From: McGinn, Kevin
Sent: 0l/2l/2008 03:12:40 PM
T0: Gorton, Gary
CC: Cassano, Joseph, Forster, Andrew, Micottis, Pierre, Diaz, Ed, Lewis,
Robert (AIG Enterprise Risk Mgmt)
Subject: Re: Actuarial Model for SS Multi-Sector CDOs

Gary:

Thanks much for your detailed response.

I have actually asked to be included in the Wednesday meeting. If not, then, yes, I will want to get together as soon as possible after, since I don't want time to pass by if we have to do something additional. Thus, a session this week would be important. Which deal (s) is down to AAA? I am aware of the slide from 12/5 to which you allude. But it doesn't give me very much comfort, since it has been transcended by events. Moreover, the agencies are hardly through with their downgrades, even for 05 collateral, as S&P has signaled. As you know, they bumped their subprime 05 loss assumption to 8.5% from 5.75%. We still also have a large wave of 3/27 ARM re-sets to get through in this first half that are not yet reflected in the delinquency data. As HPA accelerates as seems likely until markets clear (we are nationally at 10 months' inventory and rising, with many markets with over-representation by sub-prime RMBS much higher), delinquencies for 05 pools could shift abruptly
upwards yet.

The basic point is that we have to be doubly sure that, if Bob is still going to assure investors we will not incur an economic loss from any of the deals, we can support the assertion with very solid analysis. If we have to hedge the previous assertion, let's do it now.

I think we should harden our projected downgrade assumptions. Perhaps another full rating downgrade (or more) assumption for all RMBS collateral makes sense despite the downgrades of the 4th quarter that should already be in your results. I welcome views here.

Regards.

Kevin