

CDO Spotlight:

Quarterly U.S. Cash Flow CLO Exposure Report As Of Third-Quarter 2010

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The concentrations of corporate obligors in U.S. cash flow collateralized loan obligations (CLOs) rose slightly between the second and third quarters of 2010. The top 100 corporate names accounted for 37% of the total balance of cash flow CLO collateral in the third quarter, up marginally from 36% in the second quarter. The concentration of the top 250 obligors also saw a small, but slightly more significant increase, rising to 57% of the total CLO collateral balance from 55% in the second quarter (see table 1).

Table 1

Ranking	Total (%)	
	Third-quarter 2010	Second-quarter 2010
Top 50	25	25
Top 100	37	36
Top 250	57	55

Diversification In Standard & Poor's Rated CLOs

We reviewed approximately 600 transactions to determine the concentration risk among our rated U.S. CLOs and ranked the corporate obligors on a dollar-weighted basis. The top 10 and top 100 names were mostly unchanged between the second and the third quarters: All but two of the corporate entities in the top 10 list in the second quarter continued to figure in the top 10 in the third quarter (see table 2). The two that fell off the list— HCA Inc. and Nielsen Co.—moved to the 11th and 19th spots, respectively. The high degree of overlap between the two quarters was evident in the list of top 100 obligors as well: 87 corporate names that were in the top 100 in the second quarter also appeared on the third-quarter list (see table 3).

The corporate name with the highest dollar-weighted exposure among U.S. CLOs continues to be Texas Competitive Electric Holdings LLC, which has held the top spot since the first quarter of 2009. This entity, a subsidiary of utility holding company Energy Future Holdings Corp. (EFH), accounted for 1.18% of the aggregate outstanding principal balance of U.S. CLOs in the quarter, which is about the same as in the second quarter.

Although Texas Competitive Electric Holdings LLC is the largest-held name on a dollar-weighted basis, the most widely held corporate obligor by reference count is HCA Inc., which appears in 526 U.S. CLOs. On a dollar-weighted basis, HCA Inc. ranks 11th. We observed a high degree of overlap between the top 10 names by balance and by reference count in the third quarter, with eight corporate obligors appearing in both lists.

Rating And Credit Concentrations

Over 63% of the corporate names in the CLOs we reviewed for this report are rated in the 'B' rating category. Among the top 10 obligors on a dollar-weighted basis, only one entity, Georgia-Pacific LLC, has an investment-grade rating, while the remainder are speculative-grade. Standard & Poor's raised its rating on

Georgia-Pacific LLC to 'BBB' from 'BB+' in October 2010 due to improved cash flows and debt reduction.

The number of distressed obligors among the top 100 names continued to trend down in the third quarter, possibly because managers traded out of such names. MGM, which filed for a prepackaged bankruptcy on Nov. 3, was ranked 41st in the second quarter and has since moved down to 59th place, while Tribune Co. moved from 68th place in the second quarter to the 83rd position in the third quarter.

Table 2

Top 10 Corporate Obligor In Standard & Poor's 600 Outstanding Rated Cash Flow CLOs		
Ranking	Issuer	
	Third-Quarter 2010	Second-Quarter 2010
1	Texas Competitive Electric Holdings Co LLC	Texas Competitive Electric Holdings Co. LLC
2	Univision Communications Inc.	CHS/Community Health Systems Inc.
3	CHS/Community Health Systems Inc.	Univision Communications Inc.
4	First Data Corp.	HCA Inc.
5	Georgia-Pacific LLC	Calpine Corp.
6	Calpine Corp.	Charter Communications Operating LLC
7	SunGard Data Systems Inc.	First Data Corp.
8	Carestream Health Inc.	Georgia-Pacific LLC
9	Charter Communications Operating LLC	SunGard Data Systems Inc.
10	Celanese US Holdings LLC	Nielsen Co. B.V. (The)

Table 3

Top 100 Corporate Obligor In Standard & Poor's 600 Outstanding Rated U.S. Cash Flow CLOs	
Ranking	Issuer
1	Texas Competitive Electric Holdings Co. LLC
2	Univision Communications Inc.
3	CHS/Community Health Systems Inc.
4	First Data Corp.
5	Georgia-Pacific LLC
6	Calpine Corp.
7	SunGard Data Systems Inc.
8	CareStream Health Inc.
9	Charter Communications Operating LLC
10	Celanese US Holdings LLC
11	HCA Inc.
12	Ford Motor Co.
13	Sabre Inc.
14	Health Management Associates Inc.
15	NRG Energy Inc.
16	Royalty Pharma
17	Dresser Inc.
18	West Corp.
19	Nielsen Co. B.V. (The)

Table 3**Top 100 Corporate Obligors In Standard & Poor's 600 Outstanding Rated U.S. Cash Flow CLOs (cont.)**

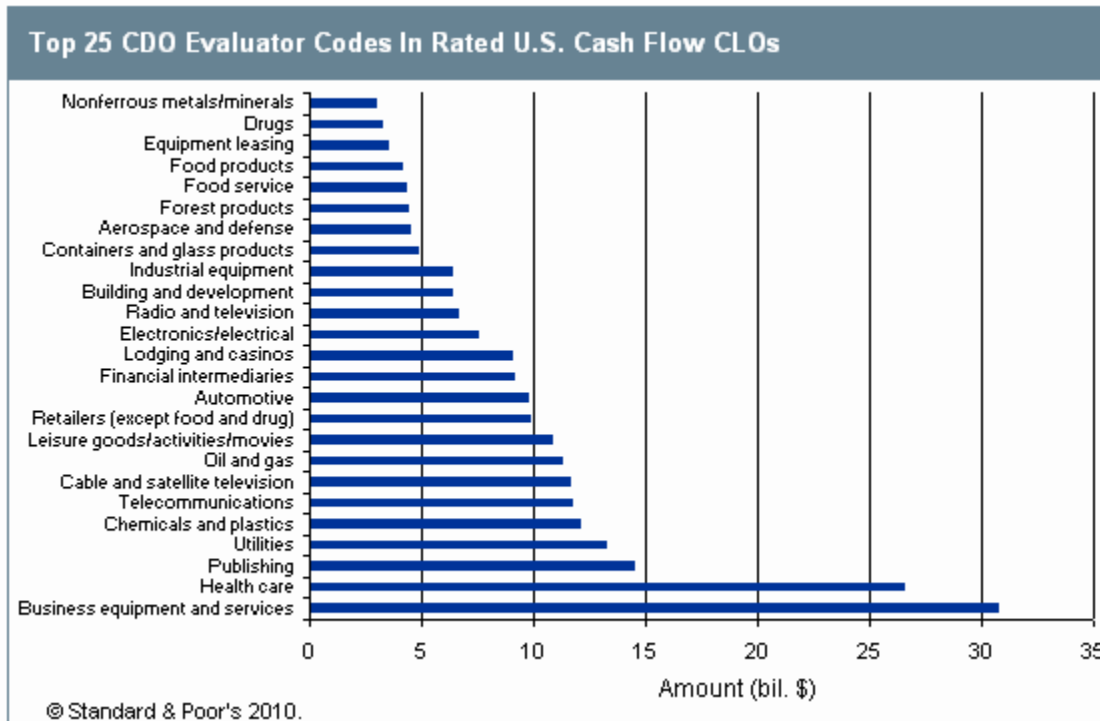
20	Cengage Learning Holdings II L.P.
21	Las Vegas Sands Corp.
22	Asurion Corp.
23	Huntsman International LLC
24	Harland Clarke Holdings Corp.
25	Cequel Communications LLC
26	Travelport LLC
27	Graphic Packaging International Inc.
28	Mediacom Communications Corp.
29	Telesat Canada
30	Reynolds & Reynolds Co. (The)
31	Federal-Mogul Corp.
32	Dollar General Corp.
33	Aramark Corp.
34	Servicemaster Co. (The)
35	Berry Plastics Corp.
36	Yankee Candle Co. Inc. (The)
37	Hertz Corp.
38	Delta Air Lines Inc.
39	Energy Transfer Partners L.P.
40	Dean Foods Co.
41	Allison Transmission Inc.
42	ISP Chemco LLC
43	MetroPCS Communications Inc.
44	KAR Auction Services Inc.
45	CSC Holdings LLC
46	Bausch & Lomb Inc.
47	Warner Chilcott Plc
48	Graham Packaging Holdings Co.
49	Covanta Energy Corp
50	Goodyear Tire & Rubber Co. (The)
51	Freescale Semiconductor Inc.
52	Regal Cinemas Corp.
53	TPF Generation Holdings LLC.
54	Applied Systems Inc.
55	Yell Group Plc
56	UPC Broadband Holding B.V.
57	Quintiles Transnational Corp.
58	Cablevision Systems Corp.
59	Metro-Goldwyn-Mayer Inc. (MGM Studios)
60	Michaels Stores Inc.

Table 3**Top 100 Corporate Obligors In Standard & Poor's 600 Outstanding Rated U.S. Cash Flow CLOs (cont.)**

61	Nielsen Finance LLC
62	Acosta Inc.
63	Nuveen Investments Inc.
64	Penn National Gaming Inc.
65	AEI
66	Seminole Tribe Of Florida
67	Avaya Inc.
68	Davita Inc.
69	Coletto Creek Power L.P.
70	Fidelity National Information Services Inc.
71	Cinemark USA Inc.
72	Capital Automotive LLC
73	Novelis Inc.
74	DBO Holdings Inc.
75	Cedar Fair L.P.
76	Brand Energy & Infrastructure Services
77	Insight Midwest Holdings LLC
78	VML U.S. Finance LLC
79	Infor Global Solutions Holdings Ltd.
80	Transdigm Inc.
81	Pinnacle Foods Finance LLC
82	CB Richard Ellis Services Inc.
83	Tribune Co.
84	Catalent Pharma Solutions Inc.
85	Mylan Inc.
86	Momentive Specialty Chemicals Inc.
87	CDW Corp.
88	Education Management LLC
89	Windstream Corp.
90	VWR Funding Inc.
91	Jarden Corp.
92	National Cinemedia LLC
93	Sun Products Corporation (The)
94	Manitowoc Co. Inc.
95	Charter Communications Holdings LLC
96	UPC Holding B.V.
97	Harrah's Operating Co. Inc.
98	Sally Holdings LLC
99	Enterprise GP Holdings L.P.
100	Petco Animal Supplies Inc.

The Top 25 CDO Sector Concentrations

Business equipment and services continued to represent the largest sector concentration in the third quarter, with \$30.7 billion in corporate names among U.S. CLOs, while health care took the No. 2 spot at over \$26.6 billion. Together, these two sectors accounted for more than 20% of the corporate names in U.S. CLOs in the third quarter. The publishing sector remained a distant third, with about \$14.5 billion in outstanding loans. The top 11 sectors account for more than 60% of the corporate obligors held in CLOs. For this analysis, we used the sector codes in CDO Evaluator, our analytical tool for estimating defaults and losses at different rating levels (see chart below).



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