

From: Cassano, Joseph
Sent: 01/16/2008 11:58:49 AM
To: 'Sherwood, Michael S'; 'Viniar, David'
Subject: CDO Valuations
Attachments: AIG_CollateralDispute_Rec(4).xls; GSI Dispute (COB 2007_12_06).doc

Dear Michael and David,

I'm following up on my e-mail to you from just before Christmas, after you provided your super senior CDO pricing information. As I said we would, we have now spent more time reviewing the data you provided and analyzing it along side the data we've collected. Our initial observation, which I shared with you in December, stands: we believe that your current exposure calculations are too high. I attach a spreadsheet that compares exposure calculations on a trade-by-trade basis. For some transactions, our calculations and yours are actually quite close; however, for most we remain apart, as we do when the exposures are considered in the aggregate.

As I indicated in December, we continue to believe that the third party super senior CDO prices that you provided are, on average, about 7% higher (as a percentage of current face value) than Goldman Sachs' own prices for the CDOs and that your collateral exposure calculation would drop significantly if it were based on third party prices where they are provided and Goldman's where they are not.

In addition, third party prices should be adjusted to take into account the fact that 3 of them are bid prices and 1 of them is an offered price. Based on information that you have provided in the past regarding a uniform bid-offer spread of 10% for almost all super senior CDO prices (which is the adjustment you make to the super senior CDO values you imply from your collateral NAV and leakage calculations), we added 5% to the bid prices and subtracted 5% from the offered price. With these adjustments, we calculate that the third party prices across all the transactions in question are, on average (weighted using the current face of each deal), 7.42% higher than Goldman's prices.

We also continue to believe that a further reduction is appropriate based on two additional adjustments:

- where no third party prices are provided, your prices should be increased uniformly by 7.42% (as a percentage of the current face value); and
- all prices should be increased by a further 5%, reflecting our belief that the 10% bid-offer spread noted above is itself questionable (which we highlighted during a mid-December conference call with your team).

As the attached spreadsheet indicates, our own valuation work also demonstrates that your exposure calculations are too high.

In light of all of this, our collateral group has made a further call today for return of collateral. I attach a copy here for your reference.

Please have your team contact Andrew Forster in our London office as soon as possible so that the two teams can schedule a meeting to review these matters.

Sincerely,

Joe Cassano

BBG Name	CUSIP	Notional	Factor
ALTS 2005-2A A1	02149WAA5	1,277,900,000	0.8901
ICM 2005-2A A1A	46426RAA7	213,750,000	1.0000
ICM 2005-2A A1B	46426RAB5	50,000,000	1.0000
WESTC 2006-1A A1A	952186AA2	1,187,950,000	1.0000
WESTC 2006-1A A1B	952186AB0	1,187,850,000	1.0000
RIVER 2005-1A A1	768277AA3	149,750,000	1.0000
MRCY 2004-1A A1NV	58936RAB3	299,800,000	0.6329
RESF 2004-1A A1NV	76112CAB4	374,800,000	0.8311
JPTR 2005-3A A1NV	48206AAG3	1,299,500,000	0.9473
BROD 2005-1A A1NA	112021AB6	354,500,000	0.9673
BROD 2005-1A A1B1	112021AC4	485,000,000	0.9673
ORPT 2005-1A A1VF	68619MAL5	647,250,000	1.0000
ORPT 2005-1A A1VB	68619MAQ4	649,750,000	1.0000
KLROS 2006-2A A1NV	498588AC6	869,500,000	0.9738
INDE5 5A A1	45343PAA3	200,000,000	0.5943
DUNHL 2004-1A A1NV	26545QAQ2	327,000,000	0.7614
GLCR 2004-2A A1NV	37638VAA1	324,900,000	0.625
HUNTN 2005-1A A1A	446279AA9	406,500,000	1.0000
SCF 7A A1AN	83743YAS2	773,500,000	0.8549
SCF 8A A1NV	83743LAC5	344,500,000	0.9508
LEXN 2005-1A A1AN	52902TAC0	199,500,000	0.9291
ORCHD 2005-2A A1	68571UAA7	113,750,000	0.8930
SATV 2005-1A A1	80410RAA4	267,750,000	0.6775
TRIAX 2006-2A A1B2	896008AC3	1,499,850,000	1.0000
TRIAX 2006-2A A1B1	896008AB5	1,499,850,000	1.0000
DUKEF 2004-7A 1A2	264403AJ5	129,650,000	1.0000
SHERW 2005-2A A1	82437XAA6	322,250,000	1.0000
MKP 3X A1	G6177YAA0	140,000,000	0.2040

*Number(s) in *blue* indicate that 3rd party values are bid side

*Number(s) in *green* indicate that 3rd party values are offer side

GSI and AIG FP reserve all rights and nothing in this communication or otherwise shall constitute a waiver of any under the Transactions' documents or applicable law, including, without limitation, the right to call for the delivery to exercise any contractual or other remedies, including the dispute resolution provisions available to the parties Agents. The failure of either party to make a daily written or oral demand for the delivery or return of Eligible Credit of such right or an agreement that no amount is owed. Moreover, the failure of either party to dispute (whether or return of Eligible Credit Support shall not be construed as an agreement that it agrees with such demand or the E or otherwise be construed as a waiver of any right or remedy.

The 3rd party levels are included for information purposes only.

Current Face	GS		AIG
	Nov 30 Mid	3rd Pty Mid	Nov 30 Mid

1,137,454,066	77.500	75.000	100.000
213,750,000	65.000	83.000	87.200
50,000,000	65.000	83.000	87.200
1,187,950,000	62.500	n/a	92.700
1,187,850,000	60.000	n/a	92.700
149,750,000	70.000	83.952	99.700
189,728,583	90.000	92.000	100.000
311,502,565	85.000	80.000	100.000
1,230,981,125	75.000	80.000	88.300
342,893,842	67.500	88.000	86.500
469,121,335	67.500	88.000	86.500
647,250,000	60.000	77.000	74.400
649,750,000	60.000	77.000	74.400
846,747,051	82.500	84.000	89.000
118,856,933	67.500	78.000	92.100
248,961,574	80.000	79.000	98.300
202,966,635	85.000	80.000	100.000
406,500,000	80.000	78.000	100.000
661,284,114	65.000	75.000	76.700
327,564,448	55.000	50.000	63.800
185,363,149	60.000	73.000	82.300
101,577,994	65.000	n/a	97.600
181,389,174	80.000	n/a	100.000
1,499,850,000	90.000	n/a	100.000
1,499,850,000	90.000	n/a	100.000
129,650,000	70.000	75.000	91.600
322,250,000	60.000	70.000	90.400
28,557,088	93.750	n/a	100.000

if any rights or remedies available to either party
 ivery or return of Eligible Credit Support or the right
 ties upon a failure to agree as joint Calculation
 e Credit Support shall not be construed as a waiver
 er orally or in writing) a demand for the delivery or
 the Exposure calculation supporting such demand

DATE: January 16, 2008

TO: Goldman Sachs International
Cross-Product Collateral Management
Facsimile: 44-207-774-2816
Email: cpcm@gs.com

FROM: AIG Financial Products Corp.

SUBJECT: ISDA Master Agreement, dated as of 19 August 2003 (the "Master Agreement"), between AIG Financial Products Corp. ("AIG-FP") and Goldman Sachs International ("GSI"), including the Credit Support Annex thereto, dated as of 19 August 2003

Reference is made to the Master Agreement and the Transactions entered thereunder. Undefined capitalized terms shall have their respective meanings set forth in the Master Agreement.

As joint Calculation Agent for the Transactions specified in Annex 1, AIG-FP has determined the market values, as of November 30, 2007, of the Reference Obligations in respect of such Transactions for purposes of calculating the Exposure of GSI to AIG-FP, as of such date, with respect to those Transactions (the "Specified CDS Exposure"). Annex 1 sets out AIG-FP's calculation of the Specified CDS Exposure as of November 30, 2007, which equals USD 889,507,020.

On December 3, 2007, GSI notified AIG-FP that its calculation of the Exposure in respect of "Credit Derivatives" and "FI Swaps – Interest Rate Swaps" (the latter of which relates to a credit derivative transaction despite this categorization), as of November 30, 2007, was USD 3,444,712,156, almost all of which was represented by its calculation of the Specified CDS Exposure as of such date. Based on the determinations and calculations described above, AIG-FP disputes GSI's calculation of the Specified CDS Exposure.

Based on AIG-FP's calculation of the Specified CDS Exposure as of November 30, 2007, and taking into account Exposures in respect of other Transactions under the Master Agreement as of January 15, 2008, as set out below, AIG-FP hereby demands transfer by GSI to AIGFP of cash in the amount of the Return Amount set out below (adjusted by an amount to be agreed in respect of Exposure in respect of credit derivative transactions not taken into account in AIG-FP's calculation of the Specified CDS Exposure).

Exposure	USD
Specified CDS Exposure	889,507,020
Equity	65,257,074
Interest Rate/Foreign Exchange	9,802,585
<hr/> Total Exposure	<hr/> 964,566,679
Threshold	75,000,000
<hr/> Credit Support Amount	<hr/> 889,566,679
Credit Support Balance (cash)	2,000,000,000
<hr/> Return Amount (rounded downward to 10,000)	<hr/> 1,110,430,000

AIG-FP reserves all rights to dispute GSI's calculation of Exposure under the Master Agreement, and this notice shall not constitute a waiver by of the rights or remedies available to AIG-FP under the Master Agreement, any Transaction Confirmation or the Credit Support Annex or applicable law, including, without limitation, the right to call for the delivery or return of Eligible Credit Support or the right to otherwise exercise the dispute resolution provisions available to the parties upon a failure to agree as joint Calculation Agents.

AIG FINANCIAL PRODUCTS CORP.

{FILENAME \p}

Deal	Calculated Reference Obligation Price (if applicable)	Actual Notional	AIG-FP Calculated Exposure
Mercury CDO 2004-1, Ltd. (A-1NV)	NR	200,994,743	
Reservoir Funding Ltd. (A-1NV)	NR	315,681,873	
Jupiter High-Grade CDO III, Ltd. (A-1NV)	92.06%	1,253,495,357	94,785,547
Altius II Funding, Ltd. (A-1)	NR	1,153,336,443	
Broderick CDO 1 Ltd. (A-1NVA)	NR	345,420,648	32,574,915
Broderick CDO 1 Ltd. (A-1NVB)	NR	472,578,320	44,566,527
Orient Point CDO, Ltd. (A-1NVA) Delayed	76.65%	647,250,000	139,806,000
Orient Point CDO, Ltd. (A-1NVB)	76.65%	649,750,000	140,346,000
Kleros Preferred Funding II, Ltd. (A-1NV)	NR	859,602,990	59,272,294
West Coast Funding I, Ltd. (A-1a)	91.68%	1,187,950,000	39,202,350
West Coast Funding I, Ltd. (A-1b)	91.68%	1,187,850,000	39,199,050
Triaxx Prime CDO, Ltd. 2006-2A (A-1B1)	NR	1,499,850,000	
Triaxx Prime CDO, Ltd. 2006-2A (A-1B2)	NR	1,499,850,000	
Dunhill ABS CDO, Ltd. (A-1NV)	NR	271,101,327	
Huntington CDO, Ltd. (A-1A NV)	NR	406,500,000	
River North CDO Ltd. (A-1)	NR	149,750,000	
Orchid Structured Finance CDO II, Ltd. (A-1)	NR	104,094,972	
Saturn Ventures 2005-1, Ltd. (A-1)	NR	196,736,964	
South Coast Funding VII Ltd. (A-1ANV)	NR	684,086,415	127,627,834
Ischus CDO II Ltd. (A-1A)	NR	213,750,000	18,810,000
Ischus CDO II Ltd. (A-1B Delayed)	NR	50,000,000	4,400,000
Sherwood Funding CDO II, Ltd. (A-1)	NR	322,250,000	18,046,000
South Coast Funding VIII Ltd. (A-1NV)	NR	335,104,984	105,475,752
Glacier Funding CDO II Ltd. (A-1-NV)	NR	224,900,549	
Lexington Capital Funding, Ltd. (A-1ANV)	82.47%	189,951,776	25,394,751
Coolidge Funding Ltd. (A-1)	NR	222,352,342	
ABACUS 2006-NS1 ¹			
ABACUS 2007-18 ¹			
			889,507,020

1 There is no Exposure for ABACUS 2006-NS1 and ABACUS 2007-18, as Exposure for each of these transactions is conditioned on the Reference Obligation having been downgraded by either S&P or Moody's.