

Synthetic CDO  
Credit Sheet

**Magnolia Finance II plc**  
Synthetic CDO of RMBS and Structured  
Finance CDOs

Series	Expected Rating*	Size (USD Mil.)	RLR (%)	Subordination (%)	Cushion (%)	Expected WAL (Years)
2006-5A	'AAA'	44.00	14.22	18.44	4.22	3.33
2006-5B	'AA'	40.00	9.19	12.52	3.33	3.61
2006-5C	'A'	21.50	6.26	9.33	3.07	3.79
2006-5D	'BBB'	38.00	3.44	3.70	0.26	3.96
2006-5E	'BB'	14.50	1.48	1.56	0.08	4.24

\*The preliminary ratings do not reflect final ratings and are based on information provided by issuers as of Feb. 28, 2006. These preliminary ratings are contingent on final documents conforming to information already received. Collateral may be added or dropped from the portfolio prior to the issue date. Ratings are not a recommendation to buy, sell, or hold any security. The prospectus or any other material available from the issuer should be reviewed prior to any purchase. RLR – Rating loss rate. WAL – Weighted average life.

**Analyst**

Jeffrey Berkes  
+1 212 908-0734  
jeffrey.berkes@fitchratings.com

**Key Parties**

<b>Arrangers</b>	Credit Suisse Securities (USA) LLC and Credit Suisse International (rated 'F1+/AA-' by Fitch Ratings)
<b>Protection Buyer</b>	Credit Suisse (rated 'F1+/AA-' by Fitch), Cayman Islands Branch
<b>Issuer/Protection Seller</b>	Magnolia Finance II plc
<b>Rate Swap Counterparty</b>	Credit Suisse (rated 'F1+/AA-' by Fitch), Cayman Islands Branch
<b>Trustee</b>	HSBC Trustee (C.I.) Limited

**Summary**

Fitch Ratings expects to rate the USD158.0 million credit-linked notes issued by Magnolia Finance II plc (Magnolia II, the issuer, or protection seller), a public limited company incorporated in Ireland, as indicated in the table above. Each series of notes references, and is credit-linked to, different parts of a capital structure of a static reference portfolio consisting of residential mortgage-backed securities (RMBS) and structured finance collateralized debt obligations (CDOs) with an aggregate notional amount of USD675.0 million. The issuer will enter into portfolio credit default swaps (CDS) with Credit Suisse (rated 'F1+/AA-' by Fitch), Cayman Islands Branch (the protection buyer), whereby the issuer will sell credit protection on the reference portfolio to the protection buyer. For each series of notes, following the occurrence of a credit event or floating amount event, the issuer shall, provided losses have reduced the subordination amount to zero, make protection payments to the protection buyer, and the outstanding principal amount of such series of notes will be reduced accordingly without any corresponding payment to noteholders. The expected ratings are based on the credit quality of the reference portfolio, the credit enhancement provided by subordination for each series, the strength of the counterparties, and the transaction's sound financial and legal structures. The expected ratings of the notes are based on the timely payment of interest and the ultimate receipt of principal at maturity.

**Credit Committee Highlights**

**Risk Highlights**

- Structural protection for the securities is derived primarily from the subordination of lower rated series to higher rated ones. Following a credit event on a reference entity, losses will be determined and applied to reduce the subordination amount for each series. If realized losses exceed the value of the subordination on each series of notes, then the par value of the notes will be written down by the amount of protection payments up to their respective series amounts.
- In this transaction, the issuer depends on the counterparty to make the monthly CDS premium payments to provide timely interest payments on the securities. Therefore, structural features are in place for the expected rating of the notes to be de-linked from the rating of the counterparty. The protection buyer and rate swap counterparty is Credit Suisse, acting through its Cayman Island Branch. Credit Suisse is currently rated ('F1+/AA-').

**March 9, 2006**

**Credit Committee Highlights (continued)**

**Risk Highlights (cont.)**

- In the event of protection payments from the protection seller to the protection buyer following floating amount events or credit events, the swap counterparty will take delivery of charged assets at par, mitigating market value risk.
- There is a high degree of involvement on the part of Credit Suisse and its affiliates in this transaction. Credit Suisse and its affiliates have selected the portfolio and act as credit swap and rate swap counterparty, arranger, interest calculation agent, and determination agent. As a result, Credit Suisse will have the sole right to call floating amount events and credit events, determine floating amount payments, and, in the case of certain credit events, decide whether to pursue cash or physical settlement. Offsetting this risk is the fully static nature of the portfolio, which has an overall investment-grade rating.
- A potential conflict of interest could arise if Credit Suisse or its affiliate holds the underlying reference obligation or the equity or another tranche in the same referenced transaction and is able to forgive interest or principal due on the reference obligation. In such a case, the protection buyer could call a floating amount event or credit event on the same reference obligation. This potential risk is not specific to this transaction, as the definition of writedown in this transaction conforms to established The International Swaps and Derivatives Association, Inc. (ISDA) documentation.
- The portfolio has a high concentration of subprime RMBS. Fitch's 2006 global structured finance outlook highlights risks in subprime collateral due to payment shocks in adjustable-rate mortgages in an increasing interest rate environment and a slowdown in home price appreciation. Subprime securities may be more susceptible to payment shocks and available funds cap (AFC) risk. Fitch's VECTOR model and default and recovery rate assumptions account for sector and obligor concentrations. The CDS have been executed using fixed cap applicable, so the CDO can only lose the premium it expects to earn due to interest shortfall (including AFC) risk. CDS that trade under fixed cap applicable have less AFC risk than do cash bonds. For further information regarding Fitch's 2006 outlook for structured finance securities, including RMBS, see Fitch Research on "*Global Rating Criteria for Collateralised Debt Obligations*," dated Sept. 13, 2004, available on Fitch's web site at [www.fitchratings.com](http://www.fitchratings.com).

**Credit Default Swap Counterparty**

- At closing, the issuer will enter into a CDS with Credit Suisse that legally matures in November 2045 but is subject to call in October 2008 for the series 1 and 2 notes and April 2009 for the series 3, 4, and 5 notes. The transactions are expected to amortize on or after September 2008. The CDS synthetically transfers credit risk on the reference portfolio from Credit Suisse to the issuer.
- The CDS will be documented using confirmations based on the template for credit derivative transactions on asset-backed securities (ABS) with pay-as-you-go or physical settlement published by ISDA and incorporating the 2003 credit derivative definitions, which have been modified due to the unique characteristics of the referenced securities in transactions such as these.

**Charged Assets**

- U.S. dollar cash deposits with an Organisation for Economic Co-operation and Development bank rated 'F1+'.
- U.S. dollar-denominated credit card, student loan or auto loan ABS rated 'AAA'.
- U.S. dollar-denominated commercial paper rated 'F1+'.
- An investment made pursuant to any investment agreement applicable to a series of notes.
- Charged assets will be subject to a rate swap agreement with Credit Suisse. The rate swap agreement will provide the London Interbank Offered Rate (LIBOR) component of interest payable on the notes, and the protection premium will provide the spread component of interest payable on the notes. In the case of floating amount events and credit events, the protection seller will deliver charged assets to the protection buyer to effect settlement, which will be accepted by the protection buyer at par. As a result, the protection buyer assumes the market value risk related to liquidating the charged assets.

**Credit Profile**

**Reference Portfolio**

**Reference Portfolio**

- The reference portfolio is a fully static transaction with no substitution or trading allowed.
- The aggregate notional amount of the reference portfolio is USD675.0 million.
- The reference portfolio contains 127 RMBS obligations from 125 separate RMBS transactions (including two tranches each from two transactions) and eight separate structured finance CDO transactions. The entire portfolio has a weighted average rating factor of 5.29 'BBB/BBB-'.

**Credit Profile (continued)**

**Reference Portfolio (continued)**

**Reference Portfolio (cont.)**

- Of the aggregate notional amount of the reference portfolio, 77.8% is represented by subprime RMBS, 16.3% is represented by prime RMBS, and 5.9% is represented by structured finance CDOs.

**Credit Protection Events**      **Floating Amount Events (Pay-As-You-Go (PAUG) Settlement)**

- Writedown.
- Failure to pay principal.
- Interest shortfall.

**Credit Events (Cash or Physical Settlement)**

- Failure to pay principal.
- Writedown.
- Distressed ratings downgrade if any one of Fitch, Standard and Poors, or Moody's Investors Service (Moody's) downgrades a reference obligation as follows:
  - 'CCC' or 'Caa2' or below.
  - Rating withdrawn and not reinstated within five business days of downgrade or withdrawal, unless rated 'BBB-' or 'Baa3' or higher immediately prior to withdrawal and assigned a rating of at least 'CCC+' or 'Caa1' within three months.

**Settlement Process**      **Floating Amount Event (Floating Payments)**

- The protection seller pays the protection buyer the applicable floating amount after the subordination amount for the relevant series has been reduced to zero.
- Interest shortfalls include payment in kind of interest, a potential issue on mezzanine CDO tranches (6% of the reference portfolio). Any interest shortfall is capped under the individual hypothetical single-name confirmations at the premium (fixed cap applicable); however, on an aggregate basis under the master credit swap transaction confirmation, interest shortfalls are capped at LIBOR plus a premium. Notwithstanding the inclusion of LIBOR in the master confirmation cap, the protection seller will not have to make payments to the protection buyer as a result of interest shortfalls.

**Credit Event (Cash Settlement with Protection Buyer Option for Physical Settlement)**

- Cash settlement applies in the event of all hard credit events. A hard credit event consists of: a failure to pay principal, a writedown that is unreimbursable according to the underlying reference obligation transaction documents, cumulative writedowns of a reference obligation in excess of 20% of the original principal amount, Fitch and Moody's ratings of 'CC' and 'Ca' on a reference obligation for six months, and/or Fitch and Moody's rating downgrades to 'C' and 'C' on a reference obligation.
- The cash settlement process includes multiple valuation dates no less than 720 calendar days after the event determination date. The valuation dates are at the discretion of the protection buyer and are the greater of one and the result, rounded up to the nearest whole number, obtained by dividing the quotation amount by 20 million. The quotation method is bid, and the quotation amount is the lower of: a) the floating-rate payer calculation amount; and b) the then-aggregate outstanding principal balance of the reference obligation, in either case up to a maximum of USD20 million on any single valuation date. The minimum quotation amount is the lower of USD500,000 and the quotation amount. The minimum number of dealers that may be polled is five, and Credit Suisse or one of its affiliates may be included as a dealer, exposing the cash settlement procedure to a potential conflict of interest. Fitch's criteria include assigning lower recovery rates where the protection buyer can be one of two bid providers.
- The protection buyer has the option prior to the seller-determined valuation date to choose physical settlement of hard credit events.

**Credit Event (Physical Settlement)**

- In addition to the credit events that are subject to cash settlement or physical settlement at the option of the protection buyer, only physical settlement is allowed in the case of nonhard credit events. Nonhard credit events include certain cases of writedown or distressed ratings downgrade.

**Credit Profile (continued)**

<b>Settlement Process (cont.)</b>	<b>Credit Event (Physical Settlement) (continued)</b> <ul style="list-style-type: none"> <li>• After the subordination amount for a series has been reduced to zero, the protection buyer may deliver physical reference obligations to Magnolia II, in which case Magnolia II will deliver charged assets representing the par value of the reference obligations in return. The principal amount of the notes will then be written down by the par value of the delivered reference obligation. However, the noteholders will have rights to the cash flows (interest, principal, and liquidation proceeds) from the physically delivered reference obligation.</li> </ul>
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**CDS Counterparty and Other Parties**

<b>Credit Default Swap Termination Events and Events of Default</b>	<ul style="list-style-type: none"> <li>• The CDS transactions are scheduled to amortize in or after September 2008, with legal maturity in November 2045 or, in the case where a loss settlement amount for a reference obligation has yet to be determined, on the grace period extension date.</li> <li>• In addition to the scheduled termination date, the CDS may be subject to early termination, an event of default, or an optional call. In the event of an early termination due to an event of default by the swap counterparty, including failure to either post collateral or substitute counterparties in the event of a rating downgrade, the issuer must provide protection payments to the counterparty on any credit events that occurred prior to the early termination.</li> <li>• If the long-term unsecured debt obligations of Credit Suisse are downgraded below 'A' by Fitch or 'A1' by Moody's, or if the short-term unsecured debt obligations are downgraded below 'F1' by Fitch or 'P1' by Moody's and Credit Suisse does not post collateral or find a replacement guarantor rated at least 'F1' and 'A' by Fitch and at least 'P1' and 'A1' by Moody's within 30 business days of such downgrade becoming effective, a rating event is triggered. In the event of a downgrade below 'F2/BBB+', the swap counterparty must find a suitable replacement.</li> </ul>
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**Related Research\***

- ["Considerations for Funded Portfolio Credit Derivatives \(Synthetic CDOs\),"](#) dated June 8, 2005
- ["Global Rating Criteria for Collateralised Debt Obligations,"](#) dated Sept. 13, 2004
- ["2006 Global Structured Finance Outlook: Economic and Sector-by-Sector Analysis,"](#) dated Jan. 17, 2006

\*All reports are available on Fitch's web site at [www.fitchratings.com](http://www.fitchratings.com).

**Modeling Notes**

Fitch's primary assessment of default probability of the reference portfolio is based on the credit quality of the reference obligations as assessed using Fitch's default VECTOR model (VECTOR). VECTOR is a multiperiod Monte Carlo simulation model that simulates the default time for individual entities for each year of the transaction's life to analyze the joint default behavior of CDO portfolios based on the default probability and recovery rate, as well as the correlation between assets in a portfolio.

Fitch also conducts a document and legal review when assigning a rating.

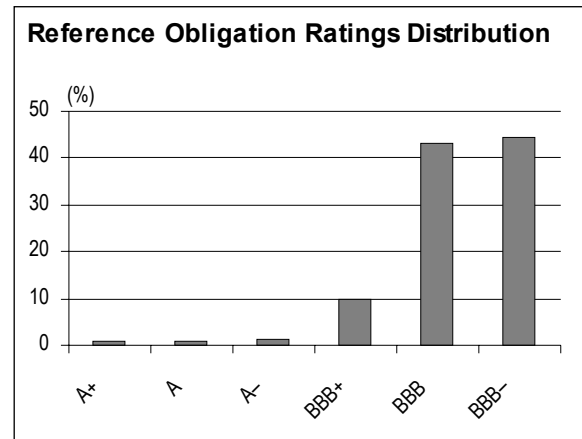
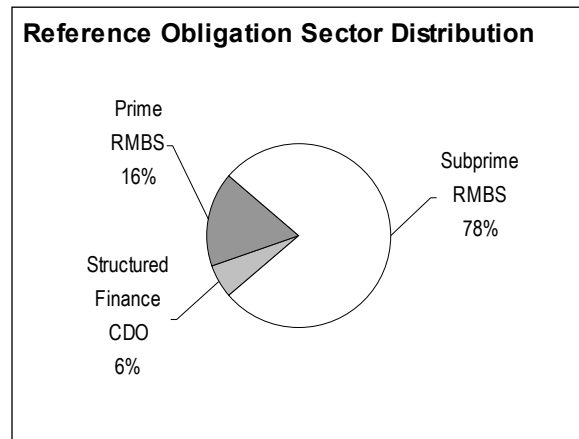
For further information on the modeling methodology used by Fitch, see Related Research at left.

**Reference Portfolio Summary**

**Reference Portfolio**

**Portfolio Composition** On a notional basis, the reference portfolio consists of:

- 94% RMBS.
- 6% structured finance CDOs.
- Weighted average rating of 'BBB/BBB-'.



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