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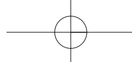

April 28, 2008
Volume 8, Number 17

Asset securitization REPORT

The Premier Guide to Asset and Mortgage-Backed Securitization

Leaving ABS

Will the SHAKEOUT Become a WALKOUT?

Reputations Matter for New CLO Deals

TIAA-CREF Markets U.S. Real Estate Fund

Rating Agencies Face Heat from the Senate

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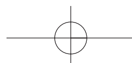
Whisper: RBS, JPMorgan Compete for Bear Stearns Staff



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Asset Securitization REPORT

The Premier Guide to Asset and Mortgage-Backed Securitization

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WHISPERS

JPMORGAN CHASE might be buying **Bear Stearns**' stock at a fire sale price, but the company might have to pony up a bit more to keep its MBS traders. Last week **Paul Van Lingen** and **Scott Eichel**, both senior managing directors, and **Joseph Steffa** all accepted offers at **RBS Greenwich Capital**, according to people familiar with the situation. RBS is trying to replenish its MBS trading operations after a stream of traders left the company last month for various firms, including **Jefferies & Co.** JPMorgan wants to hold onto as many Bear Stearns staff as possible, especially because the latter has extensive sales contacts for esoteric and agency CMO products, said people familiar with both companies. Keeping Bear traders would make it easier to retain those accounts.

According to an S-4 **SECURITIES AND EXCHANGE COMMISSION** filing dated April 23, **JPMorgan Chase** has made an oral agreement with **Jeffrey Mayer**, executive vice president and senior managing director at **Bear Stearns**, to employ him upon the completion of the merger of the two investment banks. At JPMorgan, Mayer will serve as a vice chairman focusing on global markets. Mayer will receive an annual salary of $250,000 plus a bonus compensation of $12 million for 2008, payable in a mix of cash and restricted stock units, said the SEC filing. Mayer will also get a grant of restricted stock equal to $15 million, which will vest 50% on or about each of the second and third anniversaries of the grant date as well as the shares of JPMorgan Chase common stock that will be distributed upon vesting. Mayer is still in discussions with JPMorgan Chase regarding the terms of his employment, according to the SEC filing.

JEFFERIES & CO. is expanding its MBS group, adding 10 senior professionals to its mortgage trading team over the next several weeks, the bank said last week. Managing Directors **William Jennings** and **Johan Eveland** will lead the group. Jennings is expected to join the firm in June, after most recently serving as a managing director in the mortgage sales division of **RBS Greenwich Capital**. Eveland, who has already started at Jefferies, was a managing director and co-head of agency and nonagency MBS trading at RBS Greenwich. The **Royal Bank of Scotland Group**, the parent company of RBS Greenwich, said earlier this month that it would cut 200 staffers, largely in the bank's securitization, leveraged finance and real estate lending areas.

RESIDENTIAL CAPITAL (ResCap), an indirect wholly owned subsidiary of **GMAC Financial Services**, has appointed **Thomas Marano**, former senior managing director and global head of MBS and ABS at **Bear Stearns**, to serve as ResCap's non-executive chairman of the board of directors. Marano succeeds former chairman **Michael Rossi**. As announced previously, Rossi resigned from the board effective March 17 because of medical reasons. In addition to joining the ResCap board, Marano has been appointed to the board's executive committee, where he will serve with ResCap's Chief Executive Officer **Jim Jones**. Additionally, ResCap said **Joshua Weintraub**, a former senior managing director with Bear Stearns' global mortgage operations, as well as **James Young**, ResCap's chief financial officer, were elected to its board. Both Marano and Weintraub also were named to the board's executive committee. The new board members will replace departed members **Eric Feldstein**, **Sanjiv Khattri** and **Paul Bossidy**, the mortgage company said. ResCap is looking for two more independent directors to replace **Thomas Jacob** and **Thomas Melzer**, who both left its board earlier this week.

ING REAL ESTATE appointed **Emmanuel Verhoosel** as global head of structured products finance and CEO of Finance Americas. Verhoosel will be based in London and head up the firm's global finance products team. He will also oversee ING Real Estate's lending business in the Americas and will focus on the relationship management for global clients. Verhoosel reports to **Hein Brand**, CEO of ING Real Estate. Verhoosel joins from **JPMorgan**, where he had worked since 1994 as regional head and senior client executive of the bank's real estate structured finance group in London. At this position, he worked on structured finance transactions, including CDOs, CLOs, RMBS and CMBS.

ARCHIBALD COX, JR., was appointed chairman of **Barclays Americas**, a region in which the company hopes to build its position in its investment banking and investment management businesses. Cox will start his new job in early May. He will report to Barclays President **Robert Diamond, Jr.**, and will also serve on Barclays' **IBIM** executive committee. Cox's financial industry expertise goes back to 1964, when he joined **Morgan Stanley** and assumed responsibility for all equity sales and trading. Before joining Barclays, Cox was president and CEO of **Magnequench**, a manufacturer of rare earth magnetic material and magnets.

Springfield and Boston, Mass.- based **BABSON CAPITAL MANAGEMENT** has acquired **Murray Capital Management** (MCM), a distressed debt and special situations management outfit based in New York. The purchase marks Babson Capital's third acquisition in six years. Babson Capital acquired its Charlotte-based U.S. bank loan team from **Wachovia Corp.** in 2002 and its London-based European bank loan business Babson Capital Europe from

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WHISPERS

Duke Street Capital in 2004. **Marti Murray**, MCM's current president, portfolio manager and senior research analyst and her team will join Babson Capital and will report to **Cliff Noreen**, head of Babson Capital's corporate securities division and vice chairman of the firm.

FITCH RATINGS has updated its guide for investors looking to buy European ABCP in this challenging environment. The rating agency said the European liquidity crisis has seen investors shy away from ABCP in the midst of uncertainty regarding the sector. The report looks at the different ABCP vehicles an investor might encounter and answers many questions that buyers might ask in considering buying ABCP. Fitch's report is titled *Getting Started in ABCP in Europe in the Present Climate — An Updated Investor Guide*. It updates the rating agency's report called *Getting Started in ABCP in Europe — An Investor Guide* published in November 2005.

JPMORGAN CHASE announced that it has commenced a tender offer to buy any and all of the outstanding student loan ABS auction-rate notes of each of the following securitization trusts of the Collegiate Funding trusts: Collegiate Funding Services Education Loan Trust 2003-A, Collegiate Funding Services Education Loan Trust 2003-B and Collegiate Funding Services Education Loan Trust 2004-A. The offer will expire at 5 p.m. on May 20 unless extended or terminated earlier. Tenders of the auction-rate notes might be made at any time prior to the expiration of the offer, said a release from JPMorgan. Any registered owner who validly tenders any or all of his or her auction-rate notes by the deadline will receive $1,000 for each $1,000 principal amount of the auction-rate notes validly tendered as well as accrued and unpaid interest from the last applicable distribution date to but not including, the settlement date, which is expected to be on May 21.

NATIONAL CITY CORP. said Tuesday that **Merrill Lynch** has accused National City of breaching terms in the purchase agreement for Merrill's **First Franklin Mortgage Co.** unit. Merrill bought First Franklin from National City in 2006. In an 8-K filing with the **Securities and Exchange Commission**, Merrill claimed that National City breached conditions in the agreement involving alleged losses associated with First Franklin's claimed repurchase of loans. In related news, last Monday National City received a $7 billion capital infusion from private equity firm **Corsair Capital** and other investors to prevent the sale of the bank.

Existing home sales for March declined 2% to a 4.93 million annual rate, as reported by the **NATIONAL ASSOCIATION OF REALTORS** last week. The median home price was $200,700 compared with $217,400 in March 2007, equivalent to a 7.7% drop. Sales were down in the Midwest and South, and higher in the Northeast and West. NAR Chief Economist **Lawrence Yun** noted that while mortgage rates are attractive, borrowers face more restrictive lending practices — even prime borrowers — which is contributing to the weakness in the housing market.

MORGAN STANLEY announced that it raised an additional $2.5 billion of equity commitments for its Special Situations Fund III, bringing the current total to $5.9 billion. The fund is open-ended, and will primarily invest in global real estate securities in emerging, developed and distressed markets. Meanwhile, Morgan Stanley will also invest 20% in U.S. commercial mortgage debt, in particular junior pieces of first mortgages where the interest expenses are covered by the lease in place. As of the end of 2007, the fund had invested approximately $4.8 billion of equity, with 62 closed investments in China, Australia, India, Russia, Poland, Brazil, Mexico, the U.S., Japan and Western Europe, among other areas. Notably, 63% of investments came from investors outside of the U.S.

BANK OF AMERICA said it will drop the **Countrywide Financial Corp.** name once the bank completes the acquisition of the mortgage lender. The deal is expected to close in July. The bank also said it will no longer offer "option" adjustable-rate mortgages. Bank of America also said it plans to curtail stated income loans while also limiting prepayment penalties on interest-only and hybrid adjustable-rate mortgages.

ACA CAPITAL HOLDINGS, the parent of **ACA Financial Guaranty Corp.**, entered into a fourth forbearance agreement with its counterparties to extend the forbearance agreement through 11:59 p.m. New York time on May 30, 2008. Under the agreement, the counterparties will waive all collateral posting requirements, termination rights and policy claims relating to the rating of ACA Financial Guaranty Corp.

CLARIFICATION: In the April 14 issue of *ASR*, the terms of the master agreement in a trade were misstated. The application by the pension plan for a minimum funding waiver, if the pension were concerned it would not meet its minimum fund requirement, should give the bank the right to terminate the trade in a master agreement. ASR

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BY FELIPE OSSA

What's Portuguese for Caveat Emptor?

By any standards, Brazilian consumer debt is exploding. The balance of credit cards, payroll-deductible loans, unsecured loans and auto loans totaled R$264 billion ($1.57 billion) at the end of 2007, up 29% from a year earlier.

With blazing growth like this, and given the liquidity crisis abroad, you might expect a significant slowdown. But experts say that's not in the cards.

Fevered competition among the small-to-medium banks that lend payroll-deductible personal loans and the expansion of all kinds of credit to poorer segments of the population are fanning the spread of consumer lending.

In the race for quantity, where's quality headed? **Fitch Ratings** rang a warning bell two months ago to investors in ABS backed by payroll-deductible loans, pointing out the hazards in a business where origination is robust. The industry, which targets individuals who work for public entities or receive social security payments, pulled in R$1.1 billion in 2007 by securitizing deductible loans. That was a drop from R$1.7 billion in 2006, with M&A activity and a boom in IPOs eroding the need for funding via ABS.

But the loan machines are still keyed up. "Origination probably won't drop because [the banks] haven't used the resources from the IPOs in 2007," said **Bernardo Costa**, associate director at Fitch.

Heightened competition among lenders has encouraged questionable practices in origination and in refinancing assets in securitization deals, players said. When a qualified borrower seeks a payroll-deductible loan, a broker, known locally as a *pastinha*, will typically request a loan from more than one bank. Sometimes, more than one bank will disburse the loan, but only the first to get all the paperwork signed can actually deduct from the borrower's paycheck. The other ends up having either an unsecured loan with the borrower or is forced to renegotiate the terms in order for the total in deducted loans to stay within a pre-set cap, expressed as a percentage of a borrower's monthly income.

Pensioners being paid through the local social security system are limited to 20% of their income, but for those borrowing through other payment systems, it could be higher.

On the ABS front, the prepayment and refinancing of collateralized payroll-deductible loans could whittle down credit enhancement, **Standard & Poor's** said in a recent report. And it's not only falling interest rates and brisker competition among lenders that has led to prepayments. It also includes repurchases of "problematic loans," the agency added.

One of the main issues is that there simply isn't good data on renegotiated loans and prepayment rates, said **Patricia Bentes**, a managing partner at consultancy **Hampton Solfise**.

With originating banks treating these securitizations as virtual credit lines, repurchasing is part of their funding strategy — but what happens if they decide it's no longer worth it?

So far, while delinquencies have risen in ABS backed by payroll-deductible loans, enhancements are still strong enough to avoid S&P downgrades.

Overall, defaults in the consumer sector are still low. **Luciano Araujo**, another managing partner at Hampton Solfise, pointed out that 90-plus-day delinquencies for all personal loans were 5% in February, down from 6.5% in 2004. And this during a time when tenors doubled.

The aggregate overall consumer indebtedness in Brazil remains a fraction of the U.S. figure, but with scant data on individual borrowers, it's not known how this leverage is spread. This could spell trouble down the road. ASR

"Origination probably won't drop because [the banks] haven't used the resources from the IPOs in 2007."

Market Shrugs off Ambac En Route to Mini-Rally

Now, as investors propose swaps, the Street holds out

What a difference the need for cash makes. The securitization market did a brisk business in consumer ABS paper last week, oversubscribing to a **USAA** auto deal and blowing out a **Discover Financial Services** credit card transaction.

The historic plunge in **Ambac Financial Group**'s share price? Didn't happen. **Merrill Lynch**'s second stumble in as many weeks? Bygones, apparently.

Various market sources had a couple of different takes on where investors got their inspiration, despite the gloomy financial sector news. They did agree, however, that whatever the motivation and eventual outcome, investors felt that it was time to spend.

An $850 million transaction from DCENT, Series 2008-A3, the Discover credit card master trust, was one beneficiary. Market sources say the deal size was increased from $500 million. Also, the single-tranche deal, with an average life of 2.96-years, came in at swaps plus 165 basis points. **Credit Suisse** and **JPMorgan Securities** were lead managers on that transaction, with **Banc of America Securities**, **Barclays Capital**, **Lehman Brothers** and **RBS Greenwich Capital** acting as co-managers, said a source familiar with the deal.

"Guys just have a ton of money to invest and they couldn't sit on it anymore," said one trader. Still, that market source was reluctant to declare that the market had bottomed out, leaving nowhere to go but up. He added, "I would never want to call a bottom. Any landmine could blow us up in a couple of days."

Investors who were replicating in derivative positions — meaning those with enhanced cash needs and who needed to buy — gave the securitization market a boost of energy last week. That was one buy-side source's explanation for the rally.

"The market shrugged off the Ambac and Merrill news from yesterday like it didn't even happen," he said. The rush of money might be short-lived, however, because it remains to be seen whether those cash buyers have enough money to sustain the rally over a lengthy period.

Last week, however, issuers enjoyed better participation on their deals. A $1 billion USAA Auto Owner Trust, Series 2008-2, transaction came to market via Banc of America and **Citigroup Global Markets**. Its one-year, triple-A rated piece came in at 100 basis points over the EDSF.

Another consumer ABS transaction, the $1.4 billion Nelnet Student Loan Trust, Series 2008-3, priced its one-year, triple-A-rated notes at 80 basis points over the three-month Libor, while the three-year piece, similarly rated, came in at 105 basis points over the same benchmark. Barclays Capital, RBS Greenwich Capital, JPMorgan Securities and **Dexia Capital Markets** acted as lead managers on the transaction.

The opportunity to take advantage of fairly wide nominal spreads before things tighten in might already be getting a little scarce, as seen in spreads that had come in tighter by a range of 10 to 25 basis points, according to the trader.

The rally did not extend itself to investors looking to swap certain types of paper. One investor who held a 2.5-year portion of a credit card issue tried to swap into a recently issued five-year credit card deal. Both deals were managed by the same bank, but the bank wouldn't offer better pricing than a flat yield.

"You get no additional spread for going from 2.5 years to five years. We all know the answer to that."

"You get no additional spread for going from 2.5 years to five years. We all know the answer to that," the investor said.

As for future deals, investor support is firmly behind consumer ABS transactions. Some market sources expect issuers who had been holding back on floating new ABS debt to come back to the market now that spreads have tightened a bit.

Market sources say they expect to see more amortizing auto deals, and at press time there was talk of a CARAT deal from **General Motors** with Citigroup as manager, although the bank could not confirm that by press time. — *DM*

Well-Heeled CDO Managers Stand Their Ground

At the onset of CDO troubles this past summer, market participants predicted that tough times would weed out the established players from the fly-by-night shops. As the CLO market begins to pick up, it appears the predictions might be coming true.

Nearly all CLOs that have priced since the summer were from managers who had previously issued four or more prior deals, said **Barclays Capital** in a recent report.

Managers pricing CLO deals last quarter included **Babson Capital**, which manages more than 50 CDOs totaling more than $21 billion in assets (as of Dec. 31, 2007); **Highland Capital Management**, with approximately $38 billion in assets under management; and other strong players such as **The Blackstone Group** and **American International Group** (AIG).

"Managers with a solid track record are currently the only ones able to push deals through the market," a CLO analyst said.

Another established player with $10.3 billion in leveraged finance assets, **The Carlyle Group,** announced the final close of two funds this month. These are Carlyle Strategic Partners II, a $1.35 billion fund to invest in distressed debt—including bank loans, public debt and public and private equity—and Carlyle Credit Partners Financing I (CCPF I), a $450 million CLO.

CCPF I is the firm's 10th CLO. The transaction has a traditional CLO structure with 'AAA', 'AA' and 'BBB' rated liabilities. Pricing on these tranches is at Libor plus 85 basis points, 250 basis points and 450 basis points on the tranches, respectively, according to **JPMorgan Securities**, which structured the fund and served as the placement agent.

At closing, CCPF I was 90% invested in first-lien, high yield bank loans. It will finance them with 12-year debt with no mark-to-market pricing triggers, said **Michael Zupon**, managing director and head of the U.S. leveraged finance team at Carlyle. A minority portion of the transaction is invested in covenant-lite loans.

While the portfolio is diversified, the fund is less bullish on sectors including

See CLO on Page 21 >>

Top 15 Global CLOs Priced in 2008 YTD

Priced	Issuer Parent	Issuer	Value $m	Bookrunner	Nationality
10-Apr-08	NIBC NV	Adriana Infrastructure CLO 2008-I BV	1,632.28	NIBC Bank	United Kingdom
27-Mar-08	Industrial & Commercial Bank of China - ICBC	ICBC CLO 2008-1 Trust	1,142.15	CITIC Group	China
30-Jan-08	Silvermine Capital Management LLC	ECP CLO 2008-1 Ltd	743.88	Citi	United States
14-Feb-08	Camulos Capital LP	Camulos Loan Vehicle I Ltd	731.30	Morgan Stanley	United States
27-Mar-08	New Amsterdam Capital Management LLC	NAC EuroLoan Advantage I Ltd	683.65	Deutsche Bank	United Kingdom
4-Mar-08	Massachusetts Mutual Life Insurance Co	Vinacasa CLO Ltd	680.58	Citi	United States
19-Mar-08	Highland Capital Management LP	Armstrong Loan Funding Ltd	569.64	Barclays Capital	United States
22-Feb-08	Massachusetts Mutual Life Insurance Co	Babson Loan Opportunity CLO Ltd	550.00	Morgan Stanley	United States
19-Mar-08	Blackstone Group LP	Riverside Park CLO Ltd	522.75	Citi	United States
18-Mar-08	Highland Capital Management LP	Aberdeen Loan Funding	515.25	Merrill Lynch	United States
20-Mar-08	Carlyle Group Inc	CCPF CLO 2008-1 Ltd	450.00	JPMorgan	United States
27-Mar-08	Blackstone Group LP	Columus Park CDO Ltd	400.00	JPMorgan	United States
15-Feb-08	American Capital Strategies Ltd	ECAS2007-1 Loan BV	391.35	Deutsche Bank	United Kingdom
14-Apr-08	Tribeca Park CLO	Tribeca Park CLO	381.33	Wachovia	United States
12-Feb-08	American International Group Inc - AIG	Galaxy X CLO Ltd	350.00	Lehman Brothers	United States

Source: Dealogic

Leaving

Will the SHAKEOUT Become a Walkout?

By Donna Mitchell

Jefferies & Co. made news last week when it hired 10 senior executives for its mortgage-backed securities trading group, in an effort to expand its fixed-income business.

The ABS market was also buzzing with word that **JPMorgan Chase** used a $27 million lure to keep **Jeffrey Mayer**, co-head of fixed income at **Bear Stearns.**

News of ABS professionals landing plush jobs at hedge funds, brokerages and other financial services inspires great curiosity and, in times like these, perhaps envy.

But what about the former MBS trader at **Goldman Sachs** who left to launch a burial service that also preserves marine life, the portfolio manager at **Mellon Financial Markets** who left his job to open a chain of hair salons, or the MBS analyst who reportedly left **UBS** to join **The World Bank**?

> "Over the past several years, there has been a boom in the employment of financial engineers on Wall Street ... the computer geeks who could put together these high-powered models."

They are not legion, and their motivations vary, but ABS professionals are leaving the industry and, in doing so, are underscoring a basic new reality.

Almost 39,000 structured-finance professionals lost their jobs between January 2007 and mid-April, according to *ASR* news stories. Most of the layoffs hit brokerages and the fixed-income groups at commercial banks, but law firms, monoline insurers and rating agencies are among the companies that have shed hundreds of ABS-related jobs.

When the ABS market does recover as expected, few think that the industry will return to the days of 2006, when it hit its production peak at $3 trillion.

The previously mentioned trader and analysts have chosen not to play the game of musical chairs for the dwindling number of ABS positions at competing banks, hedge funds or other financial services firms.

For **Jason Rew**, the decision was personal. In January 2007, he left the MBS trading desk at Goldman Sachs to launch a company called the **Great Burial Reef**. The service encases people's cremated remains inside artificial concrete reefs off the coast of Sarasota, Fla.

Located 30 feet underwater and weighing 4,000 lbs., each reef memorial can accommodate the remains of up to two people. All of the reefs have been installed underwater and await remains to be encased. Future reef sites are planned near Fort Meyers, St. Petersburg and Naples. Long-range plans include sites off the east coast of Florida and the California coast.

Rew has always been interested in running small businesses. When he came up with the idea for the Great Burial Reef in 1999, he worked closely with his father, Timothy, to refine the company's logistics.

In early 2003, Rew joined the asset management team within the securitization group at Goldman Sachs, and soon after that he went into MBS trading. Rew says he enjoyed working at Goldman, partly because the investment bank fosters a culture that applies creative and critical thinking. Nonetheless, he felt personally unfulfilled with his full-time job.

"I didn't feel like I was building anything or giving anything back to the environment or the community in any way," he said.

Plans to launch the Great Burial Reef became intensely urgent after May 2006, the month that Timothy died in a car accident. Great Burial Reef was incorporated in June 2007, and Timothy's remains were the first to be encased inside one of the memorials on March 30.

"This gives me the opportunity to build and construct something and to work with a lot of different types of people, whether they are marine biologists or funeral directors or construction workers," said Rew. "It is a very complex business that requires you to interact with different people, which I like."

Jeff Salmon took a less direct route on his exit from the ABS business. He left his job as an ABS portfolio manager at **Bank of New York Mellon** to open a chain of hair salons in suburban central New Jersey. Before that, Salmon was an ABS analyst for **Barclays Capital.** He had joined Mellon just 18 months before he left.

Rew with reef memorials awaiting installation.

Photos courtesy of www.greatburialreef.com

Salmon could not be reached to comment for this article, but industry sources familiar with him said he had become frustrated with his situation, and perhaps the industry.

"He didn't like it because the job was in Pittsburgh and he was commuting back and forth every weekend," said a source familiar with the situation. "Then Mellon had the merger with Bank of New York and he became irritated. He said 'to hell with it.'"

Reaching the height of frustration is another common prompt for financial sector executives to make a drastic career move, says **Joe Robinson**, a work/life balance coach and author of *Work to Live*. Usually, those professionals are in a burnout state. Their health has started to deteriorate, but that situation is typically ignored because Americans are conditioned to take a licking and not let on that they are under stress, said Robinson.

"Americans don't listen to their bodies," said Robinson. "We're told we have to take it, or else we're wimps."

When professionals finally relent and decide to make a huge career shift, the first step is to take stock of their strengths. What strategies might not be working for their careers? Robinson also tells his clients to keep a rotating list of the top five things that they want to do after they move on. That's what the three founders of the former **Compaq** computer company did before they left **Texas Instruments**.

"At one point, they wanted to start a Mexican restaurant," Robinson said.

Such soul searching might seem overly touchy-feely for the average hard-charging ABS professional. Tell that to the trader who spent an entire year out of work from the ABS sector. He eventually found another job, said an industry source who was familiar with him, but only after he suffered bouts of depression and alcoholism.

Culling the Herd

"Over the past several years, there has been a boom in the employment of financial engineers on Wall Street ... the computer geeks who could put together these high-powered models that were essential for creating pools of CDOs and CLOs," said **Edward Yardeni**, president of **Yardeni Research**.

Ironically, those Wall Street professionals who engineered the boom of the industry got snookered by their own alchemy, said Yardeni, because their firms kept the senior tranches of the securities, which were presumed to be the safest.

Encased urns as they would appear under water

But now, the ranks of those financial engineers — including the *quants*, if you like — are thinning, and the culling of the herd is happening almost as quickly as the unraveling of the securities they engineered.

Those ABS professionals looking to find another position in the industry are already finding that the going is tough, mainly because there is very little job duplication anymore, said one industry source.

"Right now banks are more into calculating risk than basically making money," he said. Because most Wall Street firms know that they are not going to generate lots of volume from structured products enterprises, they are not willing to invest a lot of capital in extensive subprime and derivative desks.

Younger ABS professionals have accepted this reality and are more flexible with their career plans. They are willing to change specialties and target jobs involving mergers and acquisitions, endowments and wealth management.

ABS professionals who have been in the business for more than 20 years, however, have to withstand the volatility because they became accustomed to making great salaries for many years, that source said.

"They don't know anything else," he said. "It's not like you can take a structured product guy and say: 'OK, now you're an M&A guy.'"

Robinson said that although he has not personally coached a lot of former ABS executives through life-changing career moves, he expects the recent stream of exits to continue. It is estimated that someone entering the workforce today will go through about nine career changes in one lifetime.

"We are in a state of constant reinvention, so people have to be resourceful," said Robinson. "People have to be open, receptive and they always have to be looking at Plan B."

No matter what their situation, Robinson said, people who are frustrated with their job or the financial sector should not sweep aside whatever devastation or depression they are feeling.

"It will be over with, and they'll be moving on to something else, and it will be the beginning of a new opportunity," Robinson said. ASR

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TIAA-CREF Markets U.S. Real Estate Fund

Not all real estate investors are sitting on the sidelines as the mortgage market continues to take a beating.

Some players are actually jumping back into the game and taking a longer-term perspective. These players are benefiting from the buying opportunities that other cash-strapped sellers are offering. One of these parties is **TIAA-CREF**, which is currently marketing U.S. Real Estate Fund I.

While leverage buyers are stalled without financing availability, cash buyers like TIAA are taking advantage of market conditions.

However, new deals for the fund will be few and far between until appraisers finish adjusting the market values of some of these portfolios.

Fortunately, the fund has an investment raise period of 18 months with a possible six month extension, allowing time for the market to work through valuations.

"We would like to have a closing as quickly as possible, but in many respects it depends on how many advisors and trust companies deem this a suitable investment for their clients," said **Shawn Paulk**, managing director and head of financial advisor distribution at TIAA.

Initially, the deal was to be solely marketed to investors represented by registered investment advisors (RIA). Now, an investor can buy into the fund through an RIA or a state or federally chartered trust company. Clients must also have a pretty penny, with the investment requiring a $3 million liquid net worth.

TIAA's portfolio is a closed-end fund of seven years with three possible one-year extensions that could extend the life to 10 years. A subsidiary, which will be taxed as a REIT, will make almost all of the real estate asset transactions.

Included in the U.S Real Estate I offering is a $50 million capital commitment by TIAA as a co-investor in the transaction. The initial minimum investment requirement in the fund is $150,000 per investor, with a maximum capital raise of $300 million.

Right Place, Right Time

TIAA first began developing this fund around three years ago as an alternative to stocks and bonds for individual investors, said **Suman Gera**, managing director of global real estate and portfolio manager for the fund.

And the results may be worth the wait. Given the current market conditions, TIAA is entering at an opportune time.

"We are able to buy assets right now when the market is down and get a kick in the returns," Gera said. TIAA-CREF's real estate group has managed through economic and market cycles before and believes that commercial real estate performance is best measured over a long-term horizon.

Indeed, TIAA may gain from others' losses in the sector, including those on the CMBS side, which has recently come under pressure from predictions of rising delinquencies. However, this might have a positive effect for the fund since cash-strapped sellers will try to unload at relatively higher cap rates.

Gera noted that there could be good opportunities to invest in core assets. "We are seeing some of these coming to market, especially if the seller has a balloon payment that is coming due or a bridge loan that he has to pay off and cannot," she said.

Fashioning at a Low Cost

Thus far, interest has been strong, Paulk said. "We believe [clients] want exposure to direct real estate in a low-cost fashion, which is what we have tried to design here."

While no investments have been made yet, Gera has the ability to invest TIAA's $50 million equity portion with 50% to 70% leverage, which could create $100 million to $150 million in investment capital even before the first closing at $150 million, she noted.

The fund is allowed 50% leverage on a portfolio level and can use up to 70% leverage on a per property basis. This could make the fund about $700 million if capital is fully raised and all properties numbers are fully leveraged up, Paulk noted.

> *"We are able to buy assets right now when the market is down and get a kick in the returns."*

TIAA will focus its investments primarily in office, retail, industrial and multifamily type-A assets that include high occupancy levels, low near-term vacancy rates, credit-worthy tenants and quality cash flows.

Currently, there are no plans to target specific geographic locations, but the market and property selection process will take into account such factors as the local economic outlook, the construction pipeline and the volatility of the local economic base.

"If there is too much construction going on in one segment of the market, there might be too much supply and we know that fundamentally it might not be the right place to be, so we will shy away from that market," Gera said. — *GS*

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Re-securitization of Junior ABS Contemplated

The commoditized CDO market might be kaput, but Avon, Conn.-based **Structured Finance Advisors** (SFA) is hoping to make a successful turn at putting together a structure secured by junior securitized notes.

If the transaction gets underway as planned, it will be a two-tranche deal secured by at least $100 million in junior notes rated single-A to double-B, with an approximate 70%/30% split between the investment-grade rated tranche and the equity portion respectively, said a source familiar with the company's plans.

SFA has secured investors for the equity portion and is shopping around for a contributor for the junior portfolio, which would also invest in the deal. The company is approaching institutional investors such as pension funds and insurance companies who are not particularly happy with their ABS or MBS holdings.

The transaction appears to represent the type of ABS deals that will be done more frequently, according to sources. Generally speaking, the ABS market is functioning in two major parts: secondary trading of distressed assets and the structuring of transactions that get bought by up to three investors.

"The seeds of the securitization market are returning, because it will take a while," said **Joe Lorusso**, president and co-founder of SFA, referring to the general state of the ABS market. "Securitization still has a role to play, but it's got to inch its way back."

In terms of the SFA deal, the contributor of the underlying securities would retain the 70% senior note position, the investment grade rated portion of the portfolio.

Buyers who would pick up the 30% equity portion would look for about a 20% IRR, according to SFA's plans. The strategy is similar to that of a transaction that SFA put together in November, a $1 billion deal called Collybus.

"It is working as planned," Lorusso said. "Contributors got their money and got the assets off their balance sheets. They don't have to mark to market and they reinvested the money in the current markets." — *DM*

Fitch Releases Revised MVS Method

Continued downgrades of market value structures (MVS) — and subsequent restructurings in some cases — have called attention to their sensitivity to pricing dislocations.

As a result, rating methodologies have been re-evaluated to take into account unforeseen market pressures. Highlighting this effort is **Fitch Ratings**, which released revised criteria for rating MVS last week after a review that started in December 2007.

"Market prices have come under pressure even for assets that are not undergoing a credit stress," said **Alan Dunetz**, a managing director in Fitch's structured credit group.

Dunetz noted that the rating agency will normally re-examine its criteria when there is new data or information. Unprecedented stress on the liquidity and market value of credit instruments was the main driver behind the reevaluation, Fitch said.

Among the rating changes is a cap of 'BBB' for "knock-out" MVS. In these transactions, the unwind triggers are set back significantly from current market levels. But unlike traditional MVS, the rated notes will be undercollateralized if they are breached and recoveries will likely be minimal or none in the event of an unwind, Fitch said. These transactions include CPDOs, SIV capital notes, leveraged super-senior notes, and total-rate-of-return CLOs.

Other key changes are the explicit limits on ratings for most MV deals backed by less-liquid assets — which could include second-lien loans; emerging market debt; tranches of CDOs and alternative investments such as hedge fund investments; and private equity investments, Dunetz said.

There will be a greater emphasis on qualitative factors in determining Fitch's view of advance rates – a percentage of collateral that determines the size of a loan that a lender is able to make.

MVS backed by less liquid asset types will, for the most part, be ineligible to be rated above 'A'. Since there are fewer investors in this asset class, the reference

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Senate Questions Rating Agency Role in Market Turmoil

The three major rating agencies came under attack again last week when the U.S. Senate Committee on Banking, Housing and Urban Affairs held a meeting about the agencies' role in the current credit markets turmoil. Senator **Christopher Dodd** (D-Conn.) and Senator **Richard Shelby** (R-Ala.) presided over the hearings.

Aside from representatives from **Moody's Investors Service**, **Standard & Poor's** and **Fitch Ratings**, the Senate committee also called **Securities and Exchange Commission** Chairman **Christopher Cox**, **Columbia University** law school Professor **John Coffee** and **Arturo Cifuentes**, a managing director at **R.W. Pressprich & Co.**, to testify regarding the issue.

In their testimonies, the rating agencies enumerated the various measures they are currently taking to address investor distrust and to enhance the ratings process. For instance, S&P Executive President **Vickie Tillman** said that S&P has focused its efforts on enhancing its ratings process, providing increased information to investors and promoting confidence in its ratings.

"The actions focus on raising transparency — providing the market with greater insight and understanding of the analytics and information supporting the ratings so investors can make better informed investment decisions — as well as Standard & Poor's rating practices and processes," Tillman said. Fitch President and CEO **Stephen Joynt** and Moody's Senior Managing Director **Claire Robinson** made similar assertions.

Despite these efforts, however, Cifuentes remained pessimistic in his outlook. "Whatever one's preferred diagnosis, a fact remains: From a ratings' point of view this has been the worst disaster in the history of the fixed-income markets," Cifuentes said in his testimony.

The rating agencies failed not once but twice, he said. The agencies failed when they "misrated" a significant number of subprime securitizations and when they did the same thing for ABS CDOs. He noted that ABS CDOs accounted for more than 90% of the U.S. CDOs downgraded in 2007.

"Consequently, at the heart of the crisis there is a painful truth: market participants do not believe in the rating agencies anymore," Cifuentes said. "One of the keys to ending this crisis is restoration of confidence in the agencies and their methods of analyses."

> *"From a ratings' point of view this has been the worst disaster in the history of the fixed-income markets."*

In his testimony, Cifuentes mentions two misconceptions about the rating agency business model: the fee issue and the agency-as-architect issue. He added that the alleged link between the rating agency fee and the banker working on deals is "weak at best," contrary to the common notion that bankers pay the rating fee, creating a conflict of interest.

In terms of the second issue, Cifuentes testified that the interaction between the bankers and the rating analysts is one of normal give-and-take and not one where the agencies provide "excessive guidance."

A solution that Cifuentes proposed regarding the fee issue was that rating fees be distributed more evenly throughout the life of the deal, instead of the rating agencies being paid a significant upfront fee and a fairly minor monitoring fee for continuing to look at deals.

Meanwhile, in his testimony, Cox said that the SEC will "issue rule proposals for public comment in the near future" regarding the role of credit rating agencies. This is why Cox was only able to outline the rulemaking areas under consideration including accountability, transparency, and competition, and not specify what will actually go into the proposed rules.

In related news, last week the **Real Estate Roundtable**, the **Mortgage Bankers Association** the **Commercial Mortgage Securities Association**, and the **National Association of Realtors** wrote Senators Dodd and Shelby regarding their concern over and opposition toward proposals to differentiate between credit ratings for structured finance products and other asset classes, such as corporate and municipal bonds.

Jan Sternin, senior vice president at the MBA, said that it is counterproductive to make changes in rating methodology "at this time frame when we are trying to restore investor confidence and liquidity in the capital markets."

She added that, "a triple-A is a triple-A is a triple-A. That's how structured finance investors came to use it before the market became more focused on municipal and corporate bonds." Sternin said that she is confident that once banks' portfolios are right-sized and these institutions are done with their write-downs, the market will be able recover. When the recovery happens, differentiating between the sectors should not be necessary. "You'll see investor confidence come back with more conservative underwriting and the real estate market remaining fundamentally sound, especially in the commercial real estate sector." — *KS*

Mortgage-backeds Gain Due to Strong Buying

Overseas investors were active in a week that saw better buying but below normal supply

Through Tuesday, mortgages had made tremendous gains on better buying, below normal supply, tighter swap spreads and lower volatility from the middle of the previous week.

For example, month-to-date through April 17, **Lehman Brothers**' MBS Index was underperforming Treasurys by one basis point. Mortgages staged a dramatic recovery through last Tuesday's posting to 72 basis points.

Year-to-date, the MBS Index is underperforming Treasurys by just two basis points compared to negative 234 basis points for U.S. corporates, negative 508 basis points for CMBS, and negative 517 basis points for ABS.

However, overall MBS volume was below normal in the first half of the week. Overseas investors, in particular, were a strong buyer, though money managers, real money and fast money also were active participants. In fact, buyers outnumbered sellers about 5-6 to 1 in the first two days of trading. Interest was focused primarily in 5%s through 6%s.

Meanwhile, supply was running at less than $1 billion per day and consisted of 5s through 6s. On Wednesday, mortgages were lagging on limited volume as investors were taking profits following the recent strong gains.

In other mortgage sectors, through the first half of the week, GNMA/FNMA was slightly underperforming on a combination of fading credit concerns and higher supply. Gold/FNMA posted gains, 15s underperformed 30s as the yield curve flattened, while the specified pool sector was quiet despite pay-ups to TBA being substantially below theoretically pay-ups.

Mortgage Outlook

Investors remain very sensitive to the ongoing credit and housing risks. Also weighing on the longer-term MBS outlook is supply.

Last week analysts were neutral on the mortgage basis primarily for this reason. Lehman Brothers analysts, for example, estimated supply will run at $40 billion to $50 billion per month for the rest of the year. While demand has picked up from commercial banks and overseas investors, analysts do not believe it will be sustained. Banks expect capitalization concerns to continue, particularly if the housing market continues to weaken. Further, Lehman projected that banks and thrifts have recognized only about $70 billion of the roughly $320 billion in projected losses.

Over the near term, analysts anticipate overseas demand to remain strong, but longer-term they believe asset allocation trends are still in play. This includes greater diversification from official institutions from bonds into equities, and from the dollar into other currencies.

"In the best case, we think overseas demand can total $150 billion to $200 billion per year, which falls far short of the $600 billion of demand needed to absorb supply," Lehman analysts said.

As expected, mortgage applications dropped nearly 14% for the week ending April 18 as mortgage rates rose sharply. The **Mortgage Bankers Association** reported that the 30-year fixed contract rate jumped 30 basis points to 6.04%. Mortgage rates were last above 6% in mid-March. Meanwhile, the one-year ARM rate fell to 6.93% from 7.02%.

The jump in rates led to a 20.2% drop in the Refinance Index to 2286.3 and puts this index at its lowest level for this year. The Purchase Index declined 6.4% to 357.3. The Conventional Purchase Index fell 7.5% while the Government Purchase Index was off just 2.7%.

As a percent of total applications, refinancings dropped to 49.2% from 53.5% in the previous report. ARM share rose to 6.6% from 6% previously.

Prepayment Outlook

Prepayment speeds on FNMAs are currently projected to be about 2% higher overall in April, primarily due to increases in the 5% coupon.

Higher coupons, in aggregate, appear to be flat to lower. GNMA speeds are forecast higher up 6% overall. The 5% coupons are also a major contributor to the increase up 11% overall. However, unlike FNMAs, 5.5% and 6% coupons look to be up 4% to 5%.

In general, a two-day higher day count appears to be mostly offset by higher mortgage rates and lower refinancing activity. — *Sally A. Runyan/Thomson Reuters*

European Primary Still Fully Retained by Issuers

Tightening spreads provide a sign of hope to Europe's stalled securitization market

European cash spreads continue to show signs of tightening. This indicates that investors might be stepping back into the arena.

"We observe that bids are starting to include a considerable range of asset classes," **UniCredit Markets & Investment Banking** traders said. "Prime Italian and Dutch RMBS as well as German RMBS are in demand [and] bids are placed at considerable sizes." Traders also noted that bids have also been placed for U.K. RMBS paper.

U.K. prime CDS continued to tighten. **Deutsche Bank** said that financial CDS traded inside of comparable corporates for the first time since September 2007.

According to the **Royal Bank of Scotland**, European ABS CDS spreads tightened further on the news of the new special liquidity scheme from the **Bank of England**. CDS are now at levels seen around the beginning of February — names across almost all asset classes tightened by about 10 basis points at the start of the week. U.K. prime names are currently trading at 80 basis points/105 basis points, Spanish low-LTV and high-LTV names at 115 to 195 basis points and 190 to 290 basis points, respectively, CMBS at 130 to 210 basis points, Italian RMBS in the 100 to 140 basis point area and Dutch RMBS names at around 70 to 90 basis points.

"It is too early to talk about stabilizing long-term prospects," the UniCredit traders said. "We do realize at least increased interest in paper, however, the supply overhang in ABS is supposed to be high!"

They added that if the recent trend of tightening on the cash side continues, the CDS on ABS market will lose momentum. Buying protection is not as significant and this is why market players will consider selling paper instead, the traders said.

The primary market also saw deals begin marketing, although most of the deals are still being retained by the banks. Bookrunners priced **Gruppo Banca Sella**'s €224.7 million ($356 million) prime Italian RMBS, MARS 2600 Srl Series 2. All the notes were retained.

> *"Prime Italian and Dutch RMBS as well as German RMBS are in demand [and] bids are placed at considerable sizes."*

The portfolio has a weighted average current LTV of 50.7%, 30-month seasoning and regional concentration in North Italy (89.9%) and Central Italy (9.3%). The triple-A rated 4.8-year class A notes closed at 75 basis points, the single-A rated 11.8-year class B tranche came in at 100 basis points and the triple-B rated 11.8-year Class C notes at 115 basis points.

Lehman Brothers subsidiary **ELQ Hypotheken** revealed pricing details on its €265 million nonconforming Dutch RMBS deal, EMF-NL 2008-1.

The pool comprises loans with a weighted average current LTV of 98.6%, 4.2-month seasoning and with borrower classifications showing medium adverse or weaker loans making up about 47% of the pool. The triple-A rated one-year class A1 notes priced at 90 basis points, the 3.4-year class A2 tranche priced at 100 basis points and the 4.6-year class A3 notes priced at 125 basis points. All the notes were retained.

A new €800 million Greek RMBS for **Piraeus Bank**, Estia Mortgage Finance III also priced but was fully retained. The pool comprises loans on mostly owner occupied residences (70.6%) with a weighted average current LTV of 65.7%, 22.2-month seasoning and concentration in the Athens region (35.5%). The triple-A rated 5.6-year class A notes priced at 45 basis points and the triple-B rated 7.2-year class B tranche priced at 120 basis points.

IM Terrassa RMBS 1 FTdA, the €500 million fully retained Spanish RMBS for **Caixa Terrassa**, also priced. The triple-A rated 6.1-year class A notes priced at 30 basis points, the single-A minus-rated, class B tranche priced at 60 basis points and the triple-B minus-rated class C notes priced at 100 basis points. — *NC*

Bank of England Answers Industry's SOS Call

The Bank of England threw another lifeline to banks last week, unveiling a new £50 billion ($99.3 billion) special liquidity scheme (SLS)

The new scheme will allow banks to temporarily swap their high quality, triple-A rated MBS and other securities for U.K. Treasury Bills.

The Bank of England has already stepped up its normal liquidity operation since the credit crisis began. It has also offered a number of expanded and exceptional three-month lending facilities since December 2007, which have also accepted ABS and RMBS as collateral.

However, unlike the bank's open market operations, the SLS necessitates an expansion of the Bank of England's balance sheet via the use of T-Bills issued specifically by the government's debt management office for the purposes of this program.

The new scheme will include primarily U.K. and European triple-A cash RMBS and covered bonds. Senior triple-A credit card ABS is also accepted, a category that allows U.S. collateral-backed bonds to be swapped.

Banks participating in the program will be charged a fee, reflecting half the difference between three-month Libor and the Gilt repo rate.

"Any bank using the scheme would effectively be required to provide capital or subordinated funding for anything it swaps under the scheme at a significant multiple of its regulatory capital requirements for the same assets and considerably higher than that required for a 'AAA' rating," **Fitch Ratings** analysts said.

The haircuts will vary, with a maximum of 30% for master trusts where collateral might include loans originated after December 2007, 100% of the value of the securities/loans at the end of December will be eligible for the first year, falling to two-thirds in year two, and to one-third in year three. RMBS, ABS and covered bond haircuts start at 12% for maturities under three years.

ECB's Haircut

According to Fitch, the 12% haircut for floating-rate securities compares to a 2% haircut applied by the **European Central Bank** (ECB) to its valuation of floating-rate securities for use as collateral for its repo funding facilities.

The haircuts are based on observable market prices, with extra cuts of 3% for non-sterling securities, 5% for own group collateral, and 5% for not having an observable market price, giving a possible haircut of 35%.

> *"Socializing the costs of liquidity in the U.K. mortgage lending bank market should also mean that the risk of another Northern Rock debacle is reduced, at least."*

Banks will be able to enter into new long-term asset swaps at any point during a six-month window starting April 21. Each swap will be for a period of one-year and might be renewed for a total of up to three years. After that, the scheme will close. During the lifetime of an asset swap, banks will be required to pay a fee based on the three-month Libor.

Only securities held on balance sheet at the end of December 2007 or securities backed by loans held on balance sheet at this date will be eligible for the swap arrangement and participating banks will be required to replace the loans if they suffer higher-than-expected defaults.

Analysts said that it's likely that banks will turn to the scheme as a tool to manage balance sheet liquidity and it's unlikely that U.K. banks will immediately use the facility to finance new loan origination.

"Under the SLS, banks can avoid crystallizing mark-to-market, capital depleting losses from accelerated asset sales while reducing their short-term vulnerability to wholesale market technicals," **Deutsche Bank** analysts said. "Socializing the costs of liquidity in the U.K. mortgage lending bank market (and effectively subsidizing the weakest players) should also mean that the risk of another **Northern Rock** debacle is reduced, at least."

What the Bank of England has essentially done is to create a program that gives banks the time needed to work out the kinks that have erupted in the credit crisis.

The new liquidity scheme provides U.K. banks with backstop liquidity, guaranteeing amounts that are likely to be inaccessible in the wholesale markets currently.

"The Bank of England has been cautious to minimize the credit risk that is absorbed, but ensuring that liquidity is improved. Reduced access to capital markets both for funding via lower tier 2 debt

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U.K. CMBS Remains Sound

Fitch Ratings last week highlighted the ability of U.K. CMBS transactions to support significant market value declines.

According to Fitch, even if valuation yields for U.K. commercial properties increased to early 1990's recession levels, losses would be less than 0.25% of the balance of triple-A-rated tranches and 9% for all investment-grade tranches based on current property income.

The same calculation based on estimated rental value (ERV) shows even lower losses.

In a more extreme scenario where valuation yields rise to 10%, the study found that losses would be only 3% for triple-A-rated tranches and 20% for investment grade.

"Even so, 12% of transactions have sufficiently low loan-to-value ratios that they show no losses in the 10% scenario," said **Andrew Currie**, managing director for EMEA structured finance at the rating agency.

But under a mild scenario, based on currently prevailing valuation yields, Fitch said that its research showed no losses for triple-A tranches and 1% for investment grade.

In a moderate scenario, based on 2001 valuation yields, triple-A tranches also show no losses while investment grade show 2%.

Despite the cheery outlook, market analysts said that extension risk remains high given the falling U.K. property values.

> *"We believe that senior CMBS notes continue to hold significant value."*

"We believe that senior CMBS notes continue to hold significant value, with junior tranches requiring lengthy analysis to gain comfort with property price stability for the assets in question," **Societe Generale** analysts said. — *NC*

CLO

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financial institutions, retail, automotive and airlines.

CCPF I closed after roughly only a month of marketing, largely because the triple-A's were spoken for when the transaction launched. At the same time, Carlyle and its clients purchased the triple-B's, which left only a small dollar amount to be marketed, Zupon said, noting that this piece was oversubscribed. "This is a good time to own high-yielding, discounted loans," he said.

Separately, the firm recently started marketing a $500 million cash flow CLO called Carlyle High Yield Partners 2008-I, which is being arranged by **Deutsche Bank Securities**. The firm could not comment on the fund or future CLO issuance.

Some CLO market participants do not consider all of the deals coming to market new transactions, but basically the transfer of internal risk. Some of the CLOs recently pricing are funds of repackaged leveraged loans that managers have been holding on their books, said one CLO market participant.

Many of them are holding the triple-A paper because of lack of market appetite. In this case, it makes sense to have a good brand "because when you are keeping it on the book, you are thinking about selling it a couple years down the road," the market participant said.

Among other transactions currently in the market from well-established managers is Allos Synthetic CLO 2008-1 from **Trust Company of the West**, which is being arranged by **Citigroup Global Markets**. Initial price talk is at 125 to 150 basis points on the triple-A paper and 425 to 450 basis points on the single-A paper, according to a report by JPMorgan.

Generally, pricing on triple-A CLO tranches is currently at 85 to 105 basis points, double-A tranches are at 280 to 300 basis points, single-A tranches are at 275 to 425 basis points, triple-B tranches are at 500 to 550 basis points and double-B tranches are at 800 basis points, according to Barclays.

This appeared to hold true in recent transactions, including a $381 million CLO called Tribeca Park 2008-1, which priced on April 14 and is from **GSO Capital**. Triple-A paper came in at 98 basis points, double-A paper priced at 350 basis points, single-A paper priced at 500 basis points, triple-B paper priced at 600 basis points and double-B paper came in at 900 basis points, according to JPMorgan.

Invesco priced Hudson Canyon Funding II the same week. Triple-A paper for the $435 million CLO priced at 110 basis points, JPMorgan said. — *GS*

BoE

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and risk transfer via securitization is severely restricting many institutions," **Societe Generale** analysts said. "We expect that many institutions will be aided by the facility, allowing them to benefit from hold-to-maturity."

Rick Watson, managing director and head of the **European Securitization Forum** (ESF), said that while the new scheme is not securitization related, it does provide a significant amount of cash liquidity to lenders over a sufficiently long three-year window while the securitization market heals.

"Securitization investors need time to evaluate a number of issues — supply overhang, rating agency consultations, and subprime resolution," Watson said. "Everyone wants the market to come back. What this scheme does is provide a lot of liquidity for until the market does come back — hopefully much sooner than three years. I think most of us would think that if the securitization market isn't back by the three year mark — then we have an even bigger problem than we already have."

But Watson said that the Bank of England's new program isn't designed to be a substitute for the long-term securitization market.

Deutsche Bank estimates that the "back-book" of unsecuritized U.K. mortgages is around the £975 billion mark and said that the new scheme will likely drive a rise in securitizations of these assets in the near-term. — *NC*

REVISED MVS

Continued from page 15

portfolios are more likely to see "erratic spread movements," Fitch said. MVS with illiquid assets will most likely be ineligible for investment-grade ratings and may not even be rated, Fitch said.

There will be a greater emphasis on qualitative factors in determining Fitch's view of advance rates — a percentage of collateral that determines the size of a loan that a lender is able to make.

While it is important to look at quantitative data like historic price changes, it is not adequate on its own, Dunetz said. Factors such as an assessment of the underlying risk of the asset, the nature of the market as well as any structural changes that have occurred in the market that might make the historical data less relevant will all be taken into account.

At the same time, ranges of advance rates have been established for a limited number of categories of assets. This differs from Fitch's prior approach where specific advance rates were established on an asset-by-asset basis.

The rating agency will also bring in sector-specific analysts to rate the deals, which should heighten the level of detail in their assessments. "Sector-specific analysts can bring detailed asset class knowledge to bear, which can help in the determination of risk factors that might affect market price and volatility," Dunetz said, noting that analysts would be consulted as needed.

While new MV deals are few and far between, all new transactions Fitch is asked to rate will apply these criteria. The rating agency said it has also started to review the impact on existing deals. — *GS*

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CITIGROUP GLOBAL MARKETS

CMBS

Analysts continue to recommend going long cash bonds and short CMBX, and they expect that trade will eventually pay off. They said this as the strong rally in triple-B CMBX has not been followed by the underlying cash bonds. Yet, in an economic crisis, analysts would expect that fear and technical trading would widen the lower credit levels of the CMBX indices significantly. Analysts said this looking at their CMBX-implied loss table for the various classes of CMBX data they presented, and noting that some of the loss levels on the lower rated credit classes are not out of the question. The delay of the CMBX.5 launch may also somewhat suppress further immediate tightening momentum on the heels of rolling short positions to the new index. Thus, some of the recent rally in CMBX may now be overdone and could be offering the potential to buy much cheaper cash credit CMBS bonds and arranging a reasonably priced CMBX hedge on that position. (04/18)

DEUTSCHE BANK SECURITIES

ABS

For investors seeking relative value opportunities, analysts like certain ABS sectors (i.e. selected subprime RMBS, student loans, credit card subs and esoteric assets). These assets have been pricing in a much more onerous economic environment, making hedging challenging but overall cheap as equities and corporate credit rally. For long-term investors, they should consider the less risky ABS sectors that are not likely to see significant technical pressures if high grade CDOs or SIVs liquidate. (04/18)

FTN FINANCIAL

MBS

Analysts compared two triple-A-rated WL ARMs, IMM 2005-3 A1and CMLTI 2005-2 1A4. The IMM bond's collateral had significantly lower credit quality compared with the CMLTI bond's collateral. However, the IMM bond had much higher credit support, is over collateralized and has a shorter average life at the same speed. The coverage ratios for both securities are relatively low at 3.02x for the IMM bond and 5.66x for the CMLTI bond. However, because of the higher amount of credit enhancement in the IMM bond and because it is a shorter cash flow, its breakeven cumulative default rate is significantly higher than that of the CMLTI bond. The firm's CMO desk provided market prices for these two securities. The CMLTI bond is trading at a slightly distressed level (95.25) and the IMM bond is trading at a very distressed level (80.50). Since the IMM bond has significantly higher credit enhancement and a substantially higher breakeven default rate, analysts suspect that the price of the IMM bond is too low. The credit stress analysis for the two securities bears this out. Analysts ran both bonds at 0.5, 1, 3, 5 & 10 CDR, 20% & 40% loss severity and 6 & 12 CPR. Across all scenarios, the IMM bond maintained a commanding yield and spread advantage over the CMLTI bond. At 12 CPR, the yield advantage is approximately 200 basis points or higher. Across all scenarios for the IMM bond, the spread to swaps is at least 200 basis points and the yield never dipped below 6%. Under the most stressful scenario in the analysis (10 CDR, 40% loss severity and 6 CPR), the IMM bond incur a negligible loss of 0.09%. The IMM bond holds up better under various credit stress, has higher yield and spread and has a shorter average life compared to the CMLTI bond. (04/22)

JPMORGAN SECURITIES

ABS

The government responses will be a step in the right direction. However, the magnitude of the economic woes seems to be expanding across housing, employment, consumer health, and corporate earnings. As such, while analysts want to be adding risk, they remain mildly cautious and recommend gradually adding risk at the top and safest parts of the capital structure. For example, ABX, 06-2 AAA and AA, 06-1.AAA and 07-1.AAA are top picks. (04/18)

CMBS

Market sentiment improved over the week on better-than-expected earnings and a decrease in volatility as it appears the worst of the credit crunch may now be behind us. If the worst of the crisis is truly behind us, it should provide substantial support for cash spreads across the investment grade capital structure. Cash bonds, however, remain priced to credit crunch type levels and therefore are closer to "fair value" than synthetic spreads currently are following their recent month-long rally. Investors should leg into triple-As outright, consider negative basis trades on double- and single-As and buy protection on synthetic tranches rated triple-B and below. Although technical factors may result in further spread tightening among the lower-rated synthetic tranches over the near term, intrinsic credit fundamentals warrant wider spreads. Leg into outright short-risk positions from the triple-B tranche and lower, especially on the CMBX.2 and CMBX.3. These lower-rated tranches will likely see little true benefit from restored liquidity and improved market sentiment as their problems remain fundamentally based. (04/18)

MBS

Stay neutral on the mortgage basis. Buy 15-years over 30-years, owing to attractive OAS and low convexity hedging costs. Agency hybrids continue to look attractive, with wide OAS either to maturity or balloon. Alt-As currently offer equity-like returns, and should be attractive even to unleveraged investors. IO lending has been curtailed due to weak secondary pricing and increased price volatility. Relative to TBA, 10/20s have lower option cost, higher yield and carry, and are undervalued by 3/4 to 1 point on a fundamental basis. This sector should also benefit from a lack of near term supply. (04/18)

LEHMAN BROTHERS

MBS

Over the past couple of weeks, implied financing rates for agency MBS through the roll market have improved from Libor plus10 basis points to Libor minus 50 basis points owing to a number of demand-driven factors. In particular, analysts have seen strong sponsorship for the basis from commercial banks, as well as overseas investors. While the improvement in funding is certainly a positive development, analysts do not expect current conditions to persist, as the fundamental supply/demand imbalance in the market is unlikely to correct soon. The positives for the basis are potentially from carry returns in a range-bound market, but analysts expect these to be relatively small. Taking all of these factors together, analysts remain neutral on agency MBS versus swaps. While recent demand trends have been positive for the financing situation, they are unlikely to be sustained. Analysts expect supply to be overwhelming in the coming year. The main theme is that supply/demand imbalances continue to plague the agency passthrough market and are unlikely to improve any time soon. Despite these factors, analysts do not think it is the right time to short the basis either. Rates could remain range-bound if the Fed takes a pause in its aggressive easing cycle. The risk of regulatory intervention remains as well. As a result, analysts recommend maintaining a neutral allocation to the basis. They prefer to overweight other sectors at current valuations. In particular, analysts like owning agency hybrid versus fixed-rates. Analysts also prefer super-senior triple-As in the Alt-A space over agency fixed rates as the yield pickup is substantial. (04/21)

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MANAGER ACTIVITY

Year To Date
Equal Credit to Book • U.S. Public ABS Market

AUTO ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
JPMorgan Securities	2,184.7	1	15.3	5
Wachovia Securities	2,079.1	2	14.6	4
Credit Suisse	1,746.3	3	12.3	3
Citigroup Global Markets	1,606.7	4	11.3	4
Goldman Sachs	1,581.1	5	11.1	3
Barclays Capital	1,350.9	6	9.5	2
ABN AMRO	906.7	7	6.4	2
Banc of America Securities	761.8	8	5.3	2
RBS Greenwich Capital	744.5	9	5.2	1
Merrill Lynch	547.3	10	3.8	1
Industry Total	14,252.1	-	100.0	14

CREDIT CARD ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
JPMorgan Securities	9,838.1	1	26.8	11
Banc of America Securities	9,664.8	2	26.3	13
Citigroup Global Markets	9,254.6	3	25.2	8
Barclays Capital	2,292.1	4	6.2	5
Deutsche Bank Securities	1,512.7	5	4.1	2
Credit Suisse	1,396.0	6	3.8	2
RBS Greenwich Capital	770.8	7	2.1	2
Wachovia Securities	500.0	8	1.4	1
Morgan Stanley	500.0	8	1.4	1
Merrill Lynch	500.0	8	1.4	1
Industry Total	36,684.0	-	100.0	33

STUDENT LOAN ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Citigroup Global Markets	2,574.3	1	23.9	3
JPMorgan Securities	2,109.4	2	19.6	5
Barclays Capital	1,527.1	3	14.2	4
RBS Greenwich Capital	1,456.1	4	13.5	3
Banc of America Securities	1,246.9	5	11.6	3
Deutsche Bank Securities	1,164.5	6	10.8	3
Dexia Capital Markets	362.7	7	3.4	1
Credit Suisse	333.3	8	3.1	1
Industry Total	10,774.3	-	100.0	9

CDOs

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Citigroup Global Markets	2,283.9	1	28.0	5
JPMorgan Securities	1,898.6	2	23.2	6
Morgan Stanley	1,286.3	3	15.8	3
Lehman Brothers	1,122.3	4	13.7	5
Wachovia Securities	643.4	5	7.9	2
Barclays Capital	608.2	6	7.5	1
Bear Stearns	325.9	7	4.0	1
Industry Total	8,168.6	-	100.0	23

COMMERCIAL MBS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Banc of America Securities	2,824.5	1	29.0	2
Merrill Lynch	2,479.5	2	25.4	2
Morgan Stanley	1,060.5	3	10.9	2
Goldman Sachs	925.0	4	9.5	1
Citigroup Global Markets	925.0	4	9.5	1
Bear Stearns	616.9	6	6.3	1
UBS	479.5	7	4.9	1
Credit Suisse	443.6	8	4.5	1
Industry Total	9,754.4	-	100.0	6

REAL ESTATE ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Lehman Brothers	1,715.6	1	96.6	2
BB&T Capital Markets	59.9	2	3.4	1
Industry Total	1,775.5	-	100.0	3

Dollar value reflects equal credit.

Source: ASR for all tables except CDOs.
CDO rankings are based on Thomson Financial data.

U.S.

USAA Auto Owner Trust 2008-2

Date: 4/22/2008 **Seller: USAA Federal Savings Bank** **Amount: $999 million** **Sector: auto ABS**

Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A1	$242.0	Aaa/AAA/NA/NA	0.33y	n/a	n/a	n/a	n/a	n/a	n/a
A2	$250.0	Aaa/AAA/NA/NA	1.05y	EDSF	n/a	+100bp	3.91%	n/a	3.95%
A3	$347.0	Aaa/AAA/NA/NA	2.15y	SWAPS	n/a	+155bp	4.64%	n/a	4.69%
A4	$133.0	Aaa/AAA/NA/NA	3.29y	SWAPS	n/a	+180bp	5.16%	n/a	5.23%
B	$27.0	NA/BBB/NA/NA	3.38y	n/a	n/a	n/a	n/a	n/a	n/a

Credit Enhancement: sr/sub **Manager: Banc of America Securities, Citigroup Global Markets**

Notes: Settles: 04/29/08; co-mgrs: Barclays Capital, BNP Paribas, Deutsche Bank Securities, JPMorgan Securities

Collateral type: retail loans/prime

Nelnet Student Loan Trust 2008-3

Date: 4/18/2008 **Seller: Nelnet Inc.** **Amount: $1.45 billion** **Sector: student loan ABS**

Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A1	$260.0	Aaa/AAA/AAA/NA	1.00y	3M LIBOR	n/a	+80bp	3.76%	100.0000	n/a
A2	$538.0	Aaa/AAA/AAA/NA	3.00y	3M LIBOR	n/a	+105bp	4.01%	100.0000	n/a
A3	$174.0	Aaa/AAA/AAA/NA	5.00y	3M LIBOR	n/a	+125bp	4.21%	100.0000	n/a
A4	$478.0	Aaa/AAA/AAA/NA	8.23y	3M LIBOR	n/a	+165bp	4.61%	100.0000	n/a

Credit Enhancement: sr/sub **Manager: Barclays Capital, JPMorgan Securities, RBS Greenwich Capital, Dexia Capital Markets**

Notes: Settles: 0/24/08; co-mgr: Societe Generale Corporate & Investment Banking; Collateral type: FFELP

Ford Credit Auto Owner Trust 2008-B

Date: 4/16/2008 **Seller: Ford Motor Credit** **Amount: $1.6 billion** **Sector: auto ABS**

Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A1	$390.0	Prime-1/A-1+/F1+/NA	0.29y	Interpolated	n/a	+5bp	2.77%	n/a	2.77%
A2	$497.0	Aaa/AAA/AAA/NA	1.00y	1M LIBOR	n/a	+120bp	n/a	100	n/a
A3A	$359.0	Aaa/AAA/AAA/NA	2.00y	SWAPS	n/a	+162bp	4.28%	99.98762	4.33%
A4A	$120.0	Aaa/AAA/AAA/NA	3.01y	SWAPS	n/a	+200bp	4.95%	99.98739	5.01%
A3B	$80.0	Aaa/AAA/AAA/NA	2.00y	1M LIBOR	n/a	+162bp	n/a	100	n/a
A4B	$50.0	Aaa/AAA/AAA/NA	3.01y	1M LIBOR	n/a	+200bp	n/a	100	n/a
B	$47.0	Aa3/A+/A/NA	n/a	n/a	n/a	n/a	5.88%	n/a	n/a
C	$31.0	A3/BBB+/BBB/NA	n/a	n/a	n/a	n/a	6.65%	n/a	n/a
D	$31.0	Ba1/BB+/BB/NA	n/a	n/a	n/a	n/a	8.10%	n/a	n/a

Credit Enhancement: sr/sub **Manager: Barclays Capital, Deutsche Bank Securities, Credit Suisse**

Notes: Settles: 04/23/08; co-mgrs: Calyon Securities, Mizuho Securities; Collateral type: retail loans/prime

Nissan Auto Lease Trust 2008-A

Date: 4/16/2008 **Seller: Nissan Motor Credit** **Amount: $549 million** **Sector: auto ABS**

Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A1	$77.0	Prime-1/A-1+/NA/NA	0.35y	Interpolated	n/a	+7bp	n/a	n/a	2.81%
A2A	$98.0	Aaa/AAA/NA/NA	1.30y	EDSF	n/a	+155bp	n/a	n/a	4.32%
A3A	$155.0	Aaa/AAA/NA/NA	2.23y	SWAPS	n/a	+220bp	n/a	n/a	5.20%
A4	$25.0	Aaa/AAA/NA/NA	2.68y	n/a	n/a	n/a	n/a	n/a	n/a
Certs	$49.0	NA/NA/NA/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A2B	$75.0	Aaa/AAA/NA/NA	1.30y	1M LIBOR	n/a	+155bp	n/a	n/a	n/a
A3B	$70.0	Aaa/AAA/NA/NA	2.23y	1M LIBOR	n/a	+220bp	n/a	n/a	n/a

Credit Enhancement: sr/sub **Manager: Merrill Lynch**

Notes: Settles: 04/23/08 co-mgrs: BNP Paribas, Deutsche Bank Securities, HSBC Securities, RBS Greenwich Capital, JPMorgan Securities

Collateral type: retail leases

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CALENDAR

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APRIL 2008

APRIL 28-29: London, UK - EuroCatalyst will hold its annual 'EuropeServicing 2008' at BFI Southbank. For more information, go to www.europeservicing.com

APRIL 29: Washington, DC - American Enterprise Institute for Public Policy Research will hold 'What Lies Beyond the Credit Crunch? Part II' at the Wohlstetter Conference Center. For more information, go to www.aei.org/event1712

MAY 2008

MAY 1 - 2: Orlando, FL - Opal Financial Group will hold its 'Housing Finance Summit'. For more information, go to http://www.opalgroup.net

MAY 7-8: New York, NY - The Strategic Research Institute will hold its eleventh annual 'Asset-Backed Commercial Paper Summit' at the Westin New York in Times Square. For more information, go to http://www.almevents.com

MAY 9: Toronto, Canada - Insight Information will hold its eleventh annual 'ABL Conference 2008' at the St. Andrew's Club and Conference Centre. For more information, go to http://www.insightinfo.com

MAY 15: New York, NY - Securities Operations Forum presents 'Fixed Income Operations Conference' at Bayard's. For more information, go to http://www.soforum.com/conferences/

MAY 15: New York, NY - Securities Industry and Financial Markets Association will hold 'Pricing Credit Risk in Today's Bond Market' at the SIFMA Conference Center. For more information or to register, go to http://events.sifma.org

MAY 15-16: New York, NY - The Financial Research Associates will hold its 'Real Estate Derivatives 2008 — Market Assessment, Deal Structuring and Institutional Investing' at the Flatotel. For more information, go to http://www.frallc.com

MAY 15-16: Washington, DC - The Strategic Research Institute will hold its ninth annual 'Student Loans in the Capital Markets Summit' at the Ronald Reagan Building and International Trade Center. For more information, go to http://www.almevents.com

MAY 15-16: Miami, FL - Euromoney Seminars presents the seventh annual 'Securitization in Latin America Summit' at the Ritz-Carlton Coconut Grove. For more information, go to http://www.euromoneyseminars.com/

MAY 19-21: New York, NY - Financial Research Associates will hold its 'Hedge Fund Tax Accounting and Administration Master Class' at The Helmsley Hotel. For more information or to register, go to http://www.frallc.com

MAY 20: New York, NY - Securities Industry and Financial Markets Association will hold 'Fundamental Analysis/ Portfolio Analysis/Financial Analysis' at the SIFMA Conference Center. For more information or to register, go to http://events.sifma.org

MAY 26-27: Hong Kong - Euromoney Seminars presents 'Distressed Debt Asia 2008' at the Renaissance Harbour View Hotel. For more information, go to http://www.euromoney-seminars.com/

MAY 27-29: Russia - Worldwide Business Research will hold its 'Trade Tech Russia 2008' at the Renaissance Moscow. For more information, call the bookings hotline at +44 (0)20 7368 9465 or go to http://www.wbr.co.uk/TradeTechRussia/

MAY 28-30: New York, NY - International Quality & Productivity Center will hold its 'Fourth Securities Litigation in the Securities Arena' at the Millennium Broadway Hotel. For more information, http://www.iqpc.com

JUNE 2008

JUNE 1-4: Cannes, France - Information Management Network will hold 'Global ABS — Piecing it All Together' at Palais des Festivals et des Congres. For more information, go to http://www.imn.org

JUNE 1-4: Quebec, Canada - Insight Information will hold its eleventh annual asset securitization forum 'ABS 2008' at the Fairmont Tremblant. For more information, please go to http://www.insightinfo.com or call 1-888-777-1701

JUNE 4: New York, NY - Securities Industry and Financial Markets Association will hold 'Fixed-Income and Legal Compliance Conference' at the New York Marriott Marquis. For more information or to register, go to http://events.sifma.org

JUNE 10-11: New York, NY - Financial Research Associates will hold its 'Hedge Funds Structured Products Summit 2008' at The Flatotel. For more information or to register, go to http://www.frallc.com

JUNE 17-18: New York, NY - Financial Research Associates will hold its 'Hedge Funds 101 & 102' at The Helmsley Hotel. For more information or to register, go to http://www.frallc.com

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