (7)	Baa2/BBB/BBB (7)	Ba1/BB+/BB+ (7)	N/R
Rating Agency	Moodys/S&P/Fitch	Moodys/S&P/Fitch	Moodys/S&P/Fitch	Moodys/S&P/Fitch	Moodys/S&P/Fitch	Moodys/S&P/Fitch	Moodys/S&P/Fitch	N/A
Average Life(6)	5.5 yrs	6.0 yrs	6.0 yrs	6.0 yrs	6.0 yrs	6.0 yrs	6.0 yrs	N/A
Stated Maturity	January 10, 2045	January 10, 2045	January 10, 2045	January 10, 2045	January 10, 2045	January 10, 2045	January 10, 2045	January 10, 2045
Denomination	$250,000 min $1,000 increments	$250,000 min $1,000 increments	$250,000 min $1,000 increments	$250,000 min $1,000 increments	$250,000 min $1,000 increments	$250,000 min $1,000 increments	$250,000 min $1,000 increments	[250,000 min (4) $1,000 increments

Collateral Profile(3)

- Maximum Single Servicer Concentration: 7.50%
- Maximum Correlation Score: <=0.21 (5)
- Maximum Weighted Average Rating Factor: 450 (Baa2/Baa3)(5)
- Maximum Fixed Collateral: 20%
- Maximum Single Issuer Concentration: 1.5% (10)
- Below Investment Grade Bucket: 4% (8)
- Maximum Weighted Average Life: 6.25 Years
- Minimum Weighted Average Coupon: 5.90% (6)
- Minimum Weighted Average Spread: 1.88% (6)

Tax Treatment *There are important tax considerations associated with owning the Preference Shares and investors should consult their personal tax advisers prior to making an investment. The Issuer is a "passive foreign investment corporation" and may be a "controlled foreign corporation". U.S. investors in the Preference Shares will need to file certain tax disclosure forms in order to avoid the imposition of penalties associated with an undisclosed investment in a foreign entity (see Tax Considerations).*

(1) All information 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 the Notes based upon market conditions and other factors applicable at that time. This material includes information that is computed based in part on hypothetical modeling assumptions. The modeling assumptions are mathematical simplifications designed to approximate the effects of the composition of the collateral and the interest rates at which the collateral accrues interest, and none of such assumptions are meant to be historical descriptions nor predictors of future performance. Please see "Transaction Highlights – Structuring Assumptions" for further information on the Modeling Assumptions.

(2) Payments on the Notes and Preference Shares will be made quarterly.

(3) Please see "Transaction Highlights – Structuring Assumptions" for a description of modeling assumptions.

(4) Some limited exceptions may be permitted on the Closing Date to the minimum denomination requirements for the Preference Shares.

(5) Moody's Weighted Average Rating Factor and maximum Asset Correlation are included as structuring assumptions. However it is expected that the actual Moody's Weighted Average Rating Factor test and Asset Correlation test will be established at different combinations of values which may be satisfied together for both tests to be passed.

(6) This transaction is in a structuring phase and there may be material changes to the structure, terms and assets prior to the offering of any securities. Following the ramp up period, the expected initial weighted average coupon will be approximately [6.00]% and the expected initial weighted average spread will be approximately [1.95]%.

(7) A credit rating is not a recommendation to buy, hold or sell securities and is subject to revision at any time. Please see "Risk Factors – Credit Ratings."

(8) For rating migrations purposes only provided up to [2%] may be below investment grade.

(9) A portion of the Class A-1 Notes may be drawn after the Closing Date but prior to the Ramp-Up Completion Date.

(10) A limited number of exceptions will be allowed up to 1.5%; the remainder will be at 1.0% maximum concentration

Declaration

Transaction Highlights

Structuring Assumptions(1)

Collateral Assumptions

Minimum Weighted Average Fixed Coupon[2]	5.90%
Minimum Weighted Average Floating Spread[2]	1.88%
Maximum Weighted Average Life	6.25 yrs
Principal Amount	$600MM
Maximum Correlation Score[1]	<=0.21
Maximum Weighted Average Rating Factor[1]	450 (Baa2/Baa3)

Coverage Tests

	O/C Tests[3]	Initial O/C[4]	IC Tests[3]	Initial IC[4]
Class A/B/C [5]	104.80%	111.30%	110.00%	133.03%
Class D [6]	103.78%	108.28%	108.00%	128.46%
Class E [7]	101.63%	103.63%	105.00%	119.48%
Class F [8]	101.17%	102.67%		
Sequential Pay Ratio [9]	125.91%	133.16%		

The modeling assumptions are mathematical simplifications designed to approximate the effects of the composition of the collateral and the interest rates at which the collateral accrues interest, and none of such assumptions are meant to be historical descriptions or predictors of future performance. Because they are simplifying assumptions, they have certain inherent limitations, are not conclusive or exhaustive, and alternative modeling techniques may produce significantly different results. Furthermore, because the collateral purchased by the Issuer may be different from the model portfolio assumed during the structuring phase, the actual characteristics of the investment portfolio may be different from those assumed; even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated. No representation or warranty is made by Merrill Lynch or Declaration as to the reasonableness of such assumptions or as to any other financial information contained in such models (including the assumptions on which they are based). Because this transaction is in a structuring phase, there may be material changes to the structure, terms and assets prior to the offering of any securities. ***This information is provided to you on the understanding that, as a sophisticated investor, you will understand and accept its inherent limitations, will review each assumption carefully and make your own determination as to its accuracy or reasonableness, 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. An investor should rely only upon the final offering materials for the definitive conditions and terms of the offering.***

(1) *The expected Moody's Weighted Average Rating Factor and maximum Asset Correlation are included as structuring assumptions. However it is expected that the actual Moody's Weighted Average Rating Factor test and Asset Correlation test will be established at different combinations of values which may be satisfied together for both tests to be passed.*

(2) *The expected initial weighted average coupon will be approximately [6.00]%. The expected initial weighted average spread will be approximately [1.95]%.*

(3) *Test Level represents the levels that must be passed in order not to cause accelerated redemption of the Notes (or to cause the deal to permanently pay principal on the notes sequentially in the case of a breach of the **"Sequential Pay Ratio"**).*

(4) *The initial coverage tests ratios have been computed using the modeling assumptions specified herein and the structure of the transaction, including portfolio assumptions, currently contemplated. Because this transaction is in a structuring phase and there may be material changes to the structure, terms and assets prior to the offering of any securities, there can be no assurance that the actual coverage test ratios on the closing date will be the same as those indicated herein.*

(5) *In the event that a Class A/B/C Coverage Test is breached in the interest waterfall, interest will be used first to pay down the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes and finally the Class C Notes. In the event that a Class A/B/C Coverage Test is breached in the principal waterfall, principal will be used to pay down the most senior outstanding Class of Notes.*

(6) *In the event that a Class D Coverage Test is breached in the interest waterfall, interest will be used first to pay down the Class D Notes, then the Class C Notes, then the Class B Notes, then the Class A-2 Notes and finally the Class A-1 Notes. In the event that a Class D Coverage Test is breached in the principal waterfall, principal will be used to pay down the most senior outstanding Class of Notes.*

(7) *In the event that a Class E Coverage Test is breached in the interest waterfall, interest will be used first to pay down the Class E Notes, then the Class D Notes, then the Class C Notes, then the Class B Notes, then the Class A-2 Notes and finally the Class A-1 Notes. In the event that a Class E Coverage Test is breached in the principal waterfall, principal will be used to pay down the most senior outstanding Class of Notes.*

(8) *In the event that the Class F O/C Test is breached in the interest waterfall, interest will be used to pay down the Class F Notes until fully paid.*

(9) ***"Sequential Pay Ratio"** is calculated as the number (expressed as a percentage) calculated by dividing the net outstanding portfolio collateral balance by the sum of (i) the aggregate outstanding amount of the Class A-1 Notes including any Commitments plus (ii) the aggregate outstanding amount of the Class A-2 Notes. If the ratio drops below the test level on a measurement date, the Notes will be paid down on a sequential basis on the related distribution date and all subsequent distribution dates.*

Declaration

Transaction Highlights

Structuring Assumptions(1)

Benchmark Assumptions(2)

First Period LIBOR	[4.91]%
10-Year Swap	[4.87]%

Reinvestment Period

[3] Years; subject to manager discretion

Timing

Closing Date	March 28, 2006
Payment Dates	January, April, July and October of each year beginning on July 2006
Mandatory Auction Call	8 Years
Non-Call Period	5 Years

Ongoing Annual Fees and Expenses (3)

Senior Management Fee	20.0 bps
Subordinate Management Fee	20.0 bps
Trustee Fees	2.0 bps
Administrative Expenses	3.0 bps
Administrative Fee Cap	$350,000 yr
Closing Fees and Expenses	On the Closing Date, a portion of the gross proceeds from the offering will be used to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the underlying collateral, structuring and placement agency fees payable to Merrill Lynch and legal, accounting, rating agency and other fees. Closing fees and expenses reduce the amount of the gross proceeds of the offering available to purchase collateral and, therefore, the return to purchasers of the Offered Securities. Rating agencies will consider the amount of net proceeds available to purchase collateral in determining any ratings assigned by them to the Offered Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.

(1) *Please see footnote (1) on page 18.*
(2) *As of [1/09/06]*
(3) *Calculated on the outstanding collateral balance as of the first day of each payment period.*

Declaration

Transaction Highlights

Structuring Assumptions (1)(2)

Structuring Assumptions

- **Distribution Dates** - Distribution Dates occur quarterly.
- **Ramp-Up** - It is assumed that 70% of the Collateral Debt Securities will be purchased at closing and the deal will be fully ramped within [90] days after closing.
- **Mandatory Auction Call**: 8 years.
- **Minimum Preferred Share IRR for Successful Auction Call:** 12% for years 8-10 and 5% thereafter.
- **Default and Recoveries** - Defaults are stated as constant immediate annual rates and are applied on the outstanding collateral balance at the beginning of each quarterly Distribution Date. Defaulted assets are assumed to be sold immediately after default at a price equal to the applicable recovery rate.
- **Interest Rates** - Floating rate collateral accrues interest at the 3M LIBOR curve plus its applicable spreads. The Notes accrue interest at the 3M LIBOR curve plus applicable spreads. The 3M LIBOR curve is the forward curve as of [1]/[9]/[2006].(3)
- **Intraperiod Reinvestment** - Principal and interest proceeds are assumed to be reinvested and accrue interest at the 3M LIBOR curve minus 0.10%.
- **Reinvestment Period –** 3 years; subject to manager discretion.(4)
- **Reset Frequency** - CDO assets and liabilities are assumed to reset based on the same quarterly LIBOR rates.
- **First Period Interest Calculation** –First period interest is assumed to be 97.25% of a full period's assumed interest.
- **Yield Calculations** – Preference Shares (and Preference Shares combo) yields are calculated using annual compounding.

(1) *Please see footnote (1) on page 18.*
(2) *Please see "Important Notice – Forward Looking Statements" for important information on hypothetical illustrations, forecasts, and estimates.*
(3) *Forward LIBOR curve refers to the curve containing the expected rates that investors in the market are willing to pay to borrow money for fixed periods (e.g., 3 months) at some given point in the future.*
(4) *Please see "Risk Factors – Reinvestment Risk" for important information on reinvestment.*

Declaration

Transaction Highlights(1)

Priority of Payments

Interest Proceeds Payment Waterfall

1. Interest Proceeds
2. Taxes Paid by the Co-Issuers
3. Senior Expenses (capped)
4. Senior Collateral Management Fee
5. Senior Hedge Counterparty Payments
6. Class A-1, A-2, B and C Note Interest in sequential order
7. Class A/B/C Coverage Test Payments
8. Class D Note Interest
9. Class D Coverage Test Payments
10. Class E Note Interest
11. Class E Coverage Test Payments
12. Class D and E Note Deferred Interest
13. Class F Note Interest
14. Class F Overcollateralization Test Payments
15. Class F Note Deferred Interest
16. Subordinated Expenses, Subordinated Management Fee, Hedge Payments
17. Preference Share Payments

Principal Proceeds Payment Waterfall

1. Principal Proceeds
2. Payment to Cover Certain Interest Proceeds Shortfall
3. Class A/B/C, Class D and Class E Coverage Test Payments to Class A-1, Class A-2, Class B then Class C Notes
4. After the reinvestment period: If during a Sequential Pay Period(6), payment of the principal on the Class A-1, A-2, B and C Notes in sequential order until fully paid. If during a Pro Rata Pay Period(5), payment of the Principal on the Class A-1, A-2, B and Class C notes on a pro rata basis up to the Class A/B/C Pro Rata Principal Payment Cap.(2)
5. Class D Note Interest current and deferred, Class D and Class E Coverage Test Payments to Class D Notes
6. After the reinvestment period: Class D Note Principal until fully paid if during a Sequential Pay Period. If during a Pro Rata Pay Period, payment up to the Class D Pro Rata Principal Payment Cap.(3)
7. Class E Note Interest current and deferred, Class E Coverage Payments to Class E Notes
8. After the reinvestment period: Class E Note Principal until fully paid if during a Sequential Pay Period. If during a Pro Rata Pay Period, payment up to the Class E Pro Rata Principal Payment Cap.(4)
9. Class F Note Interest current and deferred
10. After the reinvestment period, Class F Note Principal until fully paid
11. During the reinvestment period, reinvest in collateral
12. Subordinated Expenses, Subordinated Management Fee, Hedge Payments
13. Preference Share 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.*
(2) *The **"Class A/B/C Pro Rata Principal Payment"** Cap is the amount of Principal Proceeds available for distribution multiplied by the sum of the outstanding balances of the Class A1, Class A2, Class B and Class C Notes divided by the sum of the outstanding balances of the Class A-1, Class A-2, Class B, Class C Notes, Class D, Class E and Class F Notes.*
(3) *The **"Class D Pro Rata Principal Payment"** Cap is the amount of Principal Proceeds available for distribution multiplied by the sum of the outstanding balances of the Class D Notes divided by the sum of the outstanding balances of the Class D, Class E and Class F Notes.*
(4) *The **"Class E Pro Rata Principal Payment"** Cap is the amount of Principal Proceeds available for distribution multiplied by the sum of the outstanding balances of the Class E Notes divided by the sum of the outstanding balances of the Class E and Class F Notes.*
(5) ***"Pro Rata Pay Period"** means any Distribution Date for which the Determination Date does not occur during a Sequential Pay Period.*
(6) ***"Sequential Pay Period"** means the period commencing on the earliest to occur of (a) any determination date on which the Issuer does not satisfy any applicable Coverage Test, (b) the first date on which the aggregate principal balance of all pledged collateral debt securities held by the Issuer is less than [50]% of the Net Outstanding Portfolio Collateral Balance on the Ramp-Up Completion Date, (c) the first measurement date on which the Sequential Pay Test is not satisfied, (d) the first determination date on which an Event of Default has occurred and is continuing and (e) the first date on which the rating of any Outstanding Class of Notes by Standard & Poor's has been reduced or withdrawn, provided, that if a Sequential Pay Period has commenced as a result of a breach of a Coverage Test, such Sequential Pay Period shall cease on the first measurement date that such breach of a Coverage Test has been cured, and a Pro Rata Period shall commence on the immediately succeeding distribution date, but if such Sequential Pay Period has commenced for any other reason, a Pro Rata Pay Period may not commence on any future date.*

Declaration

Transaction Highlights

Break Even Default Rates (1)(2)(3)(4)(5)

BREAKEVEN DEFAULT RATES	Based on a Break in Yield		Based on 0% Yield	
Class Description (Moody's/S&P/Fitch)	**Annual Default Rate**	**Cumulative Gross Defaults**	**Annual Default Rate**	**Cumulative Gross Defaults**
Class A1 First Priority Delayed Draw Senior Floating Rate Notes (Aaa/AAA/AAA)	19.8%	64.5%	43.2%	85.6%
Class A2 Second Priority Senior Floating Rate Notes (Aaa/AAA/AAA)	15.8%	56.3%	18.3%	61.6%
Class B Third Priority Senior Floating Rate Notes (Aa2/AA/AA)	9.1%	39.6%	13.4%	50.7%
Class C Fourth Priority Senior Floating Rate Notes (Aa3/AA-/AA-)	7.1%	32.6%	8.9%	38.6%
Class D Fifth Priority Mezzanine Floating Rate Notes (A3/A-/A-)	5.7%	27.1%	6.3%	29.7%
Class E Sixth Priority Mezzanine Floating Rate Notes (Baa2/BBB/BBB)	1.4%	8.1%	4.4%	22.0%
Class F Seventh Priority Mezzanine Floating Rate Notes (Ba1/BB+/BB+)	1.2%	7.8%	3.2%	16.8%

(1) ***"Break in yield"*** *is the default rate at which the first dollar loss in principal occurs, and* ***"0% Yield"*** *is the default rate at which total cashflow received does not equal initial investment. Please see Appendix A for a description of Collateral Cashflow Formulas.*

(2) *Assuming annual constant defaults beginning immediately, [60]% recovery rate, forward LIBOR. Please see "Transaction Details – Structuring Assumptions" for a description of modeling assumptions. Assumes a weighted average spread of [1.95]% and weighted average coupon of [6.00]%.*

(3) *All the information shown on this page is for illustrative purposes only. The transaction is at a structuring phase, and the actual structure of the transaction and characteristics of the offered securities may differ from those presented herein.*

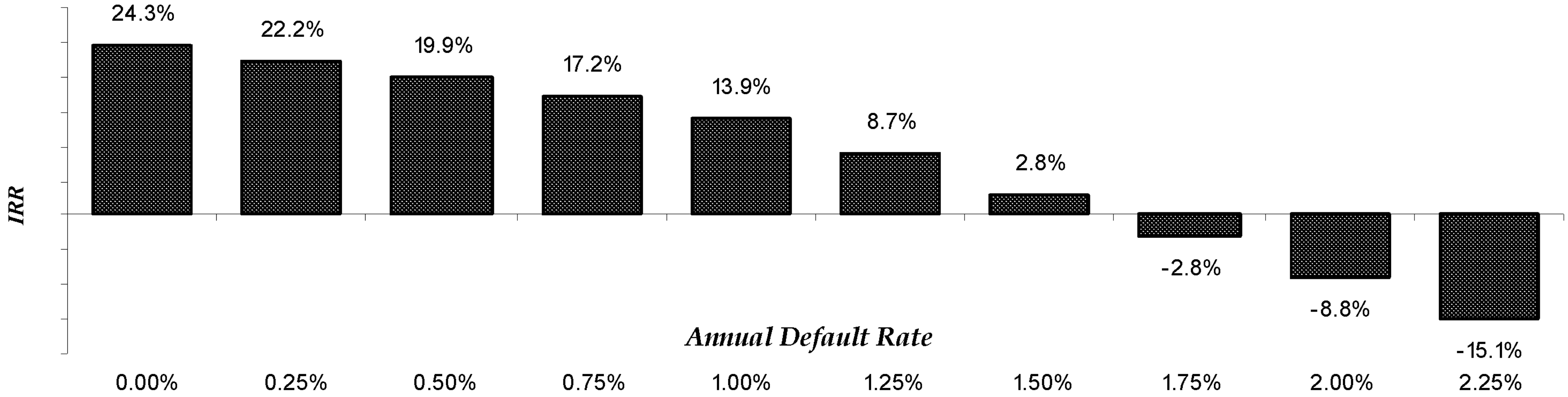
(4) *Defaults are stated as constant immediate annual rates and are applied on the outstanding collateral balance at the beginning of each quarterly Distribution Date. Defaulted assets are assumed to be sold immediately at a price equal to the applicable recovery rate.*

(5) *Future market and economic conditions are impossible to predict. Future market or historical economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Independence VII CDO. For these reasons, there are limitations on the value of this or any hypothetical illustration. This information is not intended to be either an express or implied guaranty of investment performance. See "Important Notice" at the beginning of the Material.*

Declaration

Transaction Highlights

Preference Share IRR(1)



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

The modeling assumptions are mathematical simplifications designed to approximate the effects of the composition of the collateral and the interest rates at which the collateral accrues interest, and none of such assumptions are meant to be historical descriptions or predictors of future performance. Because they are simplifying assumptions, they have certain inherent limitations, are not conclusive or exhaustive, and alternative modeling techniques may produce significantly different results. Furthermore, because the collateral purchased by the Issuer may be different from the model portfolio assumed during the structuring phase, the actual characteristics of the investment portfolio may be different from those assumed; even if they are the same on a weighted average basis, the use of individual securities in the actual CDO structure may substantially change the results indicated. No representation or warranty is made by Merrill Lynch or Declaration as to the reasonableness of such assumptions or as to any other financial information contained in such models (including the assumptions on which they are based). Because this transaction is in a structuring phase, there may be material changes to the structure, terms and assets prior to the offering of any securities. **This information is provided to you on the understanding that, as a sophisticated investor, you will understand and accept its inherent limitations, will review each assumption carefully and make your own determination as to its accuracy or reasonableness, 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. An investor should rely only upon the final offering materials for the definitive conditions and terms of the offering.**

Future market and economic conditions are impossible to predict. Future market or historical economic conditions that materially differ from those on which the assumptions are based may have a negative impact on the performance of Independence VII CDO. For these reasons, there are limitations on the value of this or any hypothetical illustration. This information is not intended to be either an express or implied guaranty of investment performance. See "Important Notice" at the beginning of the Material.

(1) *Please see prior pages for description of structuring assumptions. Annual defaults begin immediately at "Stated Default Rate." Recovery Assumptions: 60%. Assumes an initial weighted average spread of [1.95]% and an initial weighted average coupon of [6.00]%. Defaults are applied on the outstanding collateral balance at the beginning of each quarterly Distribution Date. Defaulted assets are assumed to be sold immediately after default at a price equal to the applicable recovery rate.*

Declaration

Transaction Highlights

Key Dates

Beginning of Warehouse Ramp Up	June 2005
Debt Pricing	March 07, 2006
Funding/Settlement Date[1]	March 28, 2006
Ramp Up Completion Date[1]	June 2006
End of Reinvestment Period	April 2009
End of Non-Call Period	April 2011
First Auction Call Date	April 2014
Stated Maturity	January 10, 2045

(1) *At least 70% of the Collateral Portfolio is expected to be purchased or identified by the settlement date.*

Declaration

Transaction Highlights
Form of Offering

Form of Offering

Form of Securities	Rated Notes: DTC/Euroclear Preference Shares: Physical/Euroclear
U.S. Investors	Rated Notes: Qualified Purchasers/QIBs Preference Shares: Qualified Purchasers /Accredited Investors or QIBs
SEC Registration Exemption	4(2) / Rule 144A / Regulation S
Investment Company Act Exemption	3(c)(7)
Domicile/Form of Issuer	Cayman Islands Exempted Company
Domicile/Form of Co-Issuer	Delaware Corporation
Listed	[Irish Stock Exchange] (Notes Only) [Channel Islands Stock Exchange] (Preference Shares Only)[1]

(1) *There can be no assurance that the listing of the Notes on the [Irish Stock Exchange] or the listing of the Preference Shares on the [Channel Islands Stock Exchange] will be granted.*

Declaration

4. Risk Factors

Risk Factors

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

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

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

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 Preference Shares. Preference shares are a first loss, leveraged credit position. An investor is exposed to a portfolio of diversified credits, but only a portion of those credits need to default for an investor in preference shares to lose 100% of its original investment. An investor's loss is limited to its original investment. Debt investors effectively loan money to preference share investors. Criteria governing a CDO will divert cashflow from preference shares to pay down debt in the event that certain over-collateralization and interest coverage tests are triggered. Collateral deterioration causes for these ratios to be triggered. This may cut off of equity cashflow to preference share investors and cause potential phantom income tax issues. Because of the leverage, spread movement in the underlying collateral portfolio will have exaggerated mark-to-market effect on preference share investors. Preference shares are a purchase of a stream of cashflows that include amortization of principal prior to the stated maturity of the CDO notes. 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.

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

Subordination of Each Class of Subordinate Notes. No payment of interest on any class of Notes will be made until all accrued and unpaid interest on the Notes of each class that is senior to such class and that remain outstanding has been paid in full. 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 the failure on any payment date to make payment in respect of interest on the Class D, E or Class F 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 F Notes, third by the holders of the Class E Notes, fourth by the holders of the Class D Notes, fifth by the holders of the Class C Notes, sixth by the holders of the Class B Notes, and seventh, by the holders of the Class A Notes.

The risk factors presented above are subject in their entirety to the complete presentation of risk factors in the final Offering Circular to be provided.

Risk Factors

Ongoing Commitments – the Class A-1 Notes. The Class A-1 Notes may not be fully drawn at closing. If this is the case, it is anticipated that holders of the Class A-1 Notes will be obligated during a commitment period expected to run from the closing date to [4] months following the closing date, subject to compliance by the Issuer with certain borrowing conditions, to advance funds to the Issuer until the aggregate principal amount advanced under the Class A-1 Notes equals the aggregate amount of commitments to make such advances.

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

It is currently anticipated that 70% of the collateral will have been purchased by the closing date. The Issuer expects that it will have purchased 100% of the collateral by the ramp-up completion date, and that the collateral will satisfy the coverage tests. However, there can be no assurance that this will occur. Failure to satisfy the coverage tests may result in repayment or redemption of all or a portion of the Notes (in accordance with the priority of payments to be specified in the Offering Circular).

Collateral Consisting of CDO Securities. The assets held by Independence VII which back the Offered Securities consist of [Baa] (i) Asset Backed Securities including RMBS and (ii) ABS CDO Securities, or Synthetic Securities related to any of the foregoing. It is anticipated that up to [10]% of the assets held by Independence VII may consist of such CDO Securities or Synthetic Securities related thereto; provided that the securities issued by any one CDO may not exceed [1.0]% of the portfolio. As a result, purchasers of the Offered Securities must understand that if they hold debt or equity issued by other CDOs, their credit exposure to such CDO Securities will increase to the extent securities issued by those CDOs are also included in the assets of the portfolio.

Synthetic Securities. A portion of the Collateral Debt Securities may consist of Synthetic Securities the reference obligations of which are Asset-Backed Securities, RMBS, CMBS, CDO Securities or a specified pool of financial assets (including credit default swaps), either static or revolving, that by their terms convert into cash within a finite period of time. Synthetic Securities may consist of credit default swaps, total return swaps, and credit linked notes or a combination of the foregoing. Investments in such types of assets through the purchase of (or entry into) Synthetic Securities present risks in addition to those resulting from direct purchases of such Collateral Debt Securities. Each Synthetic Security which is funded at the time it is entered into by the Issuer ("Defeased Synthetic Securities") will require the Issuer to purchase collateral ("Synthetic Security Collateral") to secure its obligations thereunder, which will expose the Issuer to the risk of loss on the Synthetic Security Collateral. With respect to Synthetic Securities, the Issuer will usually have a contractual relationship only with the counterparty of such Synthetic Security, and not the reference obligor(s) on the reference obligation(s). The Issuer generally will have no right directly to enforce compliance by the reference obligor(s) with the terms of either the reference obligation(s) or any rights of set off against the reference obligor(s), nor will the Issuer generally have any voting or other consensual rights of ownership with respect to the reference obligation(s). The Issuer will not directly benefit from any collateral supporting the reference obligation(s) and will not have the benefit of the remedies that would normally be available to a holder of such reference obligation(s). In addition, in the event of the insolvency of the counterparty, the Issuer will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the reference obligation(s). Consequently, the Issuer will be subject to the credit risk of the Synthetic Security Counterparty as well as that of the reference obligor(s). As a result, concentrations of Synthetic Securities entered into with any one Synthetic Security Counterparty will subject the Offered Securities to an additional degree of risk with respect to defaults by such Synthetic Security Counterparty as well as by the reference obligor(s). One or more affiliates of Merrill Lynch may act as counterparty with respect to all or a portion of the Synthetic Securities purchased by the Issuer, which relationship may create certain conflicts of interest. Furthermore, such affiliates may, in their role as Synthetic Security Counterparty to all or a portion of the Synthetic Securities, make determinations regarding reference obligations and approve or designate the Synthetic Security Collateral to be purchased by the Issuer.

The risk factors presented above are subject in their entirety to the complete presentation of risk factors in the final Offering Circular to be provided.

Risk Factors

Average Life of the Notes. The average life of each class of Notes 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.

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 [5] years after the closing date at the election of a majority in interest of the holders of the Preference Shares. It is anticipated that if a coverage test is breached, interest proceeds and then principal proceeds will be applied to pay principal on the Notes until the applicable coverage test is met. In the case of a breach of the interest coverage test, it is anticipated that principal on the Notes will be paid in order of seniority, beginning with the Class A1 Notes. In addition, it is anticipated that if the Notes have not been paid in full prior to [March 2014] an auction of the collateral will be conducted and subject to satisfaction of certain conditions, will be sold and used to redeem the Notes. The Notes may also be subject to early redemption on the occurrence of certain adverse tax events to be described in the Offering Circular.

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

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

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

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

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

The risk factors presented above are subject in their entirety to the complete presentation of risk factors in the final Offering Circular to be provided.

Risk Factors

Conflicts of Interest Involving Merrill Lynch. Certain of the Collateral Debt Securities acquired or to be acquired by the Issuer will consist of obligations of issuers or obligors, or obligations sponsored or serviced by companies, for which Merrill Lynch or an affiliate thereof has acted as underwriter, agent, placement agent or dealer or for which Merrill Lynch or an affiliate thereof has acted as lender or provided other commercial or investment banking services. Merrill Lynch or an affiliate thereof may structure issuers of Collateral Debt Securities and arrange to place such Collateral Debt Securities with the Issuer. Merrill Lynch or an affiliate thereof may also act as counterparty with respect to one or more Synthetic Securities. In its role as counterparty with respect to Synthetic Securities, Merrill Lynch or one of more of its affiliates may manage a pool of Reference Obligations with respect to the Synthetic Securities and make determinations regarding those Reference Obligations. In addition, an affiliate of Merrill Lynch may act as Hedge Counterparty under one or more Hedge Agreements with the Issuer. Moreover, Merrill Lynch or its affiliates may from time to time enter into derivative transactions with third parties with respect to the Offered Securities or with respect to Collateral Debt Securities acquired by the Issuer, and Merrill Lynch or its affiliates may, in connection therewith, acquire (or establish long, short or derivative financial positions with respect to) Offered Securities, Collateral Debt Securities or one or more portfolios of financial assets similar to the portfolio of Collateral Debt Securities acquired by (or intended to be acquired by) the Issuer. Merrill Lynch, its employees, affiliates and employees of affiliates will receive compensation in connection with the structuring of the CDO and/or distribution of the Securities. These activities may create certain conflicts of interest, and there can be no assurance that the terms on which the Issuer entered into (or enters into) any of the foregoing transactions with Merrill Lynch (or an affiliate thereof) were or are the most favorable terms available in the market at the time from other potential counterparties.

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

Significant Fees Reduce Proceeds Available for Purchase of Collateral Debt Securities. On the Closing Date, the Co-Issuers will use a portion of the gross proceeds from the offering to pay various fees and expenses, including expenses, fees and commissions incurred in connection with the acquisition of the Collateral, structuring and placement agency fees payable to Merrill Lynch, and legal, accounting, rating agency and other fees. Closing fees and expenses reduce the amount of the gross proceeds of the offering available to purchase Collateral and, therefore, the return to purchasers of the Securities. Rating agencies will consider the amount of net proceeds available to purchase Collateral in determining any ratings assigned by them to the Securities. For information about the amount of such fees and expenses, please review the final Offering Circular before investing.

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 Material. 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.

The risk factors presented above are subject in their entirety to the complete presentation of risk factors in the final Offering Circular to be provided.

Risk Factors

Auction Call Redemption. If the Notes have not been redeemed in full prior to the Payment Date occurring in [March 2014], then an auction of the Collateral Debt Securities will be conducted and, provided that certain conditions are satisfied, in particular with respect to the sufficiency of anticipated proceeds from the proposed sale of the Collateral Debt Securities, the Collateral Debt Securities will be sold and the Notes will be redeemed on such Payment Date. If such conditions are not satisfied and the auction is not successfully conducted on such Payment Date, the Collateral Manager will conduct auctions on each Payment Date thereafter, however the Notes will not be redeemed until the conditions are satisfied.

Application of Principal Proceeds. Subject to the reinvestment criteria and the priority of payments described in the Offering Circular, principal proceeds and sale proceeds from the assets are expected to be reinvested into additional assets by the Collateral Manager during the reinvestment period and afterwards will be used to pay principal on the Notes. The timing of receipts of principal on the Collateral Debt Securities with respect to such substitute Collateral Debt Securities will depend on, among other factors, the rate of prepayments on Collateral Debt Securities which may be influenced by the level of interest rates and economic conditions. The Co-Issuers cannot predict the actual rate of principal payments that will be experienced on the Collateral Debt Securities.

Relation to Prior Investment Results. Any prior investment results of any person or entity described herein will not be indicative of the Issuer's future investment results. Such results are intended only to give potential investors information concerning the general experience of the relevant person or entity as an asset manager or adviser and is not intended as a representation or warranty by Merrill Lynch or any other person or entity as to the actual composition of or performance of any future investments that would be made by the Issuer. The nature of, and risks associated with, the Issuer's future investments may differ substantially from (and will be subject to constraints that were not applicable to) those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as, or in a manner similar to, the past investments of any such persons or entities.

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.

Mandatory Repayment of the Notes. If any coverage test applicable to a class of Notes is not met, first, interest proceeds, then, to the extent that the application of interest proceeds is insufficient, principal proceeds, then, to the extent that the application of interest proceeds and principal proceeds is insufficient, uninvested proceeds, will be used to the extent that funds are available in accordance with the priority of payments and to the extent necessary to restore the relevant coverage tests to certain minimum required levels, will be used to repay principal of one or more classes of Notes.

In addition, if the Issuer is unable to obtain confirmation of the ratings of the Notes from each of the rating agencies rating the Notes by the 30th day following the ramp-up completion date, first uninvested proceeds, then, to the extent that the application of uninvested proceeds is insufficient, interest proceeds, then, to the extent that the application of uninvested proceeds and interest proceeds is insufficient, principal proceeds, will be applied on the first distribution date following such 30th day to redeem first, the Class A-1 Notes, then the Class A-2 Notes, then the Class B Notes, then, the Class C Notes, then, the Class D Notes, then, the Class E Notes, then, the Class F Notes, in each case to the extent necessary to obtain such rating confirmation from each of the rating agencies. (Continued)

The risk factors presented above are subject in their entirety to the complete presentation of risk factors in the final Offering Circular to be provided.

Risk Factors

Either of the foregoing could result in an elimination, deferral or reduction in the payments in respect of interest or commitment fee or the principal repayments made to the holders of one or more classes of Notes, and the Preference Shares, that are subordinate to any other outstanding class of Notes, which could adversely impact the returns of such holders.

The Collateral Manager may, on any distribution date occurring prior to the last day of the reinvestment period, in its sole discretion elect to apply all or a portion of the principal proceeds available for reinvestment to the payment of principal of the Notes in accordance with the priority of payments, which application may result in additional payments of principal on the Notes.

Currency Risk. The Notes will be denominated in U.S. dollars. The eligibility criteria will permit collateral debt securities (and, with respect to synthetic securities, reference obligations) to be denominated in U.S. dollars, in sterling or in euros which, in each case, are not convertible into or payable in any other currency. Notwithstanding the fact each such collateral debt security will be required, upon acquisition thereof by the Issuer, to have an associated hedge agreement and will include currency protection provisions with respect to scheduled payments thereunder, losses may be incurred due to fluctuations in the U.S. dollar/sterling or U.S. dollar/euro exchange rates in the event of (i) a default under any such hedge agreement, (ii) certain termination events under any such hedge agreement or (iii) any increase in the scheduled coupon or interest payment in respect of such security related to such hedge agreement.

Interest Rate Risk. The Notes will bear interest at a rate based on three-month LIBOR. Certain of the collateral debt securities included in the collateral will include obligations that bear interest at fixed rates. Accordingly, the Notes are subject to interest rate risk to the extent that there is an interest rate mismatch between the floating rate at which interest accrues on the Notes and the rates at which interest accrues on fixed rate securities included in the collateral. A portion of such interest rate mismatch will be mitigated by one or more hedge agreements which the Issuer will enter into in connection with the transaction. There can be no assurance that the collateral debt securities and eligible investments, together with such hedge agreements, will in all circumstances generate sufficient interest proceeds to make timely payments of interest on the Notes.

Reinvestment Risk. There can be no assurance that in the event that loans included in the collateral are prepaid, spreads prevailing at such time will be at the same levels as they were on the closing date with respect to the Offered Securities. To the extent the proceeds of such prepayments are reinvested into lower spread assets, the interest available to pay amounts due on the Offered Securities may be reduced.

Credit Ratings. Credit ratings of debt securities (including any securities issued by the Issuer or any collateral debt security comprising the investment portfolio of the Issuer) represent the rating agencies' opinions regarding their 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, and therefore, credit ratings do not fully reflect all risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, and the credit quality of a debt security may be worse than a rating indicates.

Taxation. Taxation of the Offered Securities is complex. Clients should consult their tax advisors. See "Tax Considerations."

Tax Treatment of Notes. Noteholders will be required to treat the Notes as debt for U.S. Federal income tax purposes. It is possible that the treatment of the Class E and Class F Notes as debt of the Issuer could be challenged by the U.S. Internal Revenue Service. If such a challenge were successful, the Class E and Class F Notes would be treated as equity securities of the Issuer, and the U.S. Federal income tax consequences of investing in the Class E and Class F Notes would be similar to the consequences of investing in the Preferred Shares without electing to treat the Issuer as a qualified electing fund.

U.S. Taxes on the Issuer. The Issuer expects to conduct its affairs so that its income generally will not be subject to tax on a net income basis in the United States or any other jurisdiction. The Issuer also expects that payments received under the Collateral Debt Securities generally will not be subject to withholding tax imposed by the United States or other countries that may be treated as the source of the payments. The Issuer's income might become subject to net income or withholding taxes in the United States or other jurisdictions, however, due to unanticipated circumstances, change in law, contrary positions of relevant tax authorities or other causes. The imposition of unanticipated net income or withholding taxes on the Issuer could materially impair the Issuer's ability to make payments on the Securities.

The risk factors presented above are subject in their entirety to the complete presentation of risk factors in the final Offering Circular to be provided.

Declaration

5. Tax Considerations

Tax Considerations

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

THE STATEMENTS ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID U.S. FEDERAL TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN OFFERED SECURITIES UNDER THE LAWS OF THE CAYMAN ISLANDS, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION

U.S. Federal Income Tax Considerations

- Noteholders will be required to treat the Notes as debt for U.S. tax purposes. It is expected that the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes [will], and the Class E [should], be treated as debt for U.S. Federal income tax purposes.(1)
- The Issuer will treat all interest (including interest on accrued but unpaid interest) due on the Class D, Class E and Class F Notes as original issue discount ("OID") because it will not determine whether the likelihood of interest being deferred on those Notes is remote.(2) A U.S. holder of a Note issued with OID generally must accrue OID into income on a constant yield to maturity basis without regard to cash payments actually received from the Issuer which could result in such U.S. holder owing tax on "phantom income."
- U.S. holders of Preference Shares (and Notes that are treated as equity interests for U.S. Federal income tax purposes) will be treated as owning an interest in a "passive foreign investment company" ("PFIC") and are strongly urged to consult their tax advisors on the advisability and availability of electing to treat the Issuer as a "Qualifying Electing Fund" ("QEF").
  - Upon such election, a U.S. holder will be required to currently include its pro rata share of the Issuer's ordinary income and net capital gains without regard to the cash distributions actually received from the Issuer which could result in a U.S. holder owing tax on significant amounts of "phantom income."
  - In the absence of such an election, a U.S. holder will be subject to potentially significant tax charges on gains on disposition (or constructive disposition) and certain "excess" distributions (generally, distributions in any year exceeding 125% of the average amount received during the three preceding years or, if shorter, the U.S. holder's holding period). Gains on dispositions therefore do not benefit from the preferential rate on capital gains. QEF inclusions or distributions from a PFIC are not eligible for either (i) the dividends received deduction or (ii) the preferential rate on dividend income.
- The Issuer could also be a controlled foreign corporation if U.S. persons that each own at least 10% of the Issuer's voting equity (for U.S. Federal income tax purposes) together own more than 50% of the Issuer's equity. If the Issuer were a CFC, a U.S. holder that owned 10% or more of the Issuer's Preference Shares (i) would not be subject to the PFIC rules described above and (ii) would recognize each year as ordinary income its pro rata share of the Issuer's "subpart F income" (which in the case of the Issuer would be its net earnings) without regard to the cash distributions actually received from the Issuer which could result in such 10% U.S. holder owing tax on significant amounts of "phantom income." Subpart F inclusions are generally not eligible for either (i) the dividends received deduction or (ii) the preferential rate on dividend income.
- U.S. investors that acquire Preference Shares (and/or Notes that are treated as equity interests for U.S. Federal income tax purposes) at issuance will be required to file a Form 926 or a similar form with the U.S. Internal Revenue Service. In the event that such U.S. holder fails to file any such required form, such U.S. holder could be subject to a penalty (generally up to a maximum of $100,000), computed in the amount of 10% of the fair market value of the securities purchased by such U.S. holder. Certain tax shelter reporting requirements may also apply to such a U.S. holder.
- A U.S. tax-exempt investor should generally not be subject to unrelated business income tax ("UBIT") as a result of an investment in the Notes or the Preference Shares unless such investor either (i) holds more than 50% of the Preference Shares and also holds Notes or (ii) holds Notes or Preference Shares that are debt-financed property.
- The Issuer expects to conduct its affairs so that it will not be treated as engaged in a trade or business within the United States for U.S. Federal income tax purposes, and accordingly, expects that its income will not be subject to U.S. Federal income tax on a net income basis. The Issuer also expects that interest income from Collateral Debt Securities generally will not be subject to withholding tax imposed by the United States or other countries.
- If the assets of the Issuer were insufficient to repay the U.S. holders of the Preference Shares or Notes in full, such holders would generally recognize a capital loss on their investment for U.S. Federal income tax purposes. In addition, a U.S. holder may be limited in its ability to use such capital losses to offset income previously recognized with respect to the Preference Shares or Notes.

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

(1) *This expected treatment is based on transaction numbers as of the date of this document and may be subject to change.*
(2) *As of the closing date, based on final transaction numbers, it is possible that other Note classes could be issued with OID.*

Declaration

6. The Collateral Manager

All information in this section 6 has been supplied herein by Declaration Management & Research unless otherwise indicated. Information is as of 1/2006 unless otherwise indicated.

Declaration

A. Introduction to Declaration Management & Research LLC

Declaration

Declaration Management & Research LLC

- Founded in 1989 – SEC Registered Investment Adviser
- Wholly owned subsidiary of John Hancock Financial Services and Manulife Financial Corporation
- $13 Billion in assets under management (1)
- 40 Employees – 29 Investment Professionals
- Core team has worked together for 15 years
- Access & experience in major spread sectors:
  - Structured credit & credit derivatives
  - Corporate credit
  - MBS
- Intensive focus on risk-controlled performance

Manulife Financial

C$359.9 billion in Assets Under Management (2)

100% Owned

John Hancock

100% Owned

Declaration

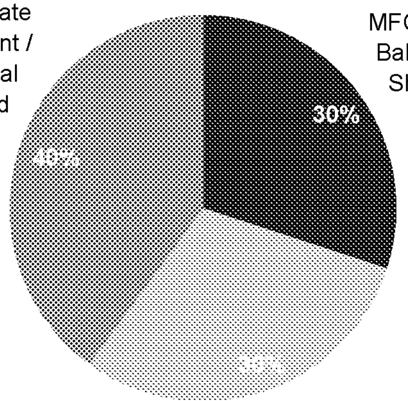
(1) As of 12/31/05. DMR AUM includes fixed income assets managed by Declaration employees on behalf of an advisory affiliate.
(2) As of 9/30/05.

Declaration

Assets Under Management

$13.5 billion as of 12/31/2005

By Client/Asset Type (1)



Separate Account / Mutual Fund

ABS/MBS/CMBS	65%
Corporates	20%
Government	13%
Cash	2%

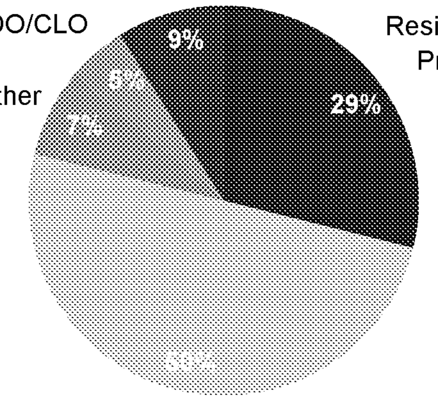
MFC/JHF Balance Sheet

ABS/MBS/CMBS	58%
Corporates	15%
Government	20%
Cash	7%

CDO

ABS/MBS/CMBS	95%
Corporates	2%
Cash	3%

By ABS Sub-Sector (2)



(1) As of 12/31/05. Includes fixed income assets managed by Declaration employees on behalf of an advisory affiliate.
(2) Pie slice labels may not correspond to performance composite classifications. "Other" ABS includes (but is not limited to) the following sectors: Credit Card, Auto, Student Loan, SBL, Equipment Lease, Aircraft Lease, etc.

Declaration Management & Research LLC[1]

William P. Callan, Jr.
President

CDO Management CDO Investment

Michael E. Stern, EVP
Director of Structured Products*

Portfolio Management

- Larry Guillard, III — Vice President
- Matthew J. Roberts — Sr. Investment Officer
- Jessica Melnicove — Associate
- Kristen Contrera — Associate

ABS Investment

Wade M. Walters, SVP
Director of ABS Trading & Research*

Portfolio Management

- Jennifer Bowers, CFA — Vice President
- Matthew F. Klinger — Sr. Investment Officer

Credit Research

- James P. Doyle, CFA — Vice President
- Mary Ann Martuccio — Sr. Research Officer
- Brad Murphy — Research Officer
- Jason Costa — Research Associate

CMBS Investment

James E. Shallcross, EVP
Director of Portfolio Management*

Portfolio Management

- Peter M. Farley, CFA — 1st Vice President
- Will Paolino — Vice President
- Demetri Dimopoulos — Sr. Investment Officer
- Andrea Gourdine — Research Associate

Quantitative CDO Investment

Risk Management & Quantitative Research

- Robert Rush, PhD — Director of Quantitative Research
- Habib Shahsamand, CFA — Sr. Quantitative Officer

Corporate Credit Investment

Credit Research

- Vivek Agrawal — Vice President
- Dimiter Christof, CFA — Vice President
- Bradley Lutz, CFA — Vice President
- Florence Sirleaf — Vice President

Compliance

- Carole Parker — Chief Compliance Officer, Vice President

***ABS CDO Investment Committee**

ABS CDO Investment Opportunity Team

(1) As of 1/06. There is no guarantee that specific individuals will continue to be employed by Declaration.

Declaration

B. Structured Finance Management Expertise

Declaration

Structured Finance Experience

Declaration has completed over $6.9 billion[1] in actively managed structured finance transactions

Date	Name	Type[3]	Amount	Assets
May 1999	Declaration Funding I [2]	Market Value CDO	$1,000 MM	High Quality ABS & MBS
December 2000	Independence I CDO	Cash Flow CDO	$300.5 MM	Subordinate ABS
July 2001	Independence II CDO	Cash Flow CDO	$403.2 MM	Subordinate ABS
November 2001	Epoch 2001-4 [2]	Synthetic CDO	$400 MM	Credit Default Swaps
May 2002	Independence III CDO	Cash Flow CDO	$300 MM	Subordinate ABS
December 2002	DESIGN I, II, III [2]	Synthetic CDO/Credit Linked Note	$1,200 MM	Credit Default Swaps
June 2003	Independence IV CDO	Cash Flow CDO	$400 MM	Subordinate ABS
February 2004	Independence V CDO	Cash Flow CDO	$602 MM	Subordinate ABS
October 2004	Straits Global CDO	Cash Flow CDO	$402 MM	Subordinate ABS
April 2005	Kent Funding I CDO	Cash Flow CDO	$1,000 MM	High Quality ABS & MBS
June 2005	Independence VI CDO	Cash Flow CDO	$956 MM	Subordinate ABS

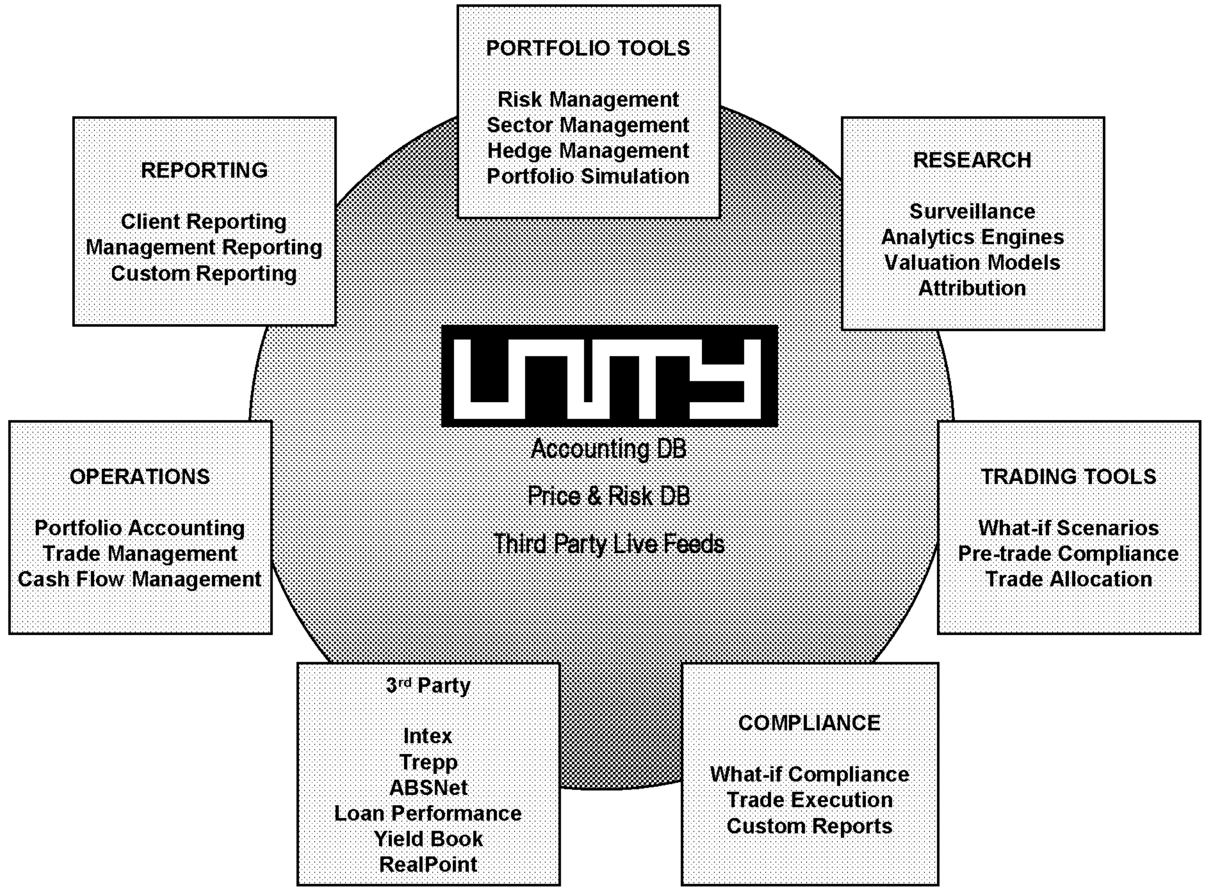
(1) *As of 12/31/05.*
(2) *Declaration Funding I matured 5/04. The risk tranche of EPOCH 2001-4 was sold on behalf of an investor as of 3/04. The risk tranches of Design I, II, & III were sold on behalf of an investor as of 8/04.*
(3) *In a market value CDO, investors are exposed to changes in the market value of an actively traded portfolio of underlying collateral; typically, if the market value of the collateral drops below a specified threshhold, the collateral is sold and applied to repay outstanding liabilities. In a cash flow CDO, exposure to market value risk is limited and investors are exposed primarily to the long-term credit risk of the underlying collateral; typically, the underlying collateral is held to maturity, unless the entire portfolio can be sold for a purchase price sufficient to pay all outstanding liabilities.*

Declaration

Portfolio & Risk Management Systems

UNITY

Unity integrates all of Declaration's front, middle and back office systems, databases and research tools with what Declaration believes to be one of the best third party systems and components available in a proprietary format.



CDO Risk Management

Declaration

❖ Unity displays customized views of daily calculated CDO risk information.

Risk Manager

03/31/2005

02Y GCD IN1 IN2 IN3 IN4 IN5 INT KF1 KFW SG1 SPP SPS WH5 WH6

Sorting
Load Default
Load Custom
B

as of 03/31/2005

CUSIP	Description	Mdy	SP	Sector	Pay Freq	Yield	WAL	Open Price	Price	CType	Margin	Fix Cpn	Org Face	Current Face	CDS Face
Index															
[redacted]		361	BBB			4.18	3.45	99.0381	100.4268		2.175	6.045		$581,961,966	575,910,273
Detail															
[redacted]		Baa2	BBB	ABS_CBO_Baa	Quarterly	0.00	4.80	100.0000	100.0000	Flt	2.700		$2,500,000	$2,232,143	2,232,143
[redacted]		Baa2	BBB+	ABS_CBO_Baa	Monthly	0.00	1.74	101.2692	98.4844	Fix		6.580	$1,000,000	$1,000,000	1,000,000
[redacted]		Baa3	BBB	ABS_CBO_Baa	Monthly	0.00	8.14	101.3322	98.2969	Fix		7.280	$4,000,000	$4,000,000	4,000,000
[redacted]		Baa3	BBB	ABS_CBO_Baa	Monthly	0.00	7.77	96.4611	99.7900	Fix		6.525	$3,626,000	$3,626,000	3,626,000
[redacted]		Baa3	BBB-	ABS_CBO_Baa	Quarterly	0.00	9.23	90.0000	85.9500	Fix		6.650	$9,000,000	$9,000,000	9,000,000
[redacted]		Baa3	BBB-	ABS_CBO_Baa	Quarterly	0.00	6.99	99.2800	97.0000	Fix		6.970	$9,000,000	$9,000,000	9,000,000
[redacted]		562	BBB-			0.00	7.59	96.4407	94.3676		2.700	6.633		$28,858,143	28,858,143
[redacted]		Baa3	BBB	ABS-auto	Monthly	2.61	0.97	100.0000	100.1041	Flt	0.950		$4,500,000	$3,472,114	3,472,114
[redacted]		610	BBB			2.61	0.97	100.0000	100.1041		0.950			$3,472,114	3,472,114
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.10	4.26	100.0029	99.2379	Fix		5.817	$6,000,000	$6,000,000	6,000,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	3.19	1.01	100.0000	100.4584	Flt	2.100		$4,000,000	$4,000,000	4,000,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.41	11.08	91.6055	94.6327	Fix		5.424	$1,827,000	$1,827,000	1,827,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.10	9.42	93.4558	93.9800	Fix		5.283	$4,685,000	$4,685,000	4,685,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	3.20	1.85	100.0000	100.4471	Flt	1.850		$1,500,000	$1,500,000	1,500,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.25	9.25	95.3320	96.6328	Fix		5.486	$3,000,000	$3,000,000	3,000,000
[redacted]		Baa2	BBB-	ABS-CMBS_Conduit	Monthly	5.76	3.76	107.4676	104.3237	Fix		7.077	$5,000,000	$5,000,000	5,000,000
[redacted]		Baa2	BBB	ABS-CMBS_Conduit	Monthly	3.56	6.92	99.3218	100.0000	Flt	2.050		$2,000,000	$2,000,000	2,000,000
[redacted]		Baa2	BBB	ABS-CMBS_Conduit	Monthly	3.49	2.03	100.0000	100.5561	Flt	1.850		$3,000,000	$2,873,653	2,873,653
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.27	8.68	99.0326	96.2304	Fix		5.556	$2,000,000	$2,000,000	2,000,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.26	8.51	96.5673	93.5742	Fix		5.075	$1,472,000	$1,472,000	1,472,000
[redacted]		A2	A	ABS-CMBS_Conduit	Monthly	4.19	1.74	100.5000	99.3720	Flt	1.950		$3,500,000	$3,500,000	3,500,000
[redacted]		Baa3	BBB-	ABS-CMBS_Conduit	Monthly	6.22	8.76	97.7571	94.6318	Fix		5.032	$3,000,000	$3,000,000	3,000,000
[redacted]		506	BBB-			5.24	5.51	99.1197	98.4761		1.976	5.747		$40,857,653	40,857,653
[redacted]		Baa1	BBB+	ABS-CMBS_Large_Loan	Monthly	3.35	1.76	99.5880	101.4882	Flt	1.900		$2,000,000	$2,000,000	2,000,000
[redacted]		Baa3	BBB-	ABS-CMBS_Large_Loan	Monthly	4.31	1.79	99.0686	100.0570	Flt	2.000		$6,000,000	$6,000,000	6,000,000
[redacted]		523	BBB-			4.07	1.78	99.1984	100.4148		1.975			$8,000,000	8,000,000
[redacted]		A2	A	ABS-credit_card	Monthly	3.52	2.10	100.0000	100.4800	Flt	0.900		$7,000,000	$7,000,000	7,000,000
[redacted]		Baa2	BBB	ABS-credit_card	Monthly	3.75	4.26	100.0000	100.8110	Flt	1.000		$1,500,000	$1,500,000	1,500,000
[redacted]		162	A-			3.58	2.48	100.0000	100.5384		0.918			$8,500,000	8,500,000
[redacted]		Baa3	BBB	ABS-entertainment	Monthly	99.00	2.98	99.9940	98.5938	Fix		6.680	$1,600,000	$1,351,764	1,351,764
[redacted]		Baa2	BBB	ABS-entertainment	Monthly	6.00	2.44	99.9997	100.4754	Fix		6.015	$1,000,000	$733,435	733,435
[redacted]		522	BBB			66.29	2.79	99.9960	99.2556			6.446		$2,085,199	2,085,199
[redacted]		Baa2	BBB	ABS-Non_Sub-Prime_HEL	Monthly	3.44	2.20	100.0000	100.0612	Flt	1.700		$2,000,000	$2,000,000	2,000,000
[redacted]		Aa2	AA	ABS-Non_Sub-Prime_HEL	Monthly	3.59	3.20	100.0000	99.9986	Flt	1.750		$2,285,000	$2,285,000	2,285,000
[redacted]		Baa2	BBB+	ABS-Non_Sub-Prime_HEL	Monthly	3.62	2.57	100.0000	100.8264	Flt	1.900		$3,125,000	$3,125,000	3,125,000
[redacted]		Baa2	BBB+	ABS-Non_Sub-Prime_HEL	Monthly	4.76	2.55	100.0000	100.0005	Flt	1.700		$2,025,000	$2,025,000	2,025,000

Save Custom

Declaration

CDO Compliance

- All trades, including hypothetical, are entered real time into Unity.
- Effects on transaction covenants are compared with the trustee before execution.
- All cash flows are tied to trustee/custodian reports by Declaration's operations staff.

Account Compliance

12/31/2004

02Y DF2 GCD IN1 IN2 IN3 IN4 IN5 INT SG1 SPP SPS WH5 WH6

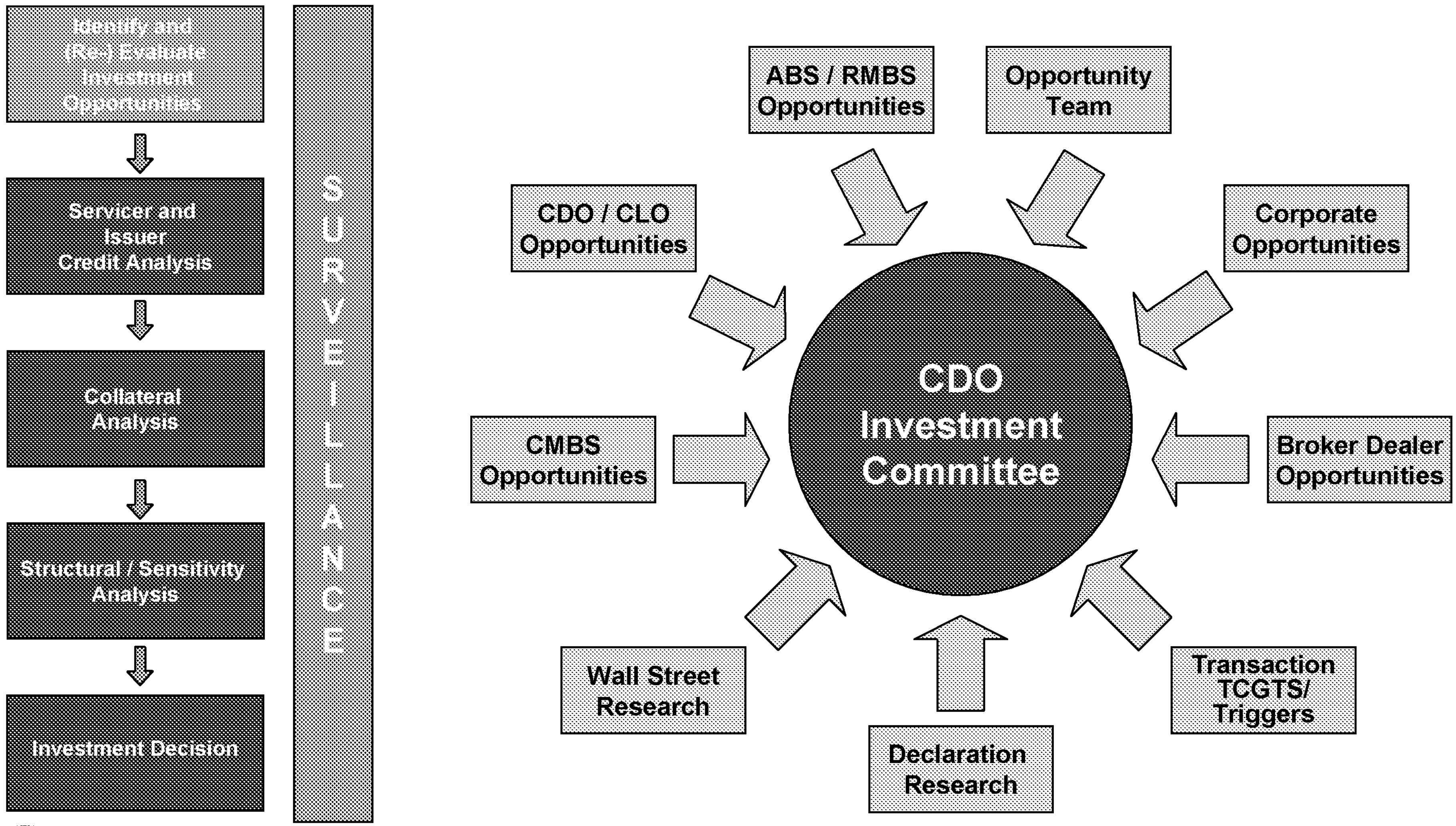
Compliance for [redacted] **12/31/2004**

Account	Result	Limit	Crit. Val.	Rule Text
Balances				
[redacted]	$591,789,284			01.1 a. Net Outstanding Portfolio Collateral Balance
	587,167,168.9			01.1 b. Aggregate Remaining Prin. Bal of CDS
	$813,729			01.1 c. Balance of Principal Collection Account
	$0			01.1 d. Balance of Interest Collection Account
	$0			01.1 e. Balance of Expense Account
	$388,441,460			01.1 f. Class A1 Note Balance
	$84,000,000			01.1 g. Class A2A Note Balance
	$15,000,000			01.1 h. Class A2B Note Balance
	$55,400,000			01.1 i. Class B Note Balance
	$25,415,576			01.1 j. Class C Note Balance
osition				
	227			01.1 a. Number of Assets
	57			01.2 a. Number of Fixed Issues
	$149,082,027			01.2 b. Col. Bal. of Fixed Issues
	25.19%			01.2 c. Pct. of Fixed Issues
	170			01.3 a. Number of Floating Issues
	$438,085,142			01.3 b. Col. Bal. of Floating Issues
	74.03%			01.3 c. Pct. of Floating Issues
try				
	32,756,301.14			12.2 (17) a. Backed by Obligations of Non-U.S. Obligors
	5.54%	<=	20.00%	12.2 (17) a. Backed by Obligations of Non-U.S. Obligors (Agg. Prin. Bal. <= 20%of NOPCB)
	0.00			12.2 (17) b. Backed by Obligations of Non-U.S. Obligors - UK
	0.00%	<=	12.50%	12.2 (17) b. Backed by Obligations of Non-U.S. Obligors - UK (Agg. Prin. Bal. <= 12.5%of NOPCB)
	0.00			12.2 (17) c. Backed by Obligations of Non-U.S. Obligors - Canadian
	0.00%	<=	12.50%	12.2 (17) c. Backed by Obligations of Non-U.S. Obligors - Canadian (Agg. Prin. Bal. <= 12.5%of NOPCB)
	0.00			12.2 (17) d. Backed by Obligations of Non-U.S. Obligors - Not US,UK,CA
	0.00%	<=	3.00%	12.2 (17) d. Backed by Obligations of Non-U.S. Obligors - Not US,UK,CA (Agg. Prin. Bal. <= 3%of NOPCB)
	0.00			12.2 (17) e. Backed by Obligations of Non-U.S. Obligors - Non-US and Non-QFO
	0.00%	<=	3.00%	12.2 (17) e. Backed by Obligations of Non-U.S. Obligors - Non-US and Non-QFO (Agg. Prin. Bal. <= 3%of NOPCB)
	32,756,301.14			12.2 (26) Non-US Obligors and Synthetic Securities
	5.54%	<=	20.00%	12.2 (26) Non-US Obligors and Synthetic Securities (Agg. Prin. Bal. <= 20% of NOPCB)

Declaration

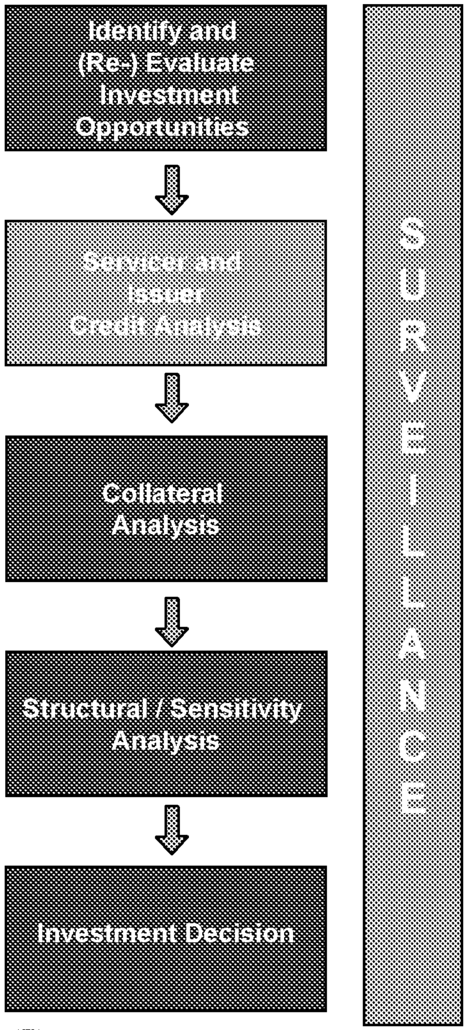
Asset Selection

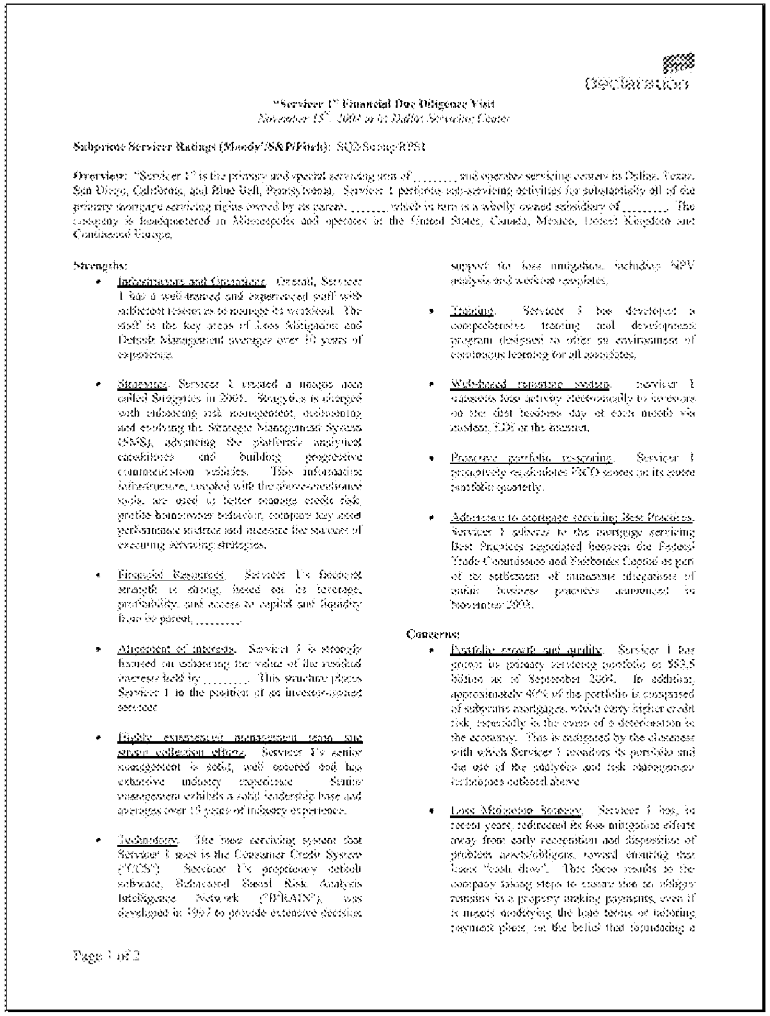
Identify Investment Opportunities



Asset Selection

Servicer and Issuer Credit Analysis





Declaration

"Servicer 1" Financial Due Diligence Visit

November 15th, 2004 at its Dallas Servicing Center

Strengths:

Concerns:

Page 1 of 2

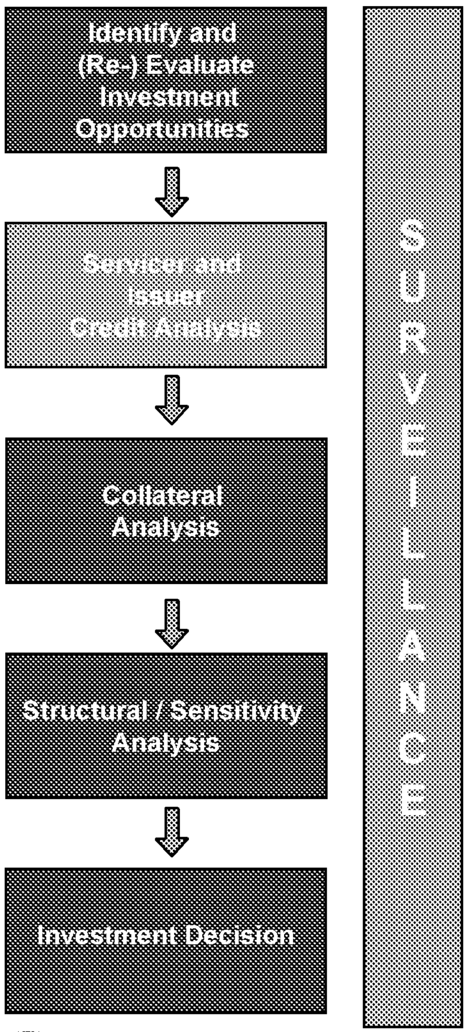
- ❖ Initial due diligence of new servicers generally includes an assessment of a number of characteristics, each of which is updated on a periodic basis:
  - ➢ Declaration corporate credit research staff opinions
  - ➢ ABS staff servicing site due diligence visits
  - ➢ One-on-one meetings with servicing operation management
  - ➢ Qualitative assessment of regulatory and compliance practices versus industry best practices
  - ➢ Rating Agency servicer ratings as outlined in Servicer Reports
  - ➢ Loss mitigation techniques
  - ➢ Timeline management
- ❖ Declaration monitors servicers by conducting due diligence visits periodically. Areas of concentration during these visits include:
  - ➢ Trends in servicing practices
  - ➢ Loss mitigation philosophies
  - ➢ Systems development and utilization (Alltel, etc.)
  - ➢ Early default indicators
  - ➢ Personnel issues
  - ➢ Regulatory compliance / predatory servicing.

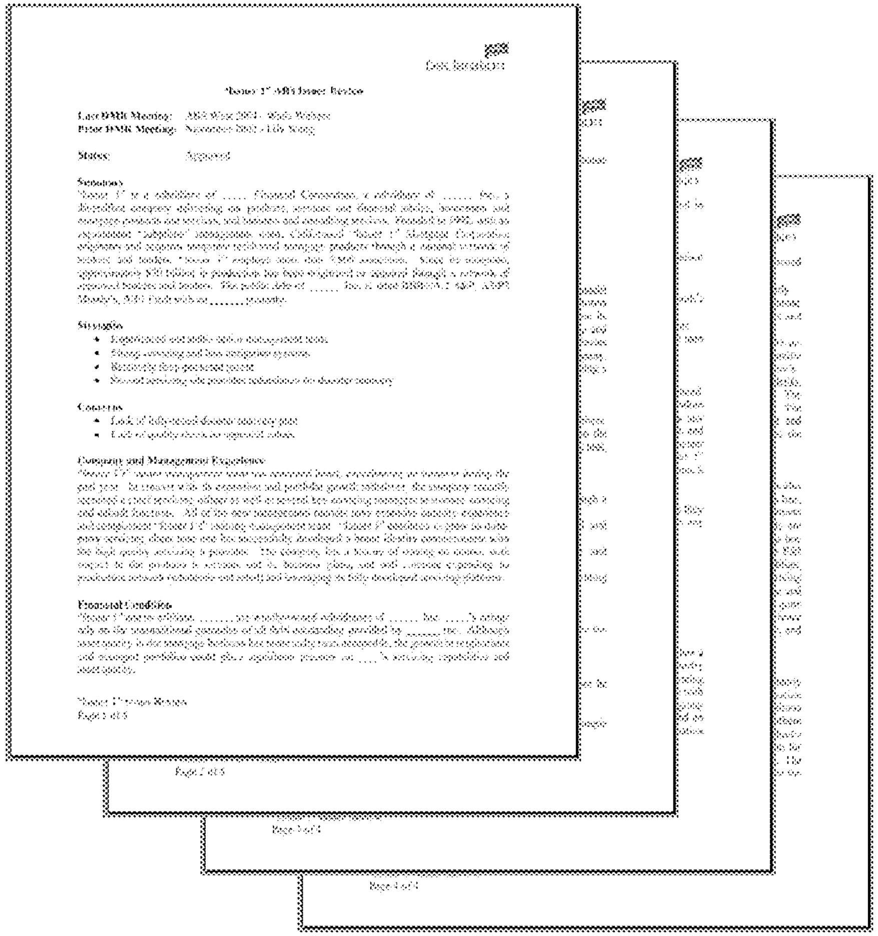
Pages 47 to 51 focus on Declaration's asset selection process for the ABS and RMBS sectors.

Declaration

Asset Selection

Servicer and Issuer Credit Analysis





- Issuer Review
- As a significant participant in the U.S. ABS market, Declaration is familiar with the securitization programs of most of the domestic asset-backed securities issuers. Initial due diligence of new issuers generally includes:
  - An analysis of their unsecured credit by one of Declaration's corporate credit analysts
  - Conference calls with management to assess experience and integrity and review underwriting practices.
  - An assessment of the strategic importance of asset securitization as a funding source.
- On-going dialogue with issuers allows Declaration to monitor and access changes in the issuer business models. Discussions are typically supplemented by:
  - A review of each new transaction brought to market
  - Ratings-based surveillance of outstanding transactions
  - Annual meetings with company management at industry conferences or onsite visits.

Declaration

Asset Selection

Collateral Analysis

Identify and (Re-) Evaluate Investment Opportunities → Servicer and Issuer Credit Analysis → Collateral Analysis → Structural / Sensitivity Analysis → Investment Decision

S U R V E I L L A N C E

- Declaration's residential database contains observations on over 1,900 transactions. The database is used to compare credit enhancement levels and collateral characteristics on new issues to previous transactions.
- Mitigating factors are assessed for unique aspects of the pool which may otherwise elevate risk.
- A structural preview places particular emphasis on the level and status of excess spread and overcollateralization.
- Collateral is ranked based on key metrics using a regression model.

Credit Enhancement for Subprime

Declaration

Deal Name	Asset Type	AAA	AA	A	A-	BBB+	BBB	BBB-	CE Notes	FICO	<500	<550	<600	<650	IO %	2nd liens%	WLTV	>80	90-100	Gross WAC	WA Margin	Purchase
	Subprime Fixed and ARM	21.65	14.80	9.55	8.05	6.95	6.90	4.60	[illegible]	625	0.00%	13.59%	53.85%	85.87%	21.10%	7.23%	80.85	39.03	19.42	7.264	6.219	55.80%
	Subprime Fixed and ARM	19.60	13.60	8.15	7.05	5.55	4.40	3.20	[illegible]	623	0.00%	11.42%	39.29%	88.03%	18.89%	2.00%	80.54	45.08	5.10%	7.059	5.593	32.13%
	Subprime Fixed and ARM	18.95	12.95	7.95	6.20	4.95	3.70	2.45	[illegible]	625	0.20%	9.40%	35.10%	70.50%	14.50%	1.80%	80.70	30.40	9.60%	7.270	6.290	44.70%
Deal Avg:		20.07	13.78	8.55	7.10	5.72	4.50	3.38		624	0.07%	12.22%	54.74%	86.20%	20.81%	3.68%	80.70	37.60	3.31	7.20	6.05	66.22%

Cash out	SF	Largest St	%	Full Doc	Limited Doc	No Doc	Fixed %	ARM %	Avg Size	Primary residence	Investment 2nd Home	<550 %	Initial Cap	Periodic Cap	Collateral Notes
41.64%	79.92	CA	38.76%	34.24%	1.04%	64.72%	19.23%	80.77%	182,275	97.36%	2.64%	2.26%	1.17%	1.00%	[illegible]
59.89%	84.00	CA	37.92%	49.46%	4.91%	45.63%	18.43%	81.57%	197,239	91.76%	8.24%	0.95%	1.50%	1.50%	[illegible]
49.60%	90.90	CA	25.90%	60.30%	17.30%	22.40%	18.20%	81.80%	159,675	93.10%	6.90%	2.00%	3.00%	1.00%	
50.34%	84.84		40.88%	48.00%	7.75%	44.25%	15.82%	84.38%	173,037	94.07%	5.93%	1.73%	1.69%	1.17%	

Declaration

Asset Selection

Structural / Sensitivity Analysis

Identify and (Re-) Evaluate Investment Opportunities

Servicer and Issuer Credit Analysis

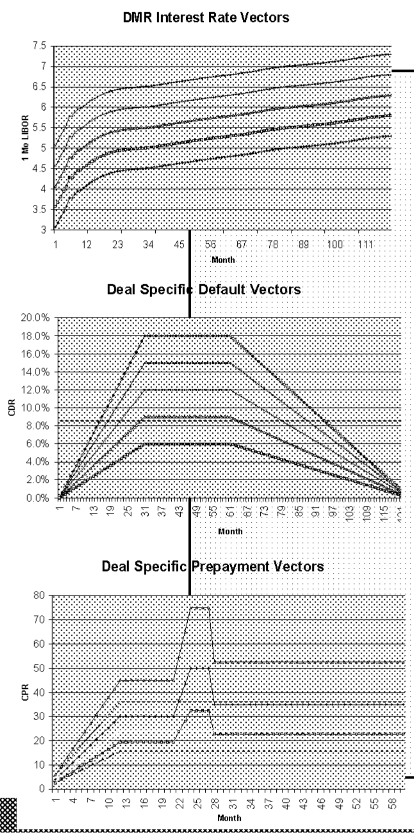
Collateral Analysis

Structural / Sensitivity Analysis

Investment Decision

S U R V E I L L A N C E

- Declaration's transaction sensitivity analysis begins with customized stress runs and collateral stratifications. Collateral specific prepayment scenarios (isolating fixed and floating rate components), historical loss severity multiples, stressed forward LIBOR curves are generated and default curves are utilized.
- Collateral losses are elevated to the point where bonds experience a loss. The resultant constant default rates and break-even cumulative loss levels are compared to historical losses on home equity collateral. Stressed scenario [based on 2000 cohort] break-even multipliers are calculated.
- This approach allows for isolation of the factors that drive losses and a comparison of investment alternatives.



Mortgage ABS Stress Run Assumptions and Results Comparison

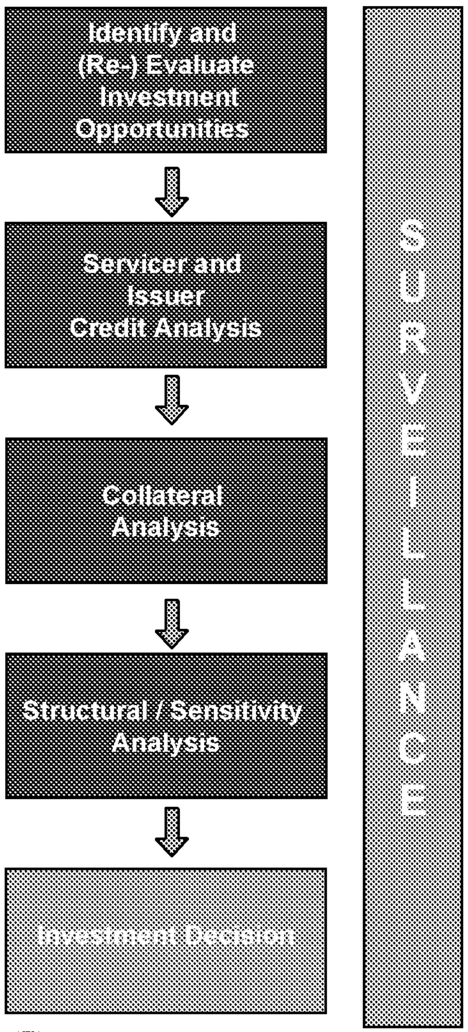
Bond Info			Stress Assumptions							Stress Results				
Deal	Class	Rating	Collateral Type	FICO	LTV	Speed (%PPC)	Rate Shock	Loss Severity	P&I Lag	DSC* Break	WAL	Cum Loss %	Cum Loss Multiplier	Bought
Bond 1	B-1	Baa1/BBB+	Subprime/	642	82.3	100%	Fwd	45	12	2662	12.4	11.6	2.58	
			Alt-B				Fwd	55	12	2149	12.9	11.4	2.53	Yes
							Fwd +200	45	12	2041	13.2	9.4	2.09	
							Fwd +200	55	12	1646	13.6	9.6	2.13	
Bond 3	B-3	Baa3/BBB-	Subprime/	642	82.3	100%	Fwd	45	12	2111	13.4	9.6	2.13	
			Alt-B				Fwd	55	12	1710	13.7	9.9	2.20	Yes
							Fwd +200	45	12	1536	14.2	7.4	1.64	
							Fwd +200	55	12	1250	14.5	7.6	1.69	
Bond 1	B-1	Baa1/BBB+	Subprime/	642	82.3	65%	Fwd	45	12	2468	15.6	15.1	3.34	
			Alt-B				Fwd	55	12	1994	15.7	15.7	3.49	Yes
							Fwd +200	45	12	1880	16.1	12.3	2.73	
							Fwd +200	55	12	1525	16.1	12.7	2.82	
Bond 3	B-3	Baa3/BBB-	Subprime/	642	82.3	65%	Fwd	45	12	2068	16.2	13.2	2.93	
			Alt-B				Fwd	55	12	1684	16.2	13.7	3.04	Yes
							Fwd +200	45	12	1513	16.4	10.3	2.29	
							Fwd +200	55	12	1236	16.4	10.6	2.36	

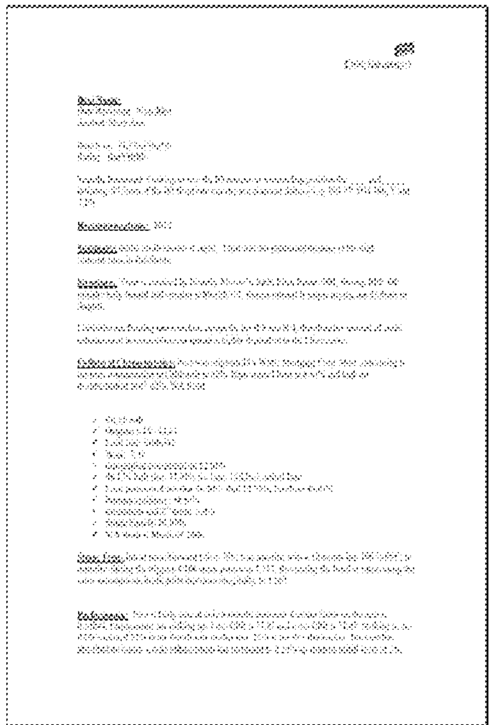
* Deal Specific Curve
Benchmarks used for Cum Loss Multiplier: 2nd Lien

Declaration

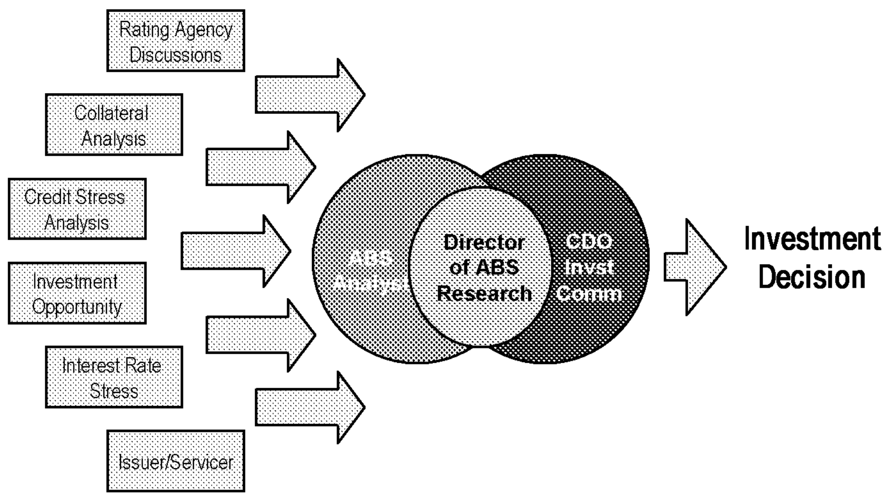
Asset Selection

Investment Decision





- A team of senior and junior credit analysts review all aspects of the deal, under the supervision of the Director of ABS Research, including collateral, structure, stress run performance and an issuer/servicer's past performance.
- Bonds passing this credit review are recommended to the CDO Investment Committee for inclusion in the CDO.
- The Committee approves or rejects the security based upon its relative value and structural appropriateness.



Declaration

Unity Surveillance

❖ Term trends of each transaction are tracked historically in Unity using: remittance reports, ABSNet, Intex and Trepp.

ABS Surveillance

Independence II CDO From: 04/01/2003 To: 10/29/2003 Residential MBS

Deal Name	Watch List	Distribution Date	Cusip	Factor	Original Investment	Current Exposure	Net WAC	Gross WAC	WALA	WAM	Delinquency 30-59	60-89	90+	Total
	Yes	9/1/2003	22540AA73	0.965191851	2,162,600.00	2,087,236.96	5.87	6.53	43	311	0.82	0	2.32	3.14
	Yes	8/1/2003	22540AA73	0.966668520	2,162,600.00	2,090,381.10	6.4	6.96	42	311	2.86	3.03	2.31	8.21
	Yes	7/1/2003	22540AA73	0.967864293	2,162,600.00	2,093,146.48	6.42	7.12	41	312	2.69	3.07	1.54	7.36
	Yes	6/1/2003	22540AA73	0.968911651	2,162,600.00	2,095,417.00	6.56	7.15	40	314	2.85	4.1	2.46	9.41
	Yes	5/1/2003	22540AA73	0.970942806	2,162,600.00	2,098,982.76	6.59	7.2	39	315	2.52	0.65	2.63	5.80
	Yes	4/1/2003	22540AA73	0.971781467	2,162,600.00	2,101,574.60	6.65	7.39	38	316	3.22	0.82	1.7	5.74
	Yes	9/1/2003	45660UAH2	0.715920271	2,879,700.00	2,060,648.90	6.96	7.57	27	333	1.64	0.78	0.94	3.37
	No	8/1/2003	45660UAH2	0.747494807	2,879,700.00	2,152,561.07	6.93	7.56	26	334	1.31	1.27	0.65	3.23
	No	7/1/2003	45660UAH2	0.790233437	2,879,700.00	2,288,535.35	6.93	7.56	25	335	2.92	1.08	0.14	4.14
	No	6/1/2003	45660UAH2	0.822822826	2,879,700.00	2,369,491.53	6.92	7.54	24	336	2.09	0.71	0.22	2.90
	No	5/1/2003	45660UAH2	0.849782254	2,879,700.00	2,447,631.97	6.92	7.55	23	337	0.76	0.82	0.41	1.99
	No	4/1/2003	45660UAH2	0.849702884	2,879,700.00	2,447,631.97	6.92	7.54	22	338	1.19	0.78	0.19	2.16
	Yes	9/1/2003	542514AP9	1.000000000	7,000,000.00	7,000,000.00	9.53	10.82	32	324	5.29	2.66	31.10	39.05
	No	8/1/2003	542514AP9	1.000000000	7,000,000.00	7,000,000.00	9.55	10.58	31	325	5.51	3.19	28.45	36.11
	No	7/1/2003	542514AP9	1.000000000	7,000,000.00	7,000,000.00	9.56	10.68	30	326	5.91	2.52	30.08	38.51
	No	6/1/2003	542514AP9	1.000000000	7,000,000.00	7,000,000.00	9.55	10.92	29	327	5.27	3.27	28.86	37.4
	No	5/1/2003	542514AP9	1.000000000	7,000,000.00	7,000,000.00	9.6	10.85	28	329	5.81	2.99	28.26	36.73
	No	4/1/2003	542514AP9	1.000000000	7,000,000.00	7,000,000.00	9.48	10.83	27	330	5.4	2.3	27.2	34.9
	No	9/1/2003	59021UAD8	0.994535284	4,850,000.00	4,823,526.17	2.67	2.95	49	251	2.5	0.59	0.53	3.62
	No	8/1/2003	59021UAD8	0.99461561	4,850,000.00	4,823,685.71	2.75	3.04	48	252	2.86	0.54	0.73	4.13
	No	7/1/2003	59021UAD8	0.994911192	4,850,000.00	4,825,319.23	2.79	3.05	47	253	2.98	0.46	0.86	4.28
	No	6/1/2003	59021UAD8	0.995211487	4,850,000.00	4,826,775.71	2.84	3.08	46	254	2.02	1.09	0.66	3.80
	No	5/1/2003	59021UAD8	0.995563975	4,850,000.00	4,828,235.83	2.92	3.18	45	255	2.02	0.89	0.47	3.38
	No	4/1/2003	59021UAD8	0.995813525	4,850,000.00	4,829,697.54	2.96	3.20	44	256	2.29	0.56	0.79	3.64
	No	9/1/2003	760985E58	1.000000000	2,000,000.00	2,000,000.00	8.1268	9.4482	25	329	2.46	1.17	1.54	5.17
	No	8/1/2003	760985E58	1.000000000	2,000,000.00	2,000,000.00	8.1179	9.4256	24	330	2.14	1.1	1	4.24
	No	7/1/2003	760985E58	1.000000000	2,000,000.00	2,000,000.00	8.1058	9.4292	23	331	2.11	0.69	0.92	3.69
	No	6/1/2003	760985E58	1.000000000	2,000,000.00	2,000,000.00	8.0844	9.4164	22	332	3.27	0.66	0.53	4.46
	No	5/1/2003	760985E58	1.000000000	2,000,000.00	2,000,000.00	8.089	9.407	21	333	2.93	0.27	0.66	3.86
	No	4/1/2003	760985E58	1.000000000	2,000,000.00	2,000,000.00	8.0846	9.4166	20	334	1.98	0.28	0.75	3.01

unity

For Internal Use Only

10/30/2003 4:13:00 PM
Page 1 of 3

Declaration

Sample Monthly Automated Surveillance Summary

- Declaration's automated surveillance monitor is an early warning system designed to flag potential deterioration of a collateral pool.
- Transactions failing this first pass are prioritized for analyst review, while others are monitored according to the individual schedule established for them by Declaration's Investment Committee.
- Declaration's goal is to exit positions before deterioration impacts bond performance.
- Stress runs are recast to incorporate updated collateral and market performance expectations gathered for the individual transaction.

Triggers	
Trigger	Desciption
1	90+ Delinquencies > 10%
2	1 Mo CDR > 10%
3	Original CE < Current CE
4	CE decreases from previous month
5	OC decreases from previous month
6	Foreclosures increase > 10%
7	Cumulative losses increase > 10%
8	REO's increase > 10%
9	Factor < .10

Cusip	Deal Name	Sector Type	Watch List	Orig Support	Previous Support	Curr Support	Flag Original CE < Current CE	Fla Curr Suprt > Previos Suprt	Previous OC	Current OC	Flag Curr Mon OC vs Prev Month OC	Previous F/C	F/C	% Change
		ABS-HEL	Yes	0.50%	1.72%	1.91%	Pass	Pass	1,301,270	1,359,195	Pass	17.92%	19.82%	**10.61%**
		ABS-HEL		9.50%	37.02%	39.46%	Pass	Pass	8,676,815	8,676,815	Pass	0.21%	0.23%	**7.62%**
		ABS-HEL		0.00%	1.29%	1.36%	Pass	Pass	1,136,502	1,136,502	Pass	3.30%	3.21%	**-2.88%**
		ABS-HEL		7.08%	25.51%	26.14%	Pass	Pass	0.00	0.00	Pass	1.88%	1.66%	**-11.70%**
		ABS-Residential B&C mtg		15.50%	22.65%	24.37%	Pass	Pass	12,780,000	13,620,000	Pass	2.11%	1.91%	**-9.67%**
		ABS-Residential B&C mtg		6.04%	30.47%	32.03%	Pass	Pass	15,750,000	15,750,000	Pass	7.72%	6.44%	**-16.62%**
		ABS-Residential B&C mtg		3.00%	16.57%	17.67%	Pass	Pass	14,634,225	14,634,225	Pass	5.69%	6.16%	**8.32%**
		ABS-Residential B&C mtg		7.00%	29.19%	31.14%	Pass	Pass	14,634,225	14,634,225	Pass	5.69%	6.16%	**8.32%**
		ABS-Residential B&C mtg		0.00%	7.10%	7.57%	Pass	Pass	14,634,225	14,634,225	Pass	5.69%	6.16%	**8.32%**
		ABS-Residential B&C mtg		2.25%	11.01%	11.40%	Pass	Pass	929,517	900,810	Fail	14.28%	13.60%	**-4.78%**
		ABS-Residential B&C mtg		8.50%	42.05%	45.60%	Pass	Pass	2,362,503	2,362,503	Pass	5.42%	5.53%	**1.99%**
		ABS-Residential B&C mtg		0.00%	1.83%	1.92%	Pass	Pass	1,260,310	1,164,948	Fail	6.79%	6.39%	**-5.96%**
		ABS-Residential B&C mtg		3.50%	3.91%	4.09%	Pass	Pass	2,969,746	2,717,602	Pass	2.57%	3.26%	**26.69%**
		ABS-Residential B&C mtg		2.85%	6.78%	7.45%	Pass	Pass	5,063,291	5,063,291	Pass	5.01%	5.37%	**7.13%**

Declaration

Sample Monthly Surveillance Report

Declaration

"Bond 1"
Performance Monitoring Log
Own: 4,229,000 of M2 in 6A; bond rated A2/A
Own: 3,770,000 of M3 in 6A; bond rated Baa2/BBB

9/26/2004 (MM): $4,229,000 of the M2 bond was sold out of E16 at $99.8125.

9/15/2004 (MM): <u>Very Concerned</u>: Continuing performance deterioration Recommendation: Sell M2 bond.

Performance:

- Deal is 37 months seasoned and triggers continue to fail. OC took another $919k write-down. OC is now $1,755,873 deficient from its target of $15mm. Credit enhancement for the M2 tranche increased slightly to 20.85%.Delinquencies have remained steady, although foreclosures have ramped up again; currently foreclosure bucket is 11.97% and REO increased to 9.62%. CDR's have slowed slightly but still remain high at 15.21. Prepayments have increased: 1 mo CPR is 50.54. Deal liquidated $3.6mm and lost $2.7mm. Loss severity was extremely high at 76%. **Due to the increase in serious delinquencies, the large OC writedown and the abnormal loss severity numbers this bond should be sold.**

7/26/04 (MM): $3,770,000 of the M3 tranche was sold out of E16 at a $93.25.

7/14/04: <u>Very Concerned</u>: *M3 and M2 Added to Internal Watch List. Since triggers are passing M3 is more concerning as it will be locked out of principal pay downs. Recommendation: Sell. Will continue to monitor performance of M2 bond. Recommendation: Sell Opportunistically.*

Performance:

- Deal is 35 months seasoned with a current factor of .288.
- The OC decreased for the 1st time in June it decreased. The OC is $735K deficient of being fully funded at $15MM.
- Credit enhancement for the M3 class decreased slightly; the CE% decreased 2bps to 4.94%.
- Delinquencies have remained steady over the past 6 months. DQ 60+ is 4.81% while the 6 month average is 5.0%. DQ 90+ is 3.07% while the 6 month average is 3.05%.
- Foreclosures and REO's have receded from their deal highs in May. FC's are down 13bps from 9.65% last month. The FC rate has been steady over the previous 6 months; 1 mo FC is 9.46% and 6 mo FC are 9.47%.
- REO's continue to rise; REO 1 mo is 9.52% which is significantly higher than the 6 month average of 8.53%. One sign of improvement is that 33 loans rolled out of the REO bucket since May.
- Of the 25 loans that are currently in REO status; 6 of them have balances less than $60K.
- The CDR for the current month is 18.09%, which is higher than the 3 month average of 13.22%.
- 60 loans were liquidated for a total realized loss of $2.7MM. The average loss severity was 53.52%; of those 60 loans liquidated 4 had loss severities greater than 100%.
- Prepayments have remained steady; 1 mo CPR is 42.13% and 3 mo CPR is 42.68%. Currently both of the triggers are failing; thus the step down has not occurred.

Declaration

Projections: for M3 tranche
Bond 5

	30 day	60 day	90 day	Foreclosure	REO	Bankruptcy	Total Current
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Frequency	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Severity	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sub Total losses	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Total expected losses [illegible]
(Deficiency)/Excess CE: (2,451,973.28)

OC [illegible]
Excess Spread [illegible]
Subordination [illegible]
Total CE [illegible]

6/10/04 (BAM): <u>Performing</u>. OC is fully funded, and there is plenty of excess spread available. Factor of the deal is .302 after 34 months of seasoning. CE for the M3 class 23bps to 4.96%. The OC is fully funded at $15MM, and has not taken any write-downs. $1.99MM was received in excess interest. Delinquencies are stable; DQ 60+ is 5.03% and DQ 90+ is 2.47%. Foreclosures are also stable at 9.48%. REO's increased 52bps to 9.65%. Prepayments have slowed; 3 mo CPR is 43 while 12 mo CPR is 53.

1/16/04 (BAM): The deal is performing within expectation; delinquencies are on the rise. The current factor of the pool is .389423 after 29 months of seasoning. Support for the M3 class increased 31 bps to 3.85%. The OC remains fully funded at $15MM. $2.59MM was received in excess interest; $1.1MM was used to cover losses while $1.45MM was paid to the residual holder. $209K was paid to the IO class. The IO retires in April 2004. Delinquencies are on the rise with the largest increase coming in the 30-59 DPD bucket which increased $2.6MM from November. There was also a slight spike in the 90+ DPD bucket which increased $428K from last month. Foreclosures and REO's have declined slightly. 18 loans were liquidated for a realized loss of $1.1MM. The loss severity for these loans was 39%, while the three month average loss severity is 38.63%. Prepayments remain steady at 60.15%.

1/8/03 (MM): OC is fully funded with a balance of $15,015,092 or 1.09%. Net excess spread for the last three months has been around $425,000. Cum net losses have a balance of $882,038 or .0881%. Foreclosures rate is accelerating; current balance is over $4.5mm. There is another 27.5mm in bankruptcy. Current subordination for the M3 bond is 3.99%.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov 2002	5.09%	2.59%	1.75%	4.96%	1.20%	0.09%	34.64%	175,087
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep 2002	4.24%	1.79%	1.28%	4.76%	0.96%	0.02%	34.20%	832,552
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul 2002	4.85%	1.25%	0.72%	4.04%	0.49%	0.01%	25.46%	886,463

Declaration

C. Key Investment Professionals

Declaration

Declaration Management & Research LLC

Structured Products

Michael E. Stern
Executive Vice President, Director of Structured Products

Michael oversees all aspects of Declaration's structured products and funding programs and is a firm principal. He joined Declaration in 1989. He has a BS in Computer Science from Northwestern University. Michael is a member of the Declaration Management & Research Investment Committee.

Larry Guillard III
Vice President, Structured Products

Larry assists with the management, structuring, and operational aspects of Declaration's structured products. He has been in the industry since 1995 and joined Declaration in 1999. Previously, Larry worked for Daiwa Securities America and National Westminster Bank. He has a BS from Drexel University.

Matthew J. Roberts
Sr. Investment Officer, Structured Products

Matt assists with the management, structuring, and operational aspects of Declaration's structured products. He has been in the industry since 1998 and joined Declaration in 2002. Previously, Matt worked for Lord, Abbett & Company and Deutsche Bank. He has a BA from Cornell University.

Jessica Melnicove
Associate, Structured Products
Jessica reconciles DMR's CDOs with custody banks and performs other operational aspects for the firm's structured products. She joined Declaration in 2004. Jessica has a BA in Economics and Spanish from the University of Virginia.

Kristen Contrera
Associate, Structured Products
Kristen reconciles DMR's CDOs with custody banks and performs other operational aspects for the firm's structured products. She joined Declaration in 2005. Kristen has a BA in Business Administration with a concentration in Finance from The George Washington University.

Declaration

Declaration Management & Research LLC

Portfolio Management and Trading

William P. Callan, Jr.
President, Declaration Management & Research LLC

Bill chairs the Declaration Management & Research Investment Committee, manages portfolios, oversees research and product development, and is a firm principal. He has been in the industry since 1984 and joined Declaration in 1989. Previously, Bill worked for Merrill Lynch Capital Markets. He has a BBA in Finance from the Bernard M. Baruch College of the City University of New York.

James E. Shallcross
Senior Vice President, Director of Portfolio Management

Jim oversees the management of all fixed income portfolios, supervises the investment staff and is a firm principal. He has been in the industry since 1986 and joined Declaration in 1991. Previously, Jim worked for Lehman Brothers and Stephenson & Co. He has a BSBA in Finance from the University of Denver and an MBA in Finance from New York University. Jim is a member of the Declaration Management & Research Investment Committee.

Wade M. Walters
Senior Vice President, Director of ABS Trading & Research

Wade is the Director of ABS/RMBS portfolio management, research and trading. He also oversees the ABS investment staff and is a firm principal. Wade has been in the industry since 1988 and joined Declaration in 1990. Previously, he worked for the First National Bank of Maryland. Wade has an AS in Engineering from Johns Hopkins University, a BS in Finance from the University of Baltimore and an MS in Finance from Drexel University. He is a member of the Declaration Management & Research Investment Committee.

Jennifer P. Bowers, CFA
Vice President, Portfolio Management

Jennifer manages LIBOR Plus portfolios, analyzes current and prospective positions and trades ABS and CMOs. She joined Declaration in 1993. Jennifer has a BS from Vanderbilt University. She is a member of the CFA Institute and the Washington Society of Investment Analysts.

Declaration Management & Research LLC

Portfolio Management and Trading (cont'd)

Peter M. Farley, CFA
First Vice President, Portfolio Management

Peter manages Active Core portfolios, trades CMBS and Corporate bonds, and conducts CMBS and Corporate bond research. He has been in the industry since 1995 and joined Declaration in 1996. Previously, Peter worked for GIT Investment Funds. He has a BA in Economics and Political Science from the University of Connecticut and an MBA from The George Washington University. Peter is a member of the CFA Institute and the Washington Society of Investment Analysts. Peter is a member of the Declaration Management & Research Investment Committee.

William L. Paolino, Jr.
Vice President, Portfolio Management

Will develops and manages our Synthetic CDO/CLN portfolios and works on business development projects and structured finance product development. Will has been in the industry since 1999 and joined Declaration in 2000. Previously, he worked for John Hancock, Ernst & Young, Fleet Bank and Aetna. Will has a BS in Finance from Syracuse University and an MBA and a JD from the University of Connecticut. He is a member of the American Bar Association and the American Bankruptcy Institute. Will is admitted to practice law in the Commonwealth of Massachusetts and in the District of Columbia.

Demetri J. Dimopoulos
Senior Investment Officer

Demetri provides trading support functions to our fixed income traders. He has been in the industry since 1998 and joined Declaration in 2000. Demetri has a BS in Finance from the University of Maryland.

Matthew F. Klinger
Senior Investment Officer

Matthew is responsible for security pricing and credit surveillance and assists with all aspects of the firm's alternative investments. He joined Declaration in 2000. Matthew has a BA in Finance and Marketing from Franklin & Marshall College.

Declaration

Declaration Management & Research LLC

Fundamental Research

Vivek Agrawal
Vice President, Investment Research

Vic conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1996 and joined Declaration in 2004. Previously, Vic worked for H.C. Wainwright & Co., BlueStone Capital Partners and Bank of America. He has a BS in Finance from the University of Maryland and an MBA in Finance from Fordham University.

Dimiter Christof, CFA
Vice President, Investment Research

Dimiter conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1988 and joined Declaration in 2001. Previously, Dimiter worked for Allianz AG, Dun & Bradstreet and Creditansalt AG. He has a BS in Finance from the University of Sofia and an MBA in Finance from the University of Akron. Dimiter is a member of the CFA Institute, the Baltimore Society of Security Analysts and the Financial Management Association.

James P. Doyle, CFA
Vice President, Investment Research

Jim conducts ABS bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1993 and joined Declaration in 2004. Previously, Jim worked for The Vanguard Group, UBS Securities and Bear Stearns. He has a BS in Commerce and Engineering with a concentration in Finance from Drexel University. Jim is a member of the CFA Institute and the Philadelphia Society of Security Analysts.

Bradley Lutz, CFA
Vice President, Investment Research

Brad conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He has been in the industry since 1992 and joined Declaration in 2002. Previously, Brad worked for Pacholder Associates and Summit Investment Partners. He has a BS in Finance from Miami University (Ohio). Brad is a member of the CFA Institute.

Declaration

Declaration Management & Research LLC

Fundamental Research (cont'd)

Florence L. Sirleaf
Vice President, Investment Research

Florence conducts Corporate bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. She has been in the industry since 1995 and joined Declaration in 2001. Previously, Florence worked for Bank of America, Legg Mason Wood Walker and SpaceVest Management Group. She has a BBA in Finance from Howard University.

Mary Ann Martuccio
Senior Research Officer

Mary Ann conducts real estate-related ABS bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. She joined Declaration in 2001. Mary Ann has a BA in Economics from Drew University.

Brad A. Murphy
Research Officer

Brad conducts real estate-related ABS bond analysis, monitors existing exposures, and performs credit surveillance and relative valuation analysis. He joined Declaration in 2003. Previously, Brad worked for Chevy Chase Bank as a Risk Analyst. He has a BA in Economics from The University of Florida.

Jason N. Costa
Research Associate

Jason assists portfolio managers and analysts with real estate-related asset-backed securities analysis and credit surveillance. He joined Declaration in 2004. Jason has a BA in Economics from Dartmouth College.

Andrea Gourdine
Research Associate

Andrea assists portfolio managers and analysts with commercial mortgage-backed securities analysis and credit surveillance. She joined Declaration in 2003. Andrea has a BA from the University of Connecticut.

Declaration

Declaration Management & Research LLC

Quantitative Research

Robert Rush, PhD
Vice President, Director of Quantitative Research

Bob is the Director of Quantitative Research. His responsibilities include the development and application of trading analytics, ABS prepayment/default modeling, corporate (including synthetic) default analysis, portfolio risk management and the structural analysis of CDOs and other structured products. Bob has been in the industry since 1996 and joined Declaration in 2004. Previously, he worked for John Hancock Financial Services. Bob has a PhD and MS in Operations Research & Statistics from Rensselaer Polytechnic Institute and a BS in Mathematics from Fordham University.

Habib Shahsamand, CFA
Senior Quantitative Officer

Habib focuses on investment analytics and portfolio risk management with a special emphasis on quantitative analysis of mortgage-related ABS credit. He has been in the industry since 1997 and joined Declaration in 2005. Previously, Habib worked for Prudential Investments and IBM (in the Global Risk Management Group). He has a Master of Science in Computational Finance from Carnegie Mellon University and a BA in Statistics and BS in Finance from Rutgers University. Habib is a member of the CFA Institute.

Declaration

7. Appendix

Declaration

Appendix A – Cashflow Formulas

Appendix A
Collateral Cashflow Formulas

Calculation of Collateral Defaults in each Period

Defaults = B * D / PPY

where:

B= Beginning performing collateral balance (w/o reduction for current amortization or prepayments)

D = Annual Default rate (%)

PPY = number of payments per year (e.g 4 for quarterly)

Calculation of Interest Payments in each Period

Interest = (B - Defaults) * C * DCF

where:

B= Beginning performing collateral balance (w/o reduction for current amortization or prepayments)

Defaults = defaults in the current period

C = collateral interest rate for the period

DCF = collateral daycount fraction for the period (expressed in years)

Declaration

Appendix B – Performance Notes

Declaration

Appendix B

Previous Cash Flow CDO Overcollateralization and Interest Coverage Test Performance(1)(2)(3)(4)

Independence I CDO, Ltd.

US Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$300.5 million
Closing: December 2000

	As of 12/27/2005	Constraint	Number of Times Failed / Total Distribution Dates [3]
Class A/B Overcollateralization Test	94.8%	105.75%	7/20
Class C Overcollateralization Test	88.1%	101.5%	7/20
Class A/B Interest Coverage Test	103.5%	115.0%	3/20
Class C Interest Coverage Test	86.0%	108.5%	3/20

Independence II CDO, Ltd.

US Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$403.2 million
Closing: July 2001

	As of 12/31/2005	Constraint	Number of Times Failed / Total Distribution Dates [3]
Class A/B Overcollateralization Test	95.2%	103.3%	6/17
Class C Overcollateralization Test	90.2%	125.0%	6/17
Class A/B Interest Coverage Test	102.9%	118.5%	5/17
Class C Interest Coverage Test	98.6%	112.5%	4/17

Independence III CDO, Ltd.

US Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$300.0 million
Closing: May 2002

	As of 12/27/2005	Constraint	Number of Times Failed / Total Distribution Dates [3]
Class A Overcollateralization Test	123.9%	115.0%	0/14
Class B Overcollateralization Test	115.3%	108.0%	0/14
Class C Overcollateralization Test	102.5%	101.4%	0/14
Class A Interest Coverage Test	143.3%	120.0%	0/14
Class B Interest Coverage Test	132.8%	110.0%	0/14
Class C Interest Coverage Test	116.3%	107.0%	0/14

The prior investment results of the Collateral Manager and any persons associated with the Collateral Manager or any other entity or person described herein or otherwise made available to an investor are not indicative of the Issuer's future investment results. This follows from the fact that the nature of, and risks associated with, the Issuer's future investments may, and are likely to, differ substantially from those investments and strategies undertaken historically by such persons and entities. Accordingly, the Issuer's investments are not likely to perform in accordance with, and may perform less favorably than, the past investments of any such persons or entities. Moreover, certain historic investment information that may have been made available to an investor may not include all of the information necessary to evaluate the economic performance of such persons or entities. Any prospective investor in the Offered Securities should conduct its own independent analysis of such investment results and other investment information. Prospective investors in the Offered Securities should be aware that an event of default has occurred under the indenture entered into by Independence I CDO, Ltd., which is, as provided above, a collateralized debt obligation fund managed by the Collateral Manager, as a result of the failure of a principal coverage ratio. Such event of default entitles holders of securities issued by Independence I CDO, Ltd. to liquidate collateral and exercise other remedies; however, the Issuer does not expect that such event of default or any consequent exercise of those remedies will adversely affect the Issuer's business or financial condition.

(1) *Provided in its entirety by Declaration. As of 1/2006.*
(2) *Oovercollateralization ("OC") and Interest Coverage ("IC") test levels are not a definitive indicator of transaction performance. Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing relevant documents for the transactions noted and obtaining additional information regarding the underlying collateral. A review of the structure of each transaction is necessary in order to fully evaluate that transaction's performance. Past performance is not an indication or a guarantee for future results.*
(3) *A failure represents a Distribution Dates on which said test level was not met.*
(4) *For sample definitions of OC and IC Ratios, see Appendix C. Definitions vary from transaction to transaction. For the definition in any given transaction, see the relevant documents for that transaction.*

Appendix B

Previous Cash Flow CDO Overcollateralization and Interest Coverage Test Performance(1)(2)(3)(4)

Independence IV CDO, Ltd.

US Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$400.0 million
Closing: June 2003

	As of 1/9/2006	Constraint	Number of Times Failed / Total Distribution Dates (3)
Class A/B Overcollateralization Test	112.2%	107.0%	0/10
Class C Overcollateralization Test	104.0%	101.5%	0/10
Class A/B Interest Coverage Test	122.9%	110.0%	0/10
Class C Interest Coverage Test	109.8%	107.0%	0/10

Independence V CDO, Ltd.

US Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$602.0 million
Closing: February 2004

	As of 11/29/2005	Constraint	Number of Times Failed / Total Distribution Dates (3)
Class A/B Overcollateralization Test	109.1%	103.8%	0/6
Class C Overcollateralization Test	104.2%	101.9%	0/6
Class A/B Interest Coverage Test	138.6%	115.0%	0/6
Class C Interest Coverage Test	129.1%	110.0%	0/6

Independence VI CDO, Ltd.

US and Global Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$ 956.0 million
Closing: June 2005

	As of 12/8/2005	Constraint	Number of Times Failed / Total Distribution Dates (3)
Class A/B Overcollateralization Test	110.3%	102.9%	0/1
Class C Overcollateralization Test	108.3%	101.8%	0/1
Class D Overcollateralization Test	105.7%	101.2%	0/1
Class E Overcollateralization Test	103.5%	101.5%	0/1
Class A/B Interest Coverage Test	131.0%	115.0%	0/1
Class C Interest Coverage Test	128.0%	112.0%	0/1
Class D Interest Coverage Test	123.6%	108.0%	0/1
Class E Interest Coverage Test	119.5%	104.0%	0/1

The prior investment results of the Collateral Manager and any persons associated with the Collateral Manager or any other entity or person described herein or otherwise made available to an investor are not indicative of the Issuer's future investment results. This follows from the fact that the nature of, and risks associated with, the Issuer's future investments may, and are likely to, differ substantially from those investments and strategies undertaken historically by such persons and entities. Accordingly, the Issuer's investments are not likely to perform in accordance with, and may perform less favorably than, the past investments of any such persons or entities. Moreover, certain historic investment information that may have been made available to an investor may not include all of the information necessary to evaluate the economic performance of such persons or entities. Any prospective investor in the Offered Securities should conduct its own independent analysis of such investment results and other investment information.

(1) *Provided in its entirety by Declaration. As of 1/2006.*
(2) *Oovercollateralization ("OC") and Interest Coverage ("IC") test levels are not a definitive indicator of transaction performance. Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing relevant documents for the transactions noted and obtaining additional information regarding the underlying collateral. A review of the structure of each transaction is necessary in order to fully evaluate that transaction's performance. Past performance is not an indication or a guarantee for future results.*
(3) *A failure represents a Distribution Dates on which said test level was not met.*
(4) *For sample definitions of OC and IC Ratios, see Appendix C. Definitions vary from transaction to transaction. For the definition in any given transaction, see the relevant documents for that transaction.*

Declaration

Appendix B

Previous Cash Flow CDO Overcollateralization and Interest Coverage Test Performance(1)(2)(3)(4)

Straits Global ABS CDO, Ltd.

US and Global Mezzanine ABS CDO Cash Flow Transaction
Total Size – U.S.$ 402.0 million
Closing: October 2004

	As of 12/10/2005	Constraint	Number of Times Failed / Total Distribution Dates (3)
Class A/B Overcollateralization Test	108.9%	103.7%	0/4
Class C Overcollateralization Test	104.5%	102.0%	0/4
Class A/B Interest Coverage Test	127.8%	110.0%	0/4
Class C Interest Coverage Test	120.0%	105.0%	0/4

Kent Funding, Ltd

US and Global High Grade ABS CDO Cash Flow Transaction
Total Size – U.S.$ 1,000.0 million
Closing: April 2005

	As of 12/30/2005	Constraint	Number of Times Failed / Total Distribution Dates (3)
Class A/B Overcollateralization Test	102.5%	101.0%	0/3
Class C Overcollateralization Test	100.6%	100.1%	0/3
Class A/B Interest Coverage Test	219.9%	115.0%	0/3
Class C Interest Coverage Test	159.8%	106.0%	0/3

The prior investment results of the Collateral Manager and any persons associated with the Collateral Manager or any other entity or person described herein or otherwise made available to an investor are not indicative of the Issuer's future investment results. This follows from the fact that the nature of, and risks associated with, the Issuer's future investments may, and are likely to, differ substantially from those investments and strategies undertaken historically by such persons and entities. Accordingly, the Issuer's investments are not likely to perform in accordance with, and may perform less favorably than, the past investments of any such persons or entities. Moreover, certain historic investment information that may have been made available to an investor may not include all of the information necessary to evaluate the economic performance of such persons or entities. Any prospective investor in the Offered Securities should conduct its own independent analysis of such investment results and other investment information.

(1) *Provided in its entirety by Declaration. As of 1/2006.*
(2) *Overcollateralization ("OC") and Interest Coverage ("IC") test levels are not a definitive indicator of transaction performance. Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing relevant documents for the transactions noted and obtaining additional information regarding the underlying collateral. A review of the structure of each transaction is necessary in order to fully evaluate that transaction's performance. Past performance is not an indication or a guarantee for future results.*
(3) *A failure represents a Distribution Dates on which said test level was not met.*
(4) *For sample definitions of OC and IC Ratios, see Appendix C. Definitions vary from transaction to transaction. For the definition in any given transaction, see the relevant documents for that transaction.*

Declaration

Appendix C – Additional Definitions

Declaration

Appendix C
Additional Definitions[(1)(2)]

Interest Coverage Ratio:

The sum with respect to any Due Period, without duplication, of (i) the scheduled interest payments due (in each case regardless of whether the due date for any such interest payment has yet occurred) in the Due Period in which such Measurement Date occurs on (x) the Collateral Debt Securities (other than Interest Only Securities that are not Qualifying Interest Only Securities), (y) any Eligible Investments held in the Collection Accounts (whether such Eligible Investments were purchased with Interest Proceeds or Principal Proceeds) and (z) any investments held in each Synthetic Security Counterparty Account, plus (ii) any fees actually received by the Issuer during such Due Period that constitute Interest Proceeds plus (iii) the amount, if any, scheduled to be paid to the Issuer by the Interest Rate Hedge Counterparty under the Interest Rate Hedge Agreement [or by the Credit Default Swap Counterparty in respect of premium under the Credit Default Swap Agreement] on the Distribution Date relating to such Due Period and the amount, if any, to be paid by each Synthetic Security Counterparty on each Defeased Synthetic Security on or prior to the Distribution Date relating to such Due Period, minus (iv) the amount, if any, scheduled to be paid to the Interest Rate Hedge Counterparty by the Issuer under the Interest Rate Hedge Agreement [or to the Credit Default Swap Counterparty in respect of premium under the Credit Default Swap Agreement] on the Distribution Date relating to such Due Period minus (v) the amount, if any, scheduled to be paid pursuant to paragraph (1) under the Interest Proceeds Priority of Payments for accrued and unpaid administrative expenses of the Co-Issuers minus (vi) the amount, if any, scheduled to be paid to the Collateral Manager of accrued and unpaid Senior Collateral Management Fees plus (vii) the amount released from the Interest Equalization Account for deposit into the Interest Collection Account with respect to such Due Period minus (viii) the portion of the scheduled payments of interest on Semi-Annual Pay Securities due in such Due Period required to be deposited into the Interest Equalization Account; divided by

(b) an amount equal to the sum of the scheduled interest on such class of notes and any notes senior to such class. (including any Defaulted Interest thereon and any accrued interest on such Defaulted Interest) payable on the immediately succeeding Distribution Date

Overcollateralization Ratio:

As of any Measurement Date, the number (expressed as a percentage) calculated by dividing (a) the Net Outstanding Portfolio Collateral Balance on such Measurement Date by the sum of (b) the aggregate outstanding principal amount of such class of notes and any notes senior to such class.

(1) Each Class of Notes shall, on any Distribution Date, be subject to mandatory redemption in the event that any Coverage Test applicable to any Class of Notes is not satisfied on the related Determination Date. Any such redemption will be effected, first, from Interest Proceeds and, second (to the extent that the application of Interest Proceeds pursuant to the Priority of Payments would be insufficient to cause such tests to be satisfied), from Principal Proceeds, in each case to the extent necessary to cause each applicable Coverage Test to be satisfied. Any such redemption will be applied to each outstanding Class of Notes in accordance with its relative Seniority and will otherwise be effected as described under "Description of the Notes – Priority of Payments" in the relevant offering circular. In some circumstances in certain transactions, redemption will be applied to each outstanding Class of Notes in reverse order of seniority. Definitions vary from transaction to transaction. For the definition in any given transaction, see the relevant documents for that transaction.

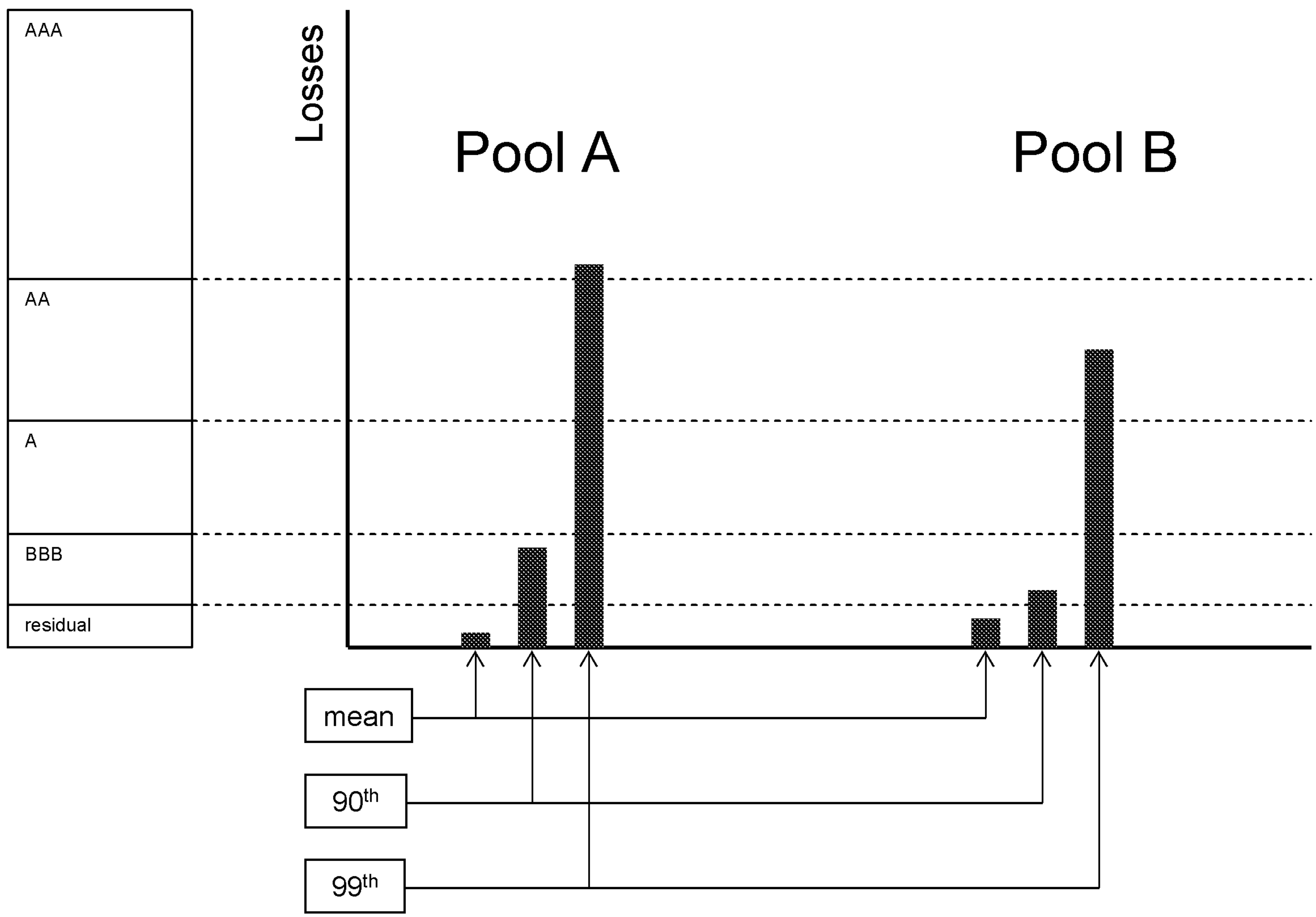
(2) OC and IC test levels are not a definitive indicator of transaction performance. Potential investors are urged to conduct their own investigation regarding the underlying asset classes, including reviewing relevant documents for the transactions noted and obtaining additional information regarding the underlying collateral. A review of the structure of each transaction is necessary in order to fully evaluate that transaction's performance.

Declaration

Appendix D – Resi-ABS Collateral Analysis

Declaration

Resi-ABS Collateral Analysis
Estimate of Mean Loss Not Enough

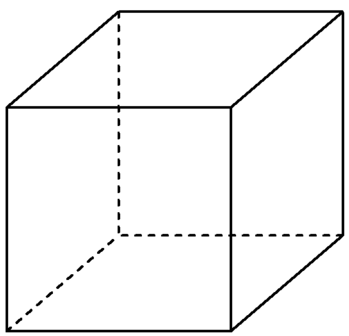


Declaration

Resi-ABS Collateral Analysis
Modeling the Full Distribution: Interaction Effects are Key

- Understanding risk in the 610 – 620 FICO bucket not enough
- Risk = func (joint interaction of collateral features) e.g.:
  - Risk (FICO 610 – 620, LTV 90 – 100, 1st lien, full doc, …) = ?
  - Risk (FICO 610 – 620, LTV 90 – 100, 2nd lien, not full doc, …) = ?

Insights …. **DMR Hypercube Risk Model**

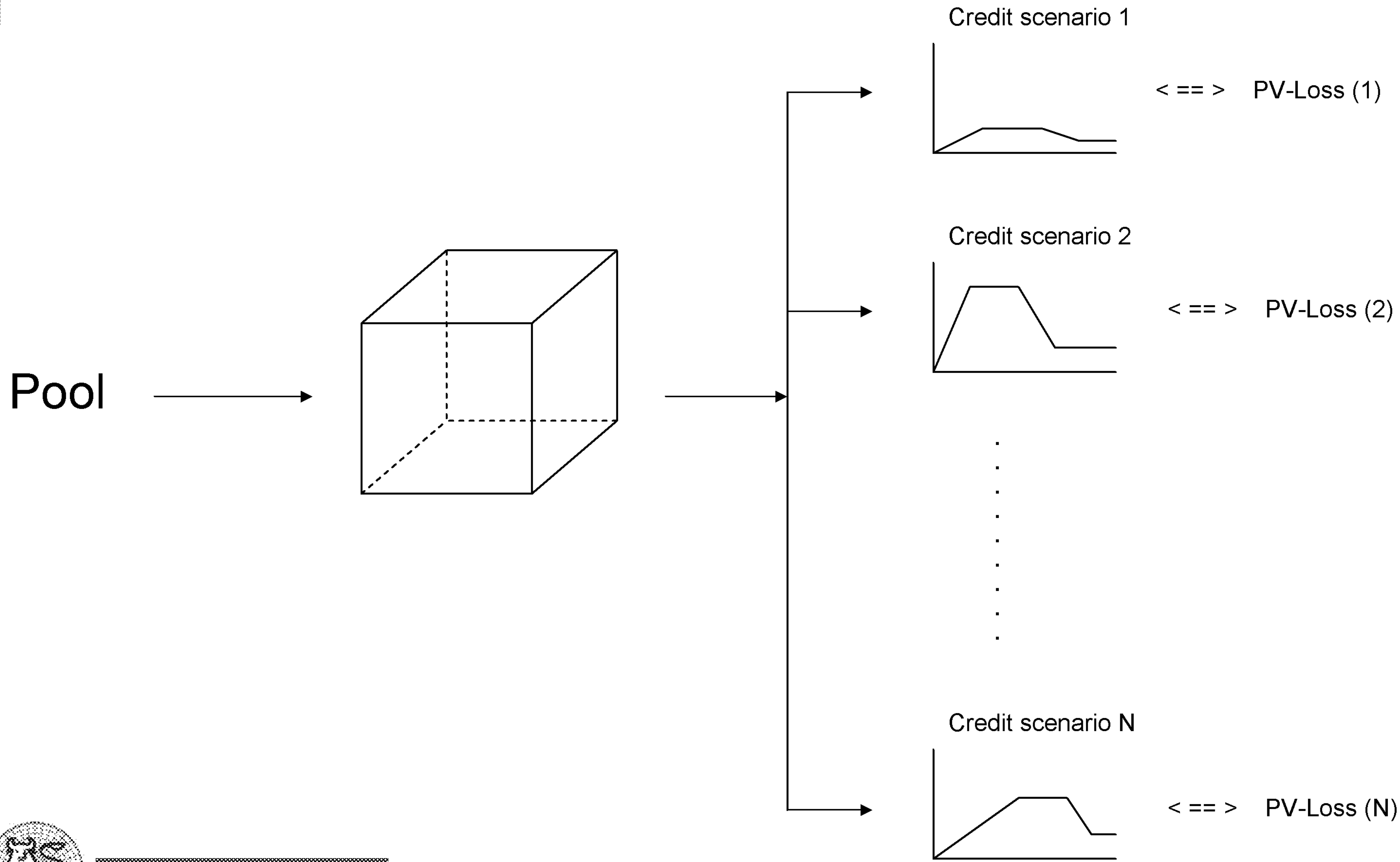


- Number of dimensions = Number of key collateral features (FICO, LTV, etc)
- Each cell represents unique way these features can interact
- Extensive analysis of Loan Perf data yields unique statistical model of risk in each cell
- Sampling from models for each cell allows for Monte Carlo analysis of risk in given pool
- Correlation in sampling driven by geographic distribution of loans in pool

Declaration

Resi-ABS Collateral Analysis

Hypercube Risk Model in Action



Declaration

Resi-ABS Collateral Analysis

Hypercube Risk Model: Actual Output