

# Memorandum

To: Derivatives Group Rating Committee  
From: Karie Chen and Teresa Wyszomierski  
Attendees: Eric Kolchinsky, Rudy Bunja, Karie Chen and Teresa Wyszomierski  
Committee Chair: Eric Kolchinsky  
Date: May 26, 2006  
Re: GSC ABS CDO 2006-2m, Ltd. – Final Closing Committee

## SUMMARY

**Issuer / Co Issuer:** GSC ABS CDO 2006-2m, Ltd. / GSC ABS CDO 2006-2m, Corp. (“GSC”)  
**Banker:** Merrill Lynch (Josh Laurito - 212.449.9316)  
**Collateral Manager:** GSCP (NJ), L.P. (“GSC Partners”)  
**Trustee:** LaSalle Bank National Association  
**Counsel:** Stroock & Stroock & Lavan LLP

**Pricing:** May 9, 2006  
**Closing:** May 31, 2006  
**Deal Type:** Mezzanine ABS CDO  
**Maturity Date:** June 8, 2045  
**Payment Frequency:** Quarterly – Commences in September 5, 2006

## CAPITAL STRUCTURE

The total rated balance is \$488 million.

Tranche	Principal Balance	% of Total	Coupon	State Maturity	Target
Class A-1A Notes*	\$225,000,000	44.64%	3mL + 0.30%	6/8/2045	Aaa/AAA
Class A-1B Notes**	\$125,000,000	24.80%	3mL + 0.30%	6/8/2045	Aaa/AAA
Class A-2 Notes	\$13,500,000	2.68%	3mL + 0.43%	6/8/2045	Aaa/AAA
Class B Notes	\$56,500,000	11.21%	3mL + 0.52%	6/8/2045	Aa2/AA
Class C Notes	\$14,500,000	2.88%	3mL + 0.63%	6/8/2045	Aa3/AA-
Class D Notes	\$22,500,000	4.46%	3mL + 1.35%	6/8/2045	A2/A
Class E Notes	\$21,000,000	4.17%	3mL + 3.15%	6/8/2045	Baa2/BB B
Class F Notes	\$5,000,000	0.99%	3mL + 6.25%	6/8/2045	Ba1/BB+
Class G Notes	\$5,000,000	0.99%	3mL + 7.25%	6/8/2045	Ba2/BB
Preference Shares	\$16,000,000	3.17%	Residual	6/8/2045	NR/NR
Total	\$504,000,000				
Class P Notes***	\$12,000,000			6/8/2045	Aaa

### \* Class A-1A Notes (Class A-1A Swap)

This is an unfunded super-senior swap on a notional amount of \$225,000,000. The counterparty is Merrill Lynch International (“MLI”) selling protection to the Issuer. Pursuant to this agreement, MLI is obligated to make payments (“Exchange Amount”<sup>1</sup>) in exchange for the issuance of the Class A-1A Notes. This swap covers the 45% of unfunded Credit Default Swaps.

<sup>1</sup> The Exchange Amounts are any termination and/or settlement amounts owed by the Issuer.

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The Class A-1A Swap and the Credit Default Swaps are governed by the same schedules. There are counterparty rating triggers in place to account for the risk of a downgrade on the counterparty.

**\*\* Class A-1B Notes**

This is a Delay Draw Note. All of the Notes will be issued at closing and will be fully funded on the Ramp-Up Completion Date. At closing, approximately \$75 million will be advanced.

**\*\*\* Class P Notes** are Principal Protected Notes consisting of the Class P Treasury Strip, a U.S. treasury Strip (Cusip #912803AX1) in the principal amount of U.S.\$12,000,000 due June 8, 2006 and the Class P Preference Shares Component of \$6,614,000. The face amount of the strip will always equal the face amount of the Class P Notes. As payments are made to the Class P noteholders, portions of the strip will be sold. The amount of strip sold will equal the amount distributed to the Class P noteholders coming off the equity component, discounted back at the market value of the strip. The proceeds of the strip sold will then be distributed to the Class P noteholders.

**PORTFOLIO CHARACTERISTICS**

Coverage Tests	Trigger	Current
<b>Principal Coverage Tests</b>		
Class A/B/C O/C Test	108.27%	115.07%
Class D O/C Test	104.91%	109.41%
Class E O/C Test	102.70%	104.60%
Class F O/C Test	101.77%	103.52%
Class G O/C Test	101.21%	102.46%
Class A Sequential Test	130.00%	137.55%

Collateral Quality Tests	Triggers
Target Par Value of Collateral	\$500 million
Current Par	\$437,928,021.62
Current Percentage ramped	87.59%
Weighted Average Spread Test	1.97%
Weighted Average Coupon Test	5.75%
Minimum Average Recovery Rate	24.00%
Weighted Average Life Test	Closing to End of Reinvestment Period 5.50 yrs. Thereafter 2.50 yrs
Maximum Asset Correlation Factor	See "Rating Matrix" below
Number of Assets	110
Weighted Average Rating Factor	See "Rating Matrix" below
Reinvestment Period	3 years (Ends June 2009)
Discretionary Trading	15%

Rating Matrix	Correlation	WARF
1	18.1%	550
2	19.0%	525
3	21.0%	510

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**CURRENT PORTFOLIO**

Rating Distribution		
Ratings	Par	Percentage
A3	\$5,999,613.90	1.37%
Baa1	\$15,458,859.16	3.53%
Baa2	\$153,581,357.18	35.07%
Baa3	\$262,888,191.38	60.03%
Total	\$437,928,021.62	100.00%

Asset Type Distribution		
Asset Type	Par	% of Portfolio
RMBS - Midprime	\$174,163,974.20	39.77%
RMBS - Subprime	\$220,584,344.49	50.37%
ABS CDOs	\$25,750,167.67	5.88%
Conduit	\$14,407,831.91	3.29%
RMBS - First and Second Lien		
Prime	\$3,065,496.15	0.70%
Total	\$437,928,021.62	100.00%

**RAMP-UP**

- 87.59% ramped-up at Closing
- Ramp-Up Completion Date: 86 days from Closing Date - there will be no payment date prior to this date

**REINVESTMENT PERIOD**

During the 3 year Reinvestment Period (Ends June 2009). Amortizations from Cash Bonds constitutes as Principal Proceeds which can be diverted to the Synthetic Security Collateral Account. The collateral manager can reinvest these proceeds into funded synthetics.

**COLLATERAL MANAGER**

GSC Partners will be the collateral manager for this deal. An operations review was performed on May 11, 2006 by Eric Kolchinsky, Karie Chen and Teresa Wyszomierski. There were no major concerns.

**INTEREST RATE RISK**

The CDO will enter into an out of the money interest rate swap paying 5% on a \$20million notional on the first payment date (September 5, 2006), thereafter 11.2% on a decreasing notional amount . The swap will terminate in March 2013.

**HAIRCUTS FOR COVERAGE TESTS**

Discounts	Rating Levels
10.00%	Ba1 – Ba3
20.00%	B1 - B3
50.00%	Below B3

**CREDIT DEFAULT SWAP**

Buyer (MLI) pays:

- Fixed Amount premium
- Additional Fixed Amount: Writedown Reimbursement Payment Amount, Principal Shortfall Reimbursement Amount and Interest Shortfall Reimbursement Payment Amount

Seller (GSC) pays:

- Floating Amount: Writedown, Principal Shortfall Amount or Interest Shortfall Payment Amount

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- Credit protection payments - Physical Settlement Amounts

**Credit Event:**

- Failure to Pay Principal
- Writedown
  - Writedown or applied loss
  - Attribution of principal deficiency or realized loss
  - Forgiveness of principal
  - Implied Writedown
- Distressed Ratings Downgrade
  - Caa2 or below
  - Rating withdrawn and not reinstated within five business days; provided if it was rated Baa3 or higher prior to such withdrawal, it shall not constitute a Distressed Ratings Downgrade if it is assigned a rating of at least Caa1 within 3 months after such withdrawal.

**Floating Amount Event:**

- Writedown
- Failure to Pay Principal
- Interest Shortfall

**Settlement:** Physical

**SHORT SYNTHETIC SECURITIES**

- There is a 10% bucket size for Short Synthetic Securities
- All Short Synthetic Securities have to be covered shorts
- The Premium on the shorts will be paid senior in the waterfall and will be included in the calculation of WAS Test
- Entry into shorts is subject to compliance of the Eligibility Criteria
- During the Reinvestment Period, shorts can be terminated without terminating the long, this becomes an Unhedged Synthetic Security.
- After the Reinvestment Period, both long and short positions must be terminated.

**SYNTHETIC SECURITY**

In addition to the 45% synthetic bucket that is matched with the Class A-1A Swap, the deal has the option to purchase up to another 5% of synthetic securities. If this option is executed, the cash that was in the deal will be kept as eligible securities in the Synthetic Security Collateral Account to defease the synthetics.

**FAIR MARKET VALUE**

The Fair Market Value of a Collateral Debt Security is determined by adopting the standard bidding process. Additionally, if the Manager cannot determine the Fair Market Value within 30 days, the fair market Value of such security shall be deemed to be zero.

**WATERFALL FEATURES**

Coverage Tests:

- The Class A/B/C Overcollateralization Test is cured with a standard sequential mechanism under the interest waterfall. Under the principal waterfall, if one or more Overcollateralization Tests (other than the Class G Interest Diversion Test), then the Notes are paid down sequentially.

Pro-Rata/Sequential Paydown

- The deal pays Pro-Rata until the Net Outstanding Portfolio Collateral Balance is less than 50% of the Ramp-Up Completion par of \$500M or if the Class A Sequential Pay Test is out of compliance.

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### **ELIGIBILITY CRITERIA**

Collateral purchased must satisfy the following conditions:

- Denominated and payable in U.S. Dollars
- Not a Defaulted Security, an Interest Only Security, a Written-Down Security, a Credit Risk Security, a Catastrophe Bond, a Structured Settlement Security, a Tobacco Bond, a Deferred Interest PIK Bond, a NIM Security, a Mutual Fund Fees Security, a Tax Lien Security, an Aircraft Leasing Security, an EETC Security, a Future Flow Security, a Healthcare Security, a Lottery Receivable Security, a Restaurant and Food Services Security, an ABS Natural Resource Receivable Security, a Floorplan Receivable Security, a Recreational Vehicles Security, an ABS Container Security, an ABS Chassis Security, a Guaranteed Corporate Debt Security, a Time Share Security, a Car Rental Receivable Security, a Negative Amortization Security or a security that accrues interest at a floating rate that moves inversely to a reference rate or index.
- A financing by a DIP in any insolvency proceeding
- Security that provides for payment of interest in Cash less frequently than semi-annually
- No Future Advances, Foreign Exchange Controls, Substantial Non-Credit-Related Risk
- Not Subject to an Offer or a Called for Redemption

### **PORTFOLIO CONCENTRATION LIMITATIONS**

#### Minimum Moody's Rating

Moody's rating of below Ba1  $\leq 5\%$

#### Notched Rating

Rated by Moody's or assigned Moody's rating estimates  $\leq 20\%$

From single-rate instruments  $\leq 10\%$

With Respect to any one Agency  $\leq 7.5\%$

Fixed Rate Securities  $\leq 6\%$

Max/Min. Floating Rate Securities 100%/ 94%

#### Synthetic Securities

including Defeased Synthetics  $\leq 50\%$

excluding Defeased Synthetics  $\leq 45\%$

CDO Obligations  $\leq 10\%$

#### Long dated Securities

Matures within 5 yrs after Maturity  $\leq 10\%$

Matures within 10 yrs after Maturity  $\leq 5\%$

Single Issuer Concentration  $\leq 1\%$

16 single issuer may represent up to  $\leq 1.5\%$

Up to 2 single issue may represent up to  $\leq 2.0\%$

PIK Bonds  $\leq 10\%$

Qualifying Foreign Obligors  $\leq 5\%$

Less paid then quarterly  $\leq 7.5\%$

### **MODELING ASSUMPTIONS**

- The deal was modeled using the new Cash flow ABS methodology (Modeling platform: **CDO Edge**).
- A single correlated binomial was used.
- The modeling parameter N for determining the correlation was assumed to be 110.
- The Class A-1A unfunded Super Senior Swap was modeled as fully funded.
- The Class A-1B Delay Draw Notes was modeled as fully funded.
- The base case default probability corresponding to a 5.5 year base case life was used to generate the binomial distribution across all prepayment speeds.

### **OUTSTANDING ISSUES**

- Definition of Fair Market Value
- Definition of Synthetic Security Collateral

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- Eligible Investment – ok
- Other investments that satisfies the Rating Condition -

Moody's Outstanding Questions – Merrill's answers in italic.

1) Could you please re-iterate the balancing mechanism which prevents the aggregate CDS from being larger than the unfunded portion of the super senior (the Class A-1A)?

*A: The Issuer may never enter into swap exposure that would cause a notional amount shortfall (i.e., where exposure on the CDS exceeds the sum of (i) cash in the Synthetic Security Collateral Account plus (ii) the Super Senior Swap notional). When the Super Senior Swap is reduced in notional, one of two things happens (i) if there is uncovered exposure on the CDS side, the Super Senior Swap gets reduced only if cash is deposited to the Synthetic Security Collateral Account or (ii) if the Super Senior Swap notional (plus the cash in the Synthetic Security Collateral Account) exceeds the current CDS exposure, the Super Senior Swap notional simply gets reduced, without a deposit.*

2) There is one master and schedule for ML in both capacities as super senior swap counterparty and CDS counterparty, correct? How does this ensure that a default by ML on one cross-defaults to the other so that the A-1A disappears and the deal continues as a cash deal?

In this case, are there termination payments and if so, are these subordinated in the waterfall to the rated Notes?

*A: Failure to pay by the Issuer due to insufficient funds is not an EOD under the CDS Agreement. If Merrill defaults under the Swap, the Issuer can terminate the swap. No payment will be due Merrill under the Priority of Payments if Merrill has defaulted in payment.*

3) Re Defeased Synthetics, is there a mechanism that causes the immediate release of ML's lien on the collateral contained in the Synthetic Security Collateral Account upon a default by ML?

*A: If a defeased synthetic security is put on with the CDS Counterparty, 100% of the cash in respect of the security gets deposited to the Synthetic Security Collateral Account (where it can only be release in accord with the Indenture). With respect to other Synthetic Securities, the cash gets deposited in a third party collateral account. With respect to those transactions the Issuer needs a RAC - in other words, we can impose whatever release requirements we desire at the time.*

4) Synthetic Security Collateral should only consist of Eligible Investments and Aaa-rated floating assets having a maturity that is within the maturity of the deal and the payment dates on the collateral must coincide with the payment dates of the deal.

*A: This comment should be made to the swap documents circulated by Freshfields. We are of the impression that Moody's has previously approved the collateral described therein.*

*They will come to us for RAC, we informed them that we will only issue RAC if the investments are Aaa-rated floating assets with a maturity within the maturity of the deal.*

**R: ML insisted on acquiring RAC when investments other than Eligible Investments are purchased.**

5) If ML hits the specified downgrade trigger for collateralization, it must be clear that ML will collateralize all potential; reimbursables, including interest on amounts written back up in connection with implied and actual writedown.

*A: yes, ok*

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*Please see attached for expected losses.*

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