



OFFICE OF THE TREASURER-TAX COLLECTOR

HALL OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, SUITE G76
POST OFFICE BOX 4515
SANTA ANA, CA 92701
www.ttc.ocgov.com

January 10, 2008

CHRISS W. STREET
TREASURER-TAX COLLECTOR

PAUL C. GORMAN, C.P.A., CTP
CHIEF ASSISTANT TREASURER-TAX COLLECTOR

WALTER DANIELS
ASSISTANT TREASURER-TAX COLLECTOR
TAX COLLECTION

ROBIN RUSSELL
ASSISTANT TREASURER-TAX COLLECTOR
ADMINISTRATION

CLARISSA ADRIANO-CERES
ASSISTANT TREASURER-TAX COLLECTOR
INFORMATION TECHNOLOGY

CHANGES IN ELIGIBLE CREDITS

As noted last month, in the month of December, there were several changes to the Treasurer's approved eligibility list of issuers.

The following were removed from the CP/ MTN Eligibility list:

- 1) **Beta Finance**
- 2) **CC (USA) Inc.**
- 3) **Dorada Finance**
- 4) **Five Finance**
- 5) **K2 (USA) LLC**
- 6) **Sigma Finance, Inc.**
- 7) **Tango Finance**
- 8) **Whistlejacket Capital LLC**

On November 30, 2007, Moody's placed the ratings of Beta, Dorada, CC (USA), Five, Tango and Whistlejacket on credit watch negative. Market price pressures in November compounded by Moody's new, more punitive, stress testing led to this action. We expect a resolution of this action in the near term. While these names are still AAA/Aaa, we have removed these and two issuers, K2 and Sigma, who are not on credit watch negative. Please refer to the attached TIC memo for further information.

On December 21, Moody's placed Calyon NY on credit watch negative due to a deterioration of bank fundamentals in 2H07 and write-downs to indirect exposures to the US sub-prime mortgage loan market. The review will focus on additional write-downs and provisions in respect to the bank's ABS and CDO exposures. Moody's views Calyon's parent Credit Agricole as having sufficient capital cushions and earning generation capacity to absorb its subsidiary's losses and support it going forward. Moody's has affirmed Credit Agricole's ratings at Aa1 and P-1. As of December 31, 2007, Calyon has not been removed.

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To: Treasury Investment Committee
From: John Byerly, Senior Financial Analyst
Date: December 5, 2007

Subject: **Structured Investment Vehicle Holdings**
Ratings: AAA/Aaa */-AAA A-1+/P-1 */-F1+ (not all rated by Fitch)
Recommendation: Remove from the CP/MTN Eligibility List

Summary:

On November 30, 2007, Moody's placed the ratings of Beta, Dorada, CC (USA), Five Finance, Tango Finance and Whistlejacket Capital on credit watch negative. Ongoing conservative management has helped our vehicles withstand Moody's new methodology which implements more severe stress testing as of September 5, 2007.

Late October through early November, though, saw wider spreads in securities impacting even double-A rated bank debt which in turn negatively impacted capital net asset value (NAV) levels. As these investment vehicles de-lever, declines in capital NAV are somewhat offset. But with 50% of assets in Financial Company debt on average, a 1.6% average price decline there along with smaller price declines in other sectors pushed capital NAV figures to levels between 60 and 70%. This, compounded by Moody's new methodology, led to Friday's action.

Please note that capital NAV should not be confused with portfolio NAV. News reports on NAV have been very misleading. Capital note holders are subordinate to the AAA-rated senior notes that we own. They provide a cushion for senior note holders in the event asset values deteriorate. If the capital notes represent 1/15th of all debt, for example, but face all of the "first loss", their NAV will drop roughly 15 times as fast as the portfolio NAV. It's important to remember a portion of this cushion remains and is in addition to other structural protections such as bank committed liquidity and breakable deposits.

Our Structured Investment Vehicles are distinctly different from those that have been in the news. A more conservative investment approach was apparent from the beginning and has helped them navigate through these turbulent markets.

For example, vehicles in the headlines held around 80% ABS with around a third of total assets in US residential mortgages. Some was subprime. In contrast, our approved names were balanced between ABS and Financial Company debt - principally highly-rated, extremely strong commercial banks. Other exposure includes student loans, credit cards, and non-ABS CDOs. Residential mortgage exposure exists, but is generally from the UK, Australia, and Dutch markets and is virtually all prime.

Even so, with such volatility in the current markets, asset pricing of many sectors continues to be a challenge. Therefore, I recommend removing all of the Structured Investment Vehicle issuers from our approved list until we can evaluate their new structures when formalized. It is anticipated that some new structures will be announced in early 2008.

The issuers to be removed are: Beta, CC (USA), Dorada, Five, K2, Sigma, Tango, and Whistlejacket.

Exposure:

County of Orange
Structured Investment Vehicle Holdings
November 30, 2007

	Issuer	Maturity Date	Market Value	% of Fund
<u>Money Market Fund</u>				
	AAA/Aaa	K2 (USA)LLC	3/10/2008 \$ 49,250,000	2.48%
	Sub Total:		49,250,000	2.48%
<u>Extended Fund</u>				
	AAA/Aaa *-	CC(USA) INC.	2/9/2009 48,500,000	2.08%
	AAA/Aaa *-	CC(USA) INC.	1/23/2009 48,500,000	2.08%
	AAA/Aaa *-/AAA	FIVE FINANCE, INC	6/6/2008 48,500,000	2.08%
	AAA/Aaa *-/AAA	FIVE FINANCE, INC	11/25/2008 63,050,000	2.70%
	AAA/Aaa	K2 (USA)LLC	2/23/2009 24,625,000	1.06%
	AAA/Aaa	K2 (USA)LLC	6/9/2009 73,875,000	3.17%
	AAA/Aaa	SIGMA FIN INC	5/14/2008 49,250,000	2.11%
	AAA/Aaa	SIGMA FIN INC	10/30/2008 73,875,000	3.17%
	AAA/Aaa *-	TANGO FIN CORP	6/10/2009 48,500,000	2.08%
	AAA/Aaa *-	TANGO FIN CORP	7/30/2009 38,800,000	1.66%
	AAA/Aaa *-	TANGO FIN CORP	9/25/2009 24,250,000	1.04%
	AAA/Aaa *-	TANGO FIN CORP	11/12/2008 48,500,000	2.08%
	AAA/Aaa *-	WHISTLEJACKET CAPITA	1/26/2009 29,100,000	1.25%
	AAA/Aaa *-	WHISTLEJACKET CAPITA	1/25/2009 48,500,000	2.08%
	Sub Total:		667,825,000	28.64%
<u>Schools Money Market Fund</u>				
	AAA/Aaa	K2 (USA)LLC	3/10/2008 49,250,000	3.06%
	AAA/Aaa	SIGMA FIN INC	2/21/2008 49,250,000	3.06%
	Sub Total:		98,500,000	6.12%
<u>John Wayne Airport</u>				
	AAA/Aaa	K2 (USA)LLC	3/10/2008 1,970,000	3.50%
	Sub Total:		1,970,000	3.50%
	GRAND TOTAL		\$ 817,545,000	13.67%

Securities in bold are on credit watch negative. K2 and Sigma have NOT been placed on credit watch.