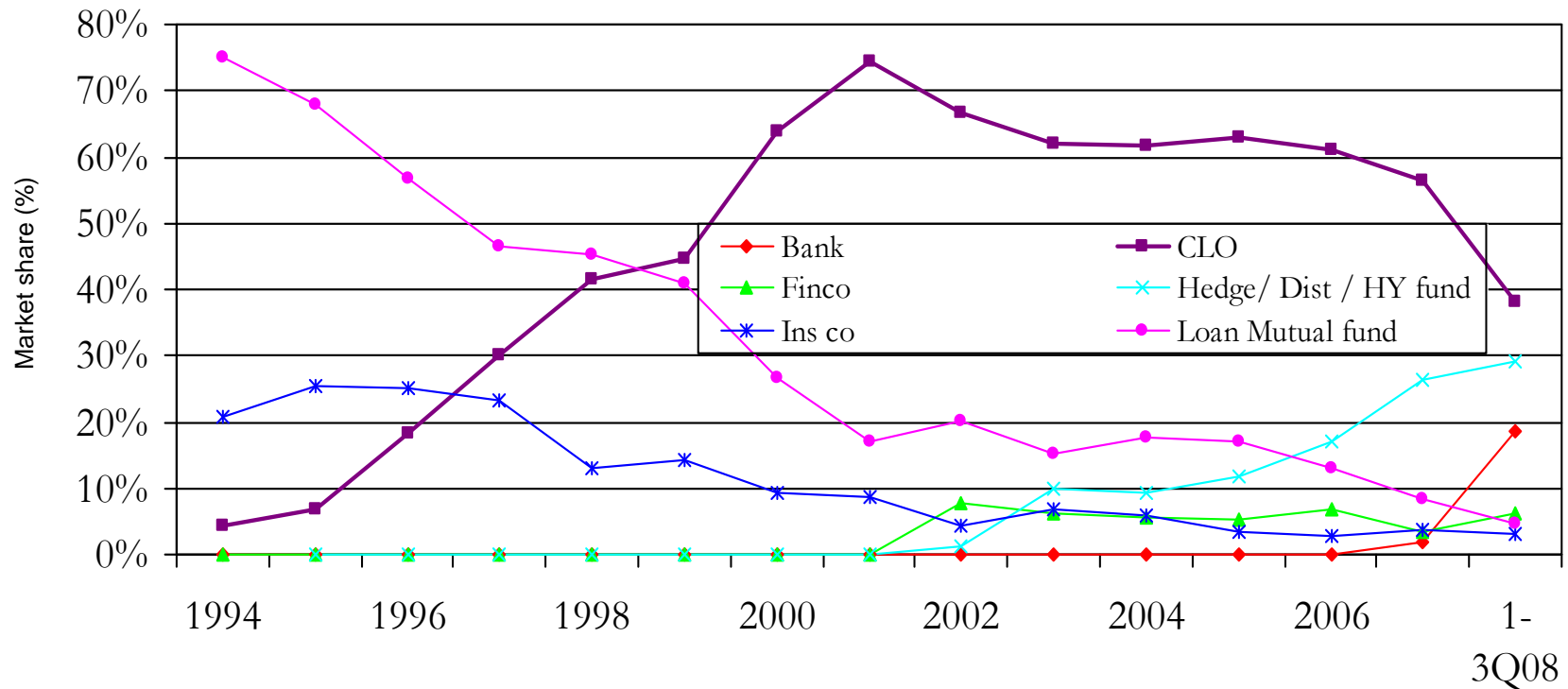

Challenges Facing CLOs...and the Loan Market

Meredith Coffey, LSTA – Moderator

David Preston, Wachovia
Joseph Rotondo, INVESCO
Glenn Stewart, Bank of America

CLOs accounted for more than 50% of demand in the peak

Market share by lender type

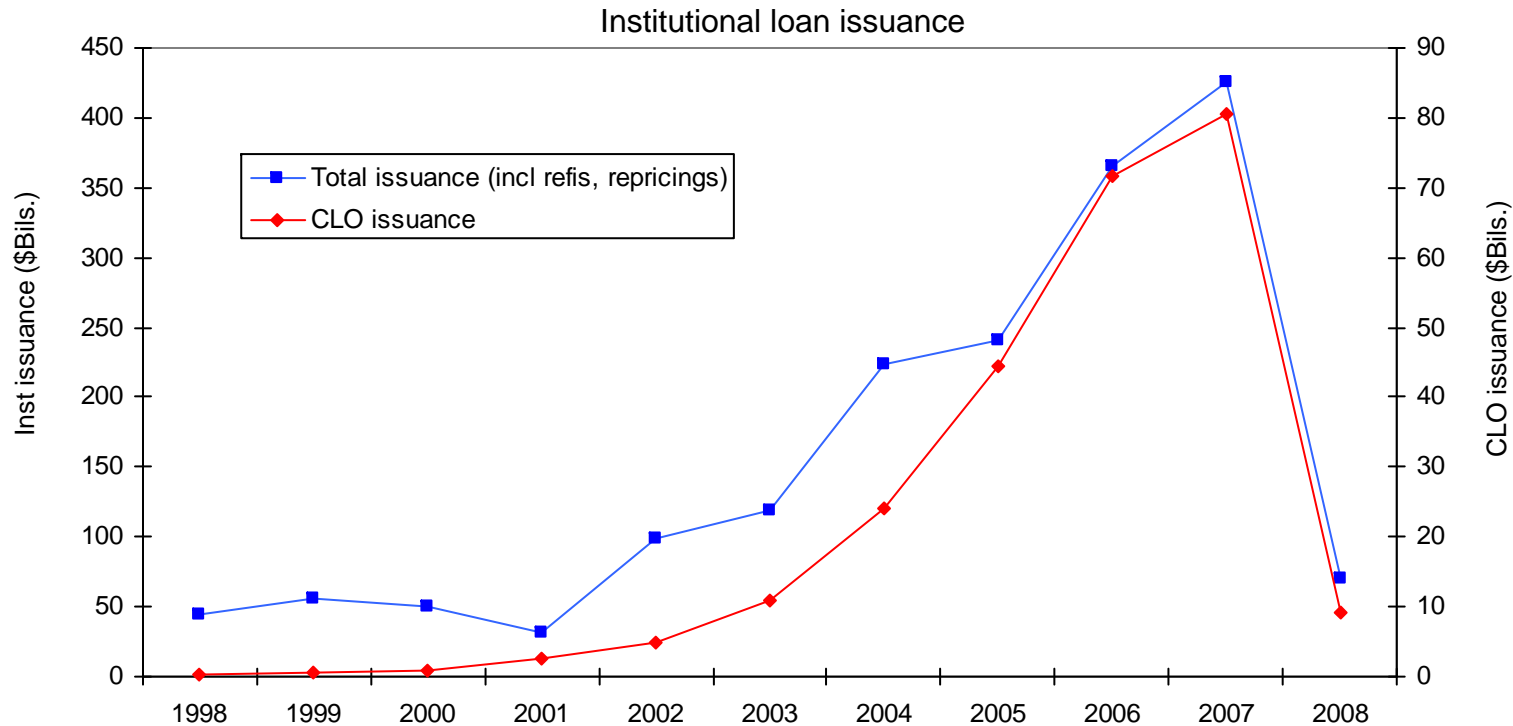


- CLOs dominated institutional market through 2007
- In 2008, CLO activity slowed dramatically, banks became constrained

Source: S&P/LCD

CLO issuance buoys institutional loan growth

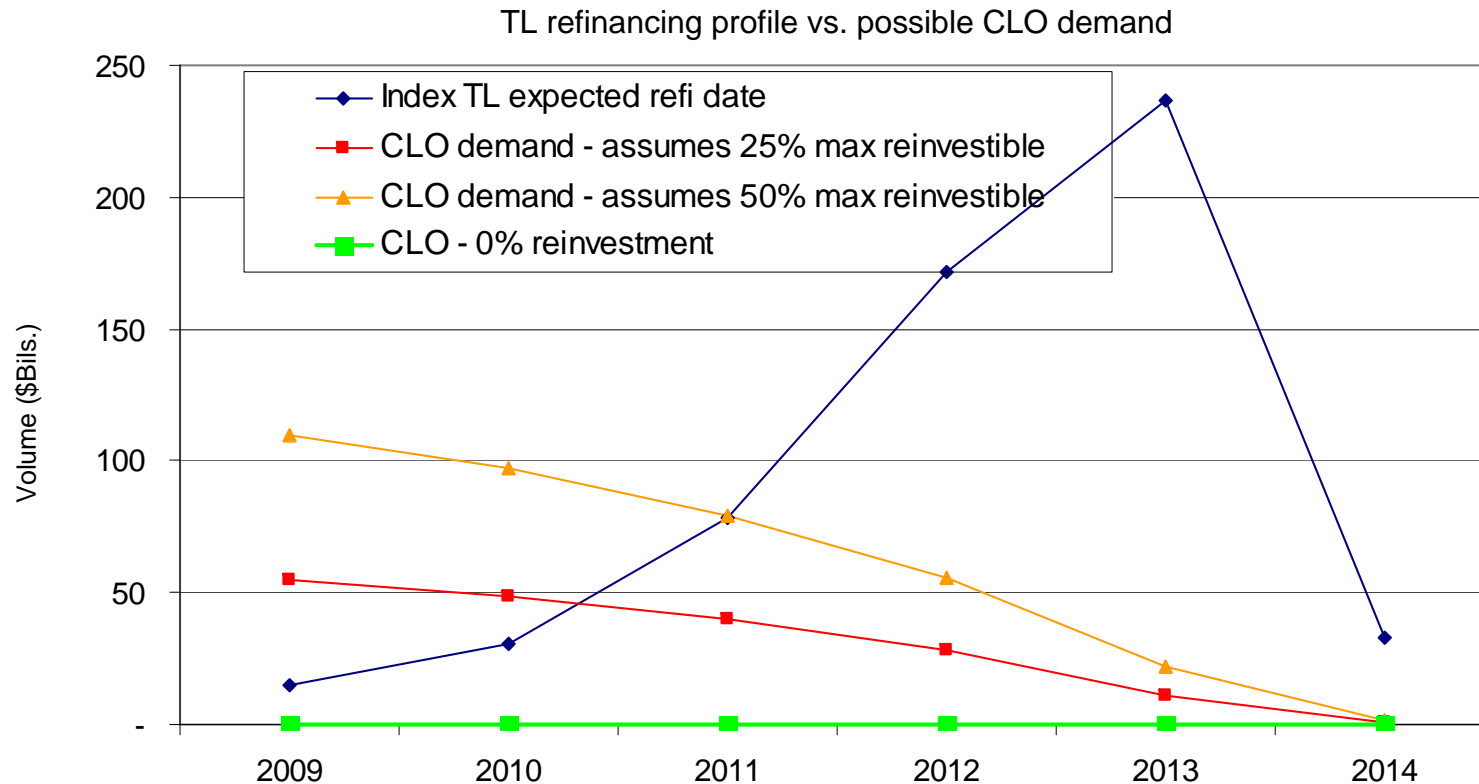
Both markets stop in 2008



- Institutional market growth enabled by CLO growth
- Severe dislocation in CLOs and institutional loan market in 2008
- CLO issuance stops
- Ability to issue new loans ends
- These loans are outstanding... and will need to be refinanced

*Note: institutional loan issuance includes refinancings; Net new issuance considerably lower

There may be a significant refinancing shortfall



- Starting in 2011, there will be a large volume of loans that must be refinanced
- Because CLOs will be entering the end of their reinvestment periods, they will not be able to refinance these maturing loans
- In reality, CLOs will be far more constrained

Source: S&P/LCD, Wachovia Securities, LSTA

The CLO Universe

CLO: 559 Deals / \$261,323,121,992 Current Balance

Vintage	Deal #	WARF	Curr Bal (\$mm)	% Cash	% Issuers Mapped	% Rated Assets	% Assets Defaulted	% Assets Rated B3	% Assets Rated Caa1 - Ca	Deals w/ IC Failures	Deals w/ OC Failures	Deals w/ Sr OC Failures
1997	1	4,321	51	0.0%	79.0%	83.4%	16.6%	64.0%	19.3%	1	1	1
1998	7	3,714	159	0.0%	96.0%	97.5%	11.1%	41.3%	12.3%	5	4	3
1999	5	4,378	470	2.5%	84.5%	96.8%	20.9%	14.8%	18.6%	2	3	0
2000	8	3,112	796	2.6%	93.1%	85.7%	6.8%	3.4%	13.5%	3	3	0
2001	9	3,069	2,997	2.1%	92.6%	96.9%	5.7%	9.7%	9.4%	1	1	0
2002	16	3,116	4,640	2.6%	93.7%	95.1%	6.4%	9.1%	12.5%	0	3	0
2003	31	2,985	10,680	2.0%	95.9%	90.4%	5.7%	10.7%	10.5%	1	25	4
2004	58	2,945	24,275	1.8%	96.4%	95.1%	5.4%	11.2%	10.7%	1	37	4
2005	91	2,805	44,368	2.2%	91.7%	94.0%	4.7%	11.1%	10.0%	0	46	8
2006	150	2,892	73,237	1.3%	90.3%	94.3%	4.9%	11.7%	10.9%	0	83	18
2007	154	2,983	85,848	1.5%	91.6%	91.1%	4.2%	14.1%	10.9%	0	83	15
2008	29	2,826	13,802	1.9%	96.0%	90.0%	2.8%	12.7%	9.9%	0	10	3
Total	559	2,922	261,323	1.7%	92.1%	92.9%	4.7%	12.3%	10.7%	14	299	56

"WARF" and "% Assets Rated B3" and "Rated Caa1-Ca" calculations only include Moody's rated assets.

Source: Intex, LoanX, Wachovia Capital Markets, LLC
as of 5/8/2009

CLO Overcollateralization details

		VINT.	COUNT	MEDIAN	MEAN					
Sr OC Value (%)	2003	31		117.4	123.0	Sr OC Test (%)	2003	31	113.0	117.2
	2004	57		118.1	126.0		2004	57	112.0	119.6
	2005	90		117.3	119.7		2005	90	111.9	113.7
	2006	147		117.7	118.2		2006	147	111.6	113.0
	2007	150		118.0	118.5		2007	150	111.9	113.1
	2008	28		126.6	126.9		2008	28	118.1	119.4
	ALL	503		118.0	120.2		ALL	503	112.0	114.5
		VINT.	COUNT	MEDIAN	MEAN					
Sr OC Cushion (%)	2003	31		4.0	5.7					
	2004	57		5.7	6.4					
	2005	90		5.8	6.0					
	2006	147		5.8	5.2					
	2007	150		5.8	5.4					
	2008	28		7.6	7.5					
	ALL	503		5.8	5.7					

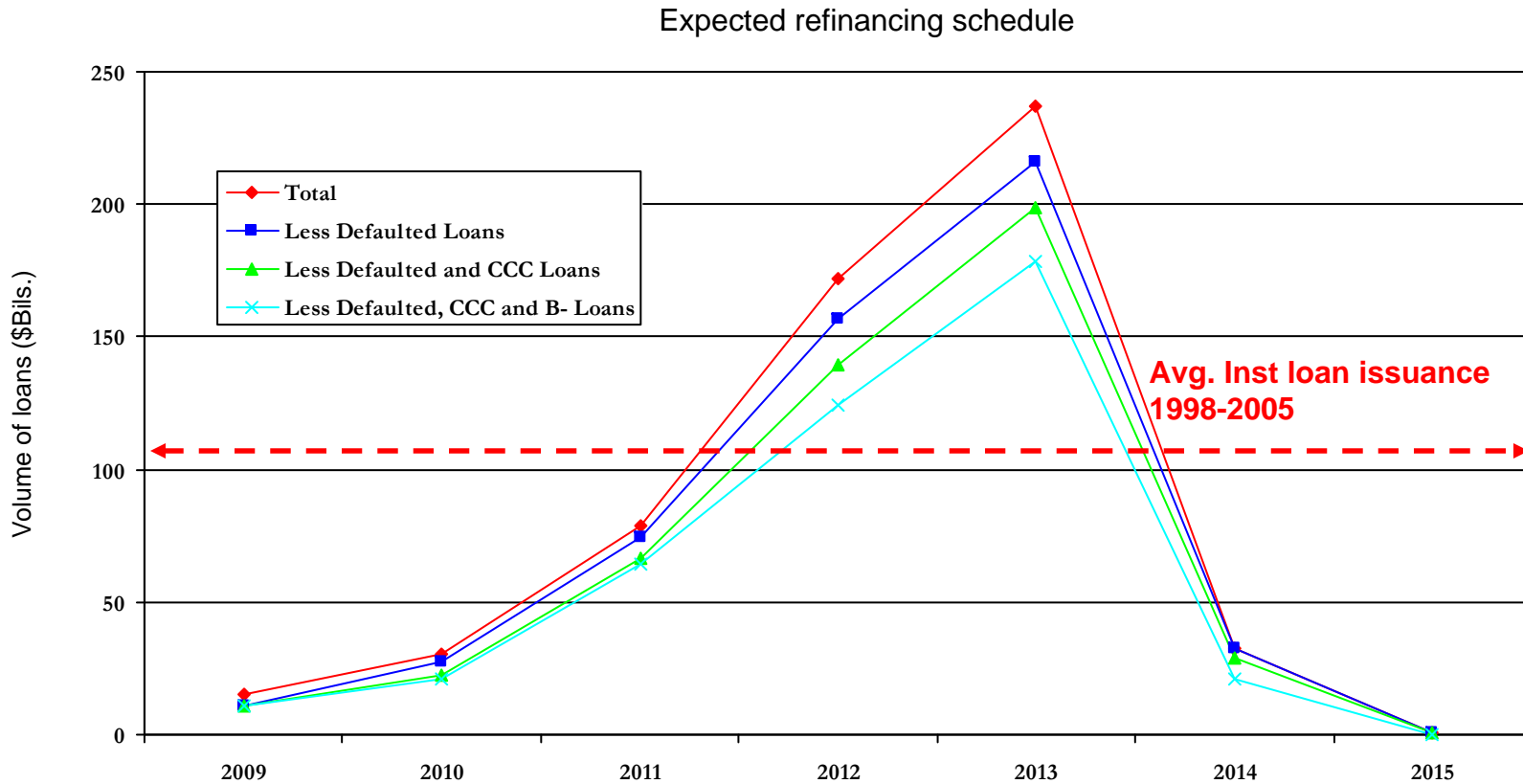
Source: Intex, Wachovia Capital Markets, LLC as of 5/8/09

CLO Downgrade details

All Vintages											
Orig. Rating	Current Rating										
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	C	WR	NR
Aaa	844	20	11	3	4	0	2	0	0	4	39
Aa	0	517	11	6	2	3	0	1	0	0	10
A	0	1	23	228	272	5	4	2	0	3	15
Baa	0	0	0	21	197	293	15	6	0	3	15
Ba	0	0	0	0	14	158	197	12	1	0	11

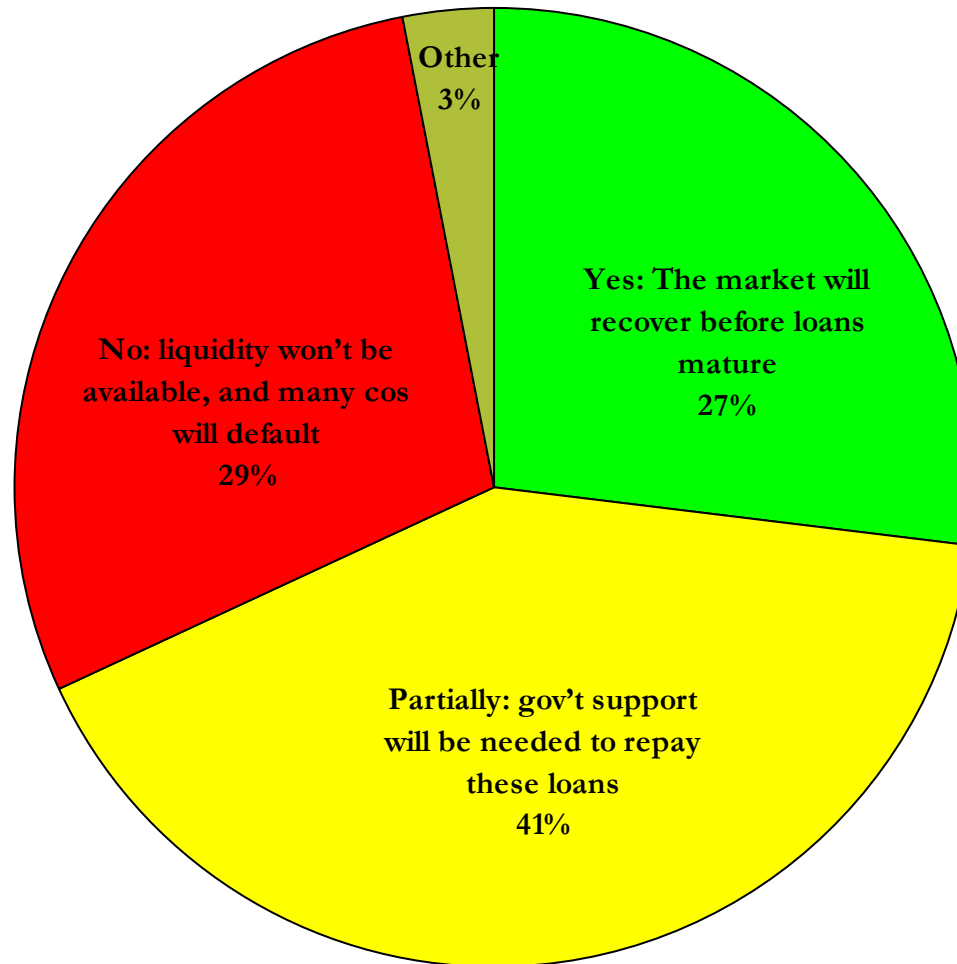
as of 5/8/09
Source: Intex, Moody's

How to address refinancing cliff?



- Issuance boom from 2005-2007 will mature in 2011-2014
- However, loans will need to be refinanced a year earlier (2010-2013)

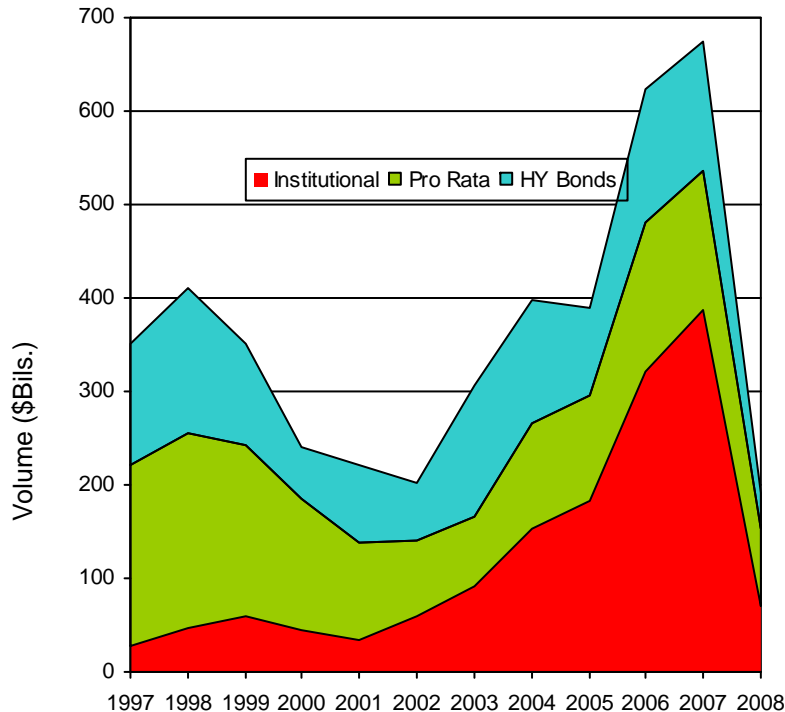
Will the \$500B+ of non-defaulted loans in the S&P/LSTA index be refinance-able?



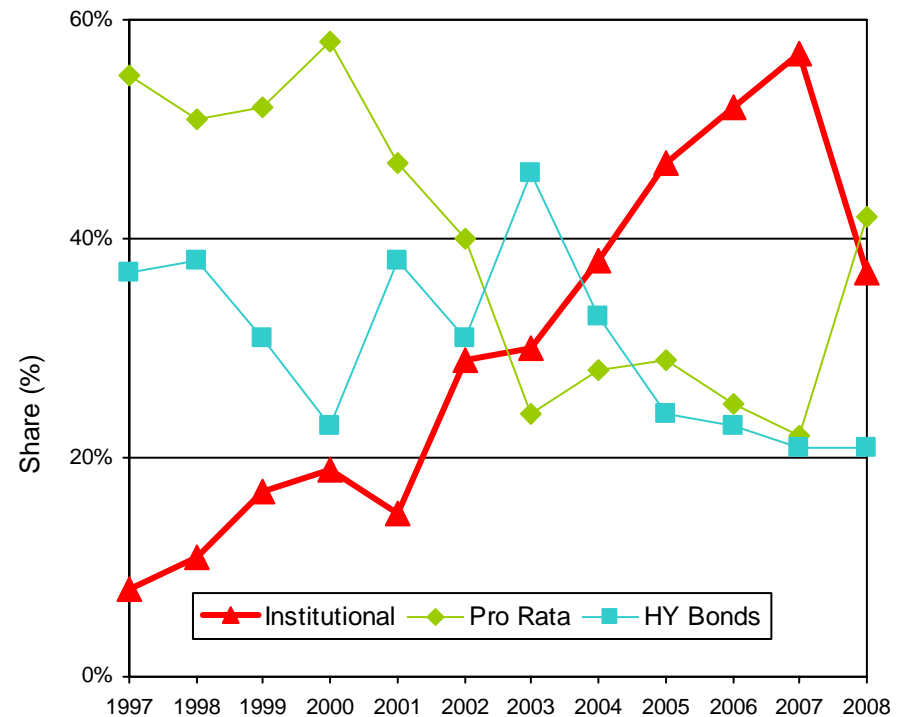
Source: LSTA poll

Reversal of fortune: Where does lev fin money come from?

Size of lev fin market (HY, bank, inst loans)



Share of lev fin market (HY, bank, inst loans)



- Lev fin market grew from \$200B in 2002 to \$675B in 2007
- Lev fin new issue fell 71% to \$192B in 2008

- Institutional share grew from 8% in 1997 to 57% in 2007, replacing both pro rata and HY bonds
- HY bond share declined from 40% to 20% in 2007

Source: S&P/LCD, Thomson Reuters LPC, Merrill Lynch

