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Asset Securitization REPORT

The Premier Guide to Asset and Mortgage-Backed Securitization

U.S. Government Extends a Hand

First Greek Covered Bond Deal Comes to Market

IOSCO Falls Short of EU Demands

Legacy Sees More Life Settlement Deals Ahead

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Whispers: Clifford Chance to Open New Abu Dhabi Office

CONTENTS

10 Cover Story

U.S. Government Extends a Hand

>> By Karen Sibayan

Whispers

5 Deutsche Bank promotes Ido Gonen to run its Latin American securitization team, replacing Brigitte Posch, who left recently to work at Pacific Investment Management Co. This is one of *ASR*'s top people moves this week.

ABS

8 Markets Spirits Lifted, But Only Slightly
9 Paulson's Statement Intensifies Interest in Covered Bonds
14 Legacy Sees Emerging Life Settlement Sector
15 Fitch Touts Programwide Enhancement for ABCP
16 July ABX Remittance Report Continues Downward Trend

Column

7 **A Refusal Comes Sooner for CML Proposal**

The U.K. Council of Mortgage Lenders' hopes of kick starting the U.K. RMBS and covered bond markets have been quashed before they ever got off the ground.

>> By Nora Colomer

Global

17 IOSCO Code Falls Short of What EU Wants
18 Brazil's Belo Horizonte Serves As Obligor in ABS
19 European ABS Activity Remains Retained
19 Covered Bonds Set Sail in Greece

Data

24 Manager Activity
25 Trade Matrix
26 Calendar

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DEUTSCHE BANK has promoted **Ido Gonen** to run its Latin American securitization team, according to a spokesperson at the bank. The banker replaces **Brigitte Posch**, who recently left to work at **Pacific Investment Management Co.** (*ASR*, 7/16/08). He will have tough shoes to fill. Posch worked eight years at **Moody's Investors Service**, where she earned a reputation for rigor among Brazilian and Mexican clients before hopping over to **Ambac** for a remarkably short stint of six months, and then Deutsche. Gonen was also at Moody's for a roughly two-year stretch, working primarily in U.S. RMBS, according to a source at the agency. He's been at Deutsche since July 2005. Gonen didn't return a call for comment, while Pimco hasn't returned calls or an e-mail requesting information on Posch's new title and responsibilities.

ROBERTO WATANABE, who left the same team at **Deutsche Bank** a few months ago, has been working for local Brazilian brokers **Planner Corretora de Valores**. Heading up the debt capital markets of this outfit, Watanabe said he was focused on middle-market corporate clients: "the market not covered by the major international investment banks." This rubric covers companies with revenue of between $100 million and $700 million. As he had at Deutsche, Watanabe will arrange receivable investment funds (FIDCs), the ABS financing vehicle prevalent in Brazil. He will also be working on plain vanilla funding. Planner is in the process of obtaining a license as a broker-dealer in New York, which will facilitate selling Brazilian deals offshore, Watanabe added. Before Planner, Watanabe spent about a year and a half at Deutsche, and nearly three years at **Moody's Investors Service** before that. As of press time, a spokesperson at Deutsche hadn't returned a request for comment on whether he had been replaced on the Latin American ABS team of the German bank, either internally or with an outside hire.

ARMINS RUSIS joined **Markit** last week as executive vice president and global co-head of fixed income. Rusis will share responsibility for the firm's data and analytics products with **Kevin Gould**, executive vice president and founder of Markit. Most recently, Rusis was managing director and head of U.S. credit trading and global head of securitized and structured credit trading at **Morgan Stanley**, where he worked for 17 years. He was a member of the firm's European management committee as well as its fixed income operating committee, and also served as the Morgan Stanley board director of Markit for three years.

CLIFFORD CHANCE plans to open a new office in Abu Dhabi on Aug. 3. **Graham Lovett**, managing partner for the Gulf region, will be responsible for the office along with banking and finance partner **Richard Ernest**. The duo will lead an initial team of 10 lawyers in the new location. Ernest has been with the firm for 11 years and has worked in Clifford Chance's London, Moscow and Frankfurt offices. **Peter Deegan**, a partner in real estate and currently based in the firm's Warsaw office, will relocate to Abu Dhabi, and capital markets partner **Chris Walsh** will be seconded from London to the office. The new group will focus on finance, capital markets projects, corporate, real estate and litigation. The Abu Dhabi office is expected to grow to 20 to 30 lawyers in the next two to three years because of the growing demand in that region.

BARCLAYS CAPITAL has appointed **Anatoly Nakum** as a managing director and head of high-grade and crossover flow trading in the U.S. fixed-income division. Nakum will be responsible for the firm's U.S. flow credit trading business, including cash bonds and CDS. He will be based in New York and report to **Doug Warren**, managing director and head of North American credit trading. Nakum joins Barclays Capital from **Deutsche Bank**, where he held many roles in credit trading over a nine-year period; including head of investment-grade CDS/cash trading. Prior to Deutsche, he worked at **Sumitomo Bank** and **Bankers Trust**.

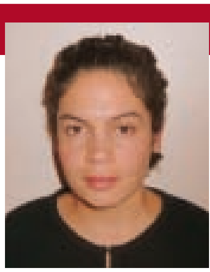
THE FINANCIAL SERVICES AUTHORITY (FSA) named **Jon Pain** as its new managing director of retail markets and **Clive Adamson** as director of the major retail groups division, and announced the probable departure of Chief Operating Officer **David Kenmir**. In his new position, Pain will be responsible for regulating firms or groups whose business is predominantly with retail consumers, including high street banks, building societies, insurance companies, mortgage lenders, retail financial services intermediaries and 17,000 smaller firms engaged in the mortgage advice, insurance broking and investment advice sectors. Most recently, Pain was managing director of **Cheltenham & Gloucester**. Adamson will maintain the FSA major retail groups division's (MRGD) supervisory relationship with overseas regulators in the key G10 countries. He has been acting director of MRGD since last April and was previously an FSA senior advisor since 1998. Before working with the FSA, Adamson was senior vice president and regional head at **Bank of America** with the responsibility for business across U.K. and North Europe. Additionally, COO and acting managing director of retail markets Kenmir has said he wants to step down from the FSA in order to pursue other career opportunities in the new year. The FSA said a search for a successor will begin shortly.

The **MORTGAGE BANKERS ASSOCIATION** appointed **James Gross** as associate vice president of accounting, tax and bank regulation. Gross will succeed **Alison Utermohlen**, senior director of accounting policy, who is retiring after 20 years in this role. In his new role, Gross will help develop and implement MBA's strategy on legislative, regulatory and industry issues in the areas of accounting and tax policy and bank regulatory capital. He will also be the staff representative on MBA's financial management committee. Previously, Gross served as the Chief Financial Officer for **NetBank**. He has also served as CFO or controller for a number of small and mid-size banks and major mortgage banks.

BROADPOINT SECURITIES, a broker-dealer subsidiary of **Broadpoint Securities Group**, hired four professionals in its MBS and ABS division, **Broadpoint DESCAP**. The new hires include **Richard Weissman**, **Maneesh Awasthi**, **Ekaterina Baron** and **Viru Raparthi**. Weissman, a managing director specializing in MBS and ABS sales with Broadpoint Securities, spent 13 years at **RBS-Greenwich Capital** in a similar capacity. Before RBS-GCM, he was the MBS sales manager and head of the MBS strategies group at **Nomura Group** from 1989 to 1994. Awasthi has more than 11 years of experience in fixed income with more than eight years of experience in the structured credit space. Prior to Broadpoint Securities, Awasthi ran the CDO squared platform on the structuring side at **Citigroup**, where he specialized in complex cash/synthetic transactions across the bank debt and structured credit space. Baron, senior vice president at Broadpoint, has eight years of origination and structuring experience in structured finance. She began her career in the global markets division at **JPMorgan Securities** in credit card ABS banking and then worked at **GE Capital** and **Barclays Capital**, where she focused on consumer ABS and other structured products. Raparthi has more than six years of experience in the financial services industry and more than nine years of experience in the oil & gas industry. Before Broadpoint, Raparthi was a senior structurer and CDO banker at **Rabobank.**

See WHISPERS on Page 20 >>

BY NORA COLOMER



A Refusal Comes Sooner for CML Proposal

> "Without action, the situation in the housing market will be worse than it needs to be."

The U.K. **Council of Mortgage Lenders'** (CML) hopes of kick-starting the U.K. RMBS and covered bond markets have been quashed before they ever got off the ground, although they have at least challenged the notion that some solution must be implemented to get U.K. mortgage lending going again.

CML warned last month that the **Bank of England**'s special liquidity scheme (SLS) has not helped banks raise the necessary funding to reawaken the mortgage market and said the government needed to act immediately to improve the situation before it deteriorated further.

The council proposed a plan to reduce the current crisis's negative impact on U.K. mortgage lenders and fight the lack of wholesale funding in the mortgage market.

The CML also suggested that the government guarantee packages of loans and the Bank of England would then offer a secured lending facility for banks where MBS can be used as collateral. The proposal aimed to provide a securitization market for mortgages originated since 2008 that were otherwise excluded from the Bank of England's SLS and thereby indirectly stimulate mortgage lending activity.

The main part of the proposal was that a repo facility be allocated to newly originated RMBS and covered bonds. **UniCredit Markets and Investment Banking** analysts explained that typically not all investors are able to take advantage of repo agreements, which is why the CML also suggested broadening the range of parties eligible for repos with the Bank of England.

To qualify, RMBS or covered bonds would first have to be publicly placed with third-party investors. The investors would take the credit risk in the usual way, but the repo facility would give them the confidence that is so lacking in the current market situation.

But the interim report on the mortgage finance markets that was commissioned by the U.K. Treasury and authored by Sir **James Crosby**, the former chief executive of **HBOS**, concluded that setting up U.K. equivalents of **Fannie Mae** and **Freddie Mac** will not be the answer for reviving the mortgage securitization market.

"Much has been said about the case for launching a U.S.-style agency, but it seems unlikely that it would be right to tackle this century's problems with last century's solution, particularly given the time it would take to create any such agency," Crosby said in his report.

The problem is that while Crosby is right in determining that there is no easy solution to the current situation, he's offered very little in his report in terms of a contemporary solution to the wholesale funding problem. Without a fix in sight, he is essentially agreeing that the mortgage lending glut will continue for at least the next few months, and in some estimates the glut could continue over a three-year period.

The **British Bankers Association** recently reported that the situation has led lenders to an unprecedented reduction in mortgage deals, with the number of new home loans issued by high street banks and building societies falling to an all-time low of 21,000 in June.

"As the Bank of England's lending figures today show, the mortgage market remains severely constrained," said **Michael Coogan**, director general at CML. "In aggregate, lenders are unable to meet the consumer demand for mortgages because there is not enough funding available to them. Without action, the situation in the housing market will be worse than it needs to be. The housing correction will overshoot, and the knock-on effects on the wider economy will be significant."

This shortage of mortgage funding will persist for years without intervention. ASR

Issuance Down Despite the Positive Headlines

The slight boost to the market's mood was not reflected in the depressed trading levels

Though spirits were higher than usual last week, trading remained flat in the secondary market and investors' focus was on selling. New issuance on the primary side was, as usual, meager.

Traders reiterated their expectations for a slow consumer ABS market at least until after Labor Day.

Several deals did get through the market, including Bank of America Credit Card Trust Class A 2008-9 Notes. The $1 billion single-tranche securitization has a one-and-a-half-year average life. **Banc of America Securities** managed the deal with **Barclays Capital**, **Citigroup Global Markets** and **RBS Greenwich Capital** as co-managers.

HSBC is floating a $3 billion CLO called Credit Asset Trust while **Sallie Mae** has launched a $981 million student loan securitization: SLM Student Loan Trust 2008-8. The SLABS deal came to market via RBS Greenwich Capital, **Merrill Lynch** and **JPMorgan Securities**. The deal is slated to close on Aug. 5, according to the *ASR* Scorecard database.

Sallie Mae's transaction, which was divided into five pieces, priced the triple-A-rated A1 tranche at 50 basis points over three-month Libor. The triple-A A-2 tranche priced at 90 basis points over three-month Libor, while the triple-A A3 tranche priced at 115 basis points over and the triple-A A4 tranche priced at 150 basis points over. The double-A B tranche priced at 225 basis points over three month Libor.

This latest transaction from the student loan issuer differs in structure from the company's previous offerings. The credit enhancement levels for 2008-8, including funds in the reserve account, have increased from the 2008-7 deal. The more recent deal's enhancement levels are at approximately 4.84% for the class A notes and 1.90% for the class B notes, according to a **Fitch Ratings** presale report.

Enhancement for the class A notes was 3.97% for 2008-7, 4.46% for 2008-6, 6.54% for 2008-5, 5.41% for 2008-4, 3.76% for 2008-3 and 3.00% for 2008-2. Enhancement in the form of overcollateralization for the class B notes was 1.01% for 2008-7, 1.50% for 2008-6, 3.65% for 2008-5, 2.49% for 2008-4, and 0.79% for 2008-3, Fitch said, with no overcollateralization in transactions closing before 2008-3.

Overall, the consumer ABS sectors continue to see spreads widen out because of the lack of new issuance.

New deal volume in July will be about half of June's volume, according to Merrill Lynch. The bank also said that it expects credit card issuers to focus on short-dated, triple-A rated deals.

While the nonexistent new issuance on the CDO side makes consumer ABS seem robust, there are more fire sales than ever. Merrill Lynch began the week with a fire sale of super-senior ABS CDO securities, pricing the assets at 22 cents on the dollar and reducing its exposure to ABS CDOs by $11.1 billion.

At least 10 deals have liquidated during the month of July alone, according to Citigroup. **UBS** by itself has already liquidated, or is in the process of liquidating, more than $20 billion of ABS CDOs. Overall, almost $40 billion in deals have completed liquidation, while another $30 billion are awaiting a similar fate, Citigroup said.

One positive market development was that Fitch Ratings announced an enhanced version of its U.S. residential mortgage loss model, ResiLogic. The updated model will include metropolitan statistical area (MSA) and national macroeconomic risk multipliers. The model will also now include analysis of seasoned loans, and will take into account loan payment history and house price changes after loan origination. There will also be additional penalties for loans originated with stated income or no income/no asset documentation programs. The model also includes additional penalties for loans originated with second liens and reduces credit for loans with mortgage insurance. The MSAs include the 25 areas that have historically demonstrated the most nonconforming mortgage lending activity, Fitch said. — *GS*

Paulson's Statement Intensifies Interest in Covered Bonds

Last week, Treasury Secretary **Henry Paulson** and a consortium of leading banks echoed what many investors have been considering for months now — the potential liquidity benefits of a growing covered bond market.

However, the announcement, combined with the final policy statement from the **Federal Deposit Insurance Corp.** (FDIC), is the perfect storm needed to jump-start issuance in the sector, market players said.

"What we have is a combination of FDIC clarity, Treasury participation concerning what will constitute best practices and industry leaders stepping forward," said **James Tanenbaum**, a partner at **Morrison & Foerster**. "In aggregate, that is a very powerful combination."

After the release of the **Treasury Department**'s guidelines for the development of a covered bond industry, **The Securities Industry and Financial Markets Association** (SIFMA) announced the formation of a U.S. Covered Bonds Traders Committee for both the primary and secondary trading markets. Banks currently active in the committee include **Banc of America Securities**, **Barclays Capital**, **BNP Paribas**, **Citigroup**, **Deutsche Bank Securities**, **Goldman Sachs**, **HSBC Securities**, **JPMorgan**, **Lehman Brothers**, **Merrill Lynch**, **Morgan Stanley**, **RBS Greenwich Capital** and **UBS**. More are being added to the list, a market participant said.

Tradeweb, an over-the-counter multi-asset class online trading platform owned jointly by **Thomson Reuters** and 10 global dealers, announced last week that it would add an online marketplace for covered bonds backed by pools of U.S. residential mortgages. **Bloomberg** also said it is actively working with issuers and dealers to bring price transparency to and provide issue information for the trading of these new securities.

Also last week, the **Information Management Network** (IMN) announced the launch of its first *Covered Bonds—Americas* summit, which is set to take place on Oct. 21 in Miami. It will run concurrently with IMN's *ABS East* conference.

The lack of confidence in the MBS market is circumvented by the perceived safety in the structure of these transactions, which, when combined with the market's efforts to increase deal transparency, should help bring back liquidity to the mortgage sector.

"What we have is a combination of FDIC clarity, Treasury participation concerning what will constitute best practices and industry leaders stepping forward."

Confidence in Transparency

Though initiatives like the **American Securitization Forum**'s project RESTART are working to improve disclosure in the securitization market, covered bonds are less susceptible to concerns about transparency and, as a result, are an attractive asset for investors.

"I think the issues being addressed by the ASF in project RESTART are less cumbersome in covered bonds, where you have dual recourse to a regulated financial institution and to a cover pool of financial assets," said **Scott Stengel**, partner at **Orrick, Herrington & Sutcliffe**. "Investors are not investing in a credit product dependent entirely on a pool of mortgage loans; they are investing in a financial institution that is securing its obligation with a pool of mortgage loans."

Cheaper in the U.K.

Banks should see better pricing in the covered bond market relative to spreads for senior unsecured debt, according to a **JPMorgan Securities** report last week.

In the U.K., where the covered bond market is much more established, a five-year covered bond currently trades around swaps plus 80 basis points, while triple-A RMBS trades at Libor plus 170 basis points, and senior unsecured debt trades at Libor plus 150 basis points.

The bank said that covered bonds could trade as much as 50 to 75 basis points tighter than the unsecured debt, but this will depend on the issuer and collateral. Interest in these deals is expected to come mainly from corporate investors, who may not give as much credit to the underlying collateral, the bank said.

The biggest hurdle is that mortgage loans backing covered bonds remain on banks' balance sheets and do not offer issuers any risk mitigation or capital relief, like securitization does, JPMorgan said. The bank noted that covered bond issuance is currently limited to 4% of the issuing institution's total liabilities. As a result, estimated issuance will be no more than $500 billion. But the limit could be raised as the market develops, JPMorgan said.

Indeed, when these banks start to

See PAULSON on Page 21 >>

U.S. Government Extends a Hand

By Karen Sibayan

President **George W. Bush** signed the *Housing and Economic Recovery Act of 2008* last week. The event is remarkable in many ways.

For one, it showcases the government's emphasis on making sure that the agency mortgage market continues to function as it puts the U.S. government squarely behind **Fannie Mae** and **Freddie Mac**. A separate part of the legislation — the *Hope for Homeowners Act* — was specifically designed to come to the aid of distressed borrowers.

Despite the bill's good intentions, however, mortgage-backed participants have concerns about the efficacy of this bill. Will it allow the GSEs to provide enough of a backstop? Furthermore, will it negatively affect existing markets, particularly TBAs? Also, does it have enough reach so that it covers the really distraught borrowers?

Although, from a credit perspective, placing the government squarely behind the GSEs is a positive for both agency MBS and agency debentures, it's still unclear from a supply-and-demand vantage point what the exact effect would be on mortgage-backeds, according to a recent **Merrill Lynch** report that analyzed the housing bill.

"The bill does not address the issue of portfolio growth, although there's a clear focus on capital, with Freddie Mac recently stating that it is considering reducing its portfolio as well as raising equity," said **Akiva Dickstein**, managing director and co-head of the U.S. rates and structured credit research group at Merrill. "However, while, in the past, many government officials have suggested that the agencies should hold fewer mortgages, in recent months there has been more support for the GSEs to have a bigger participation in the mortgage markets with the goal of lowering mortgage rates."

> *"The bill does not address the issue of portfolio growth, although there's a clear focus on capital."*

He noted that mortgage rates have come up a lot compared to a year ago, with recent Freddie Mac survey results showing mortgage rates increasing to 6.63% — the highest level since the summer of last year.

Another aspect of the bill is establishing higher loan limits for both of the GSEs and the **Federal Housing Administration** (FHA). Many investors have expressed concern that this would increase the negative convexity of MBS and negatively impact the TBA market, if these higher-limit loans are included in TBA pools.

Dickstein said that jumbos have traditionally prepaid faster because of factors such as increased borrower sophistication and higher loan sizes. "Models are pretty well set up to take that into account," Dickstein said. He added that the inclusion of higher-limit loans into TBA might decrease the value of these securities, but not by much, probably only as much as five ticks in terms of option cost deferential. "This may not be enough to segment the market," he said.

RBS Greenwich Capital (RBSGC) analysts said that the Federal government's enhanced backstop of Fannie Mae and Freddie Mac should end fears that the agencies could cause a widespread market meltdown. The question now turns to the ability of these agencies to provide support to the mortgage market.

Analysts said that even with the GSE support package, they believe that other factors — such as increased guaranty fees — will likely make mortgage financing rates for homebuyers modestly more expensive. Thus far, they said, mortgage rates have widened versus Treasurys, although still by less than 25 basis points.

On the MBS side, the higher costs in obtaining a mortgage could potentially dampen prepayment speeds.

"Higher borrowing costs and tougher underwriting standards will slow down refinancing activity and future prepayment speeds," said **George Ju**, MBS strategist at RBSGC.

Ju said that slower prepayments will boost the performance of IOs. "Slower prepayments lengthen the weighted average life, which increases the value of Trust IOs."

Also, slower speeds make mortgage convexity less negative, which may reduce the demand for convexity hedging.

Giving Hope to Homeowners

The Merrill report also talked about the *Hope for Homeowners Act*, which it called an essential, core component of the new bill. The report noted that this closely resembles the original bill submitted by **Barney Frank** (D-Mass.) in the House of Representatives and **Christopher Dodd** (R-Conn.) in the Senate.

One question is whether the banks and servicers will participate — the main gist of the proposal is allowing the refinancing of an eligible loan into a new FHA-insured mortgage. The investors are required to forgive a portion of the current loan so that its loan-to-value ratio is reduced to 90%; the reduced LTV is actually needed for FHA refinancing.

"The basic idea is that the servicers or banks — whoever is servicing the loans — look at different types of loss mitigation options," Dickstein said. "With all the options, investors take a loss because in these cases, a part of the principal has been written off." However, he explained that by allowing loans to refinance into an FHA mortgage, investors may be able to obtain a better recovery than they could by repossessing the home. He noted that there is an issue of timing: with an FHA refinance, the investors take on an upfront loss, which could accelerate realization of loan losses. This generally stands to benefit the top of the capital structure while diminishing the value of the lowest tranches, which would be written down more quickly, Dickstein explained.

In terms of borrowers eligible under the act, the Merrill report said that subprime borrowers might make up the biggest component. "Compared to other loans, subprime experience the highest rate of delinquency, sometimes as high as upwards of 20%," Dickstein said. This is compared with Fannie Mae and Freddie Mac mortgages, which have reported about a 1% delinquency rate.

Glenn Boyd, the head of securitization research at **Barclays Capital**, estimates that the *Hope for Homeowners Act* applies to about 25% of delinquent subprime borrowers, taking into account debt-to-income ratios and other restrictions.

The issue of debt-to-income ratio has an attendant moral hazard, according to Boyd. In the original Frank proposal, the ratio of a borrower's mortgage debt to income would have been above 35%. But this was lowered to 31% in the approved version of the bill.

"The fear is that borrowers are going to deliberately go into default to qualify for debt forgiveness, although there are other obstacles to prevent many people from doing that," Boyd said. He qualified, however, that the Board — made up of the Secretary of **Department of Housing and Urban Development**, the Secretary of **U.S. Department of the Treasury**, the **Federal Reserve** Chairman and the **Federal Deposit Insurance Corp.** Chairman — could raise that percentage for moral hazard reasons.

Aside from subprime borrowers, Boyd said that both prime and Alt-A borrowers could in principle qualify under this act; however, servicers are less likely to offer debt forgiveness to borrowers who are not on the brink of delinquency or not delinquent.

Boyd believes that there are economic reasons for a servicer to pursue an FHA refinancing as opposed to other loan modifications both for the servicer and the bond holder.

"If you foreclose, it's going to take a year or more to liquidate [sell] the property, and loan servicers could advance interest payments, resulting in higher loss severity," Boyd said. "This can hurt some bondholders."

More importantly, if a delinquency results in a real estate owned (REO) property, it's basically a fire sale at a discount, Boyd said, which could be prevented by doing the FHA refinancing

"You could save 20 points or more just by avoiding a fire sale," Boyd said. "In many cases, severities could be lower by a factor of three by doing an FHA refinancing instead, in instances where assets are underwater or have a very high expected loss severity." He said that because of the economic benefits of doing the FHA refinancing, he believes that many servicers are going to actively promote this, citing **Ocwen Financial Corp.** as an example of a servicer with demonstrated ability to perform modifications on a substantial scale.

He acknowledged, however, that an impediment to the implementation of this type of refinancing is the lack of FHA underwriting guidelines, which usually go through months of consultation before coming to fruition. Boyd said that since this bill is part of the government's emergency rescue effort to homeowners, policy makers will not want to allow this lag time. He believes that this is going to accelerate the process on the FHA's part. In term of the lenders, their systems could more easily be put in place to implement the FHA's underwriting policies, so Boyd does not expect any hitches there.

"The option to refinance into an FHA loan is probably not going to help the aggregate much but should be a big boost to areas where you have incredible foreclosure or REO pipelines."

Boyd thinks that the option to refinance into an FHA loan can "help stabilize markets in some of the worst hit areas," he said. These areas, such as Sacramento, California, will likely have many REO or distressed sale properties contributing to house price depreciation — a situation that this bill addresses.

"The option to refinance into an FHA loan is probably not going to help the aggregate much but should be a big boost to areas where you have incredible foreclosure or REO pipelines," Boyd said.

Legal Implications

The housing legislation has a number of legal and regulatory ramifications, including those that have to do with refinancing existing subprime mortgage loans into FHA-insured mortgage loans, licensing for loan originators and *Truth in Lending Act* changes, according to **Jeffrey Taft**, a partner in the Washington office of **Mayer Brown**.

Taft explained that the servicers' reliance on the Act's safe harbor provisions could protect them from liabilities regarding their decision to refinance pooled mortgage loans. This might increase the willingness of servicers to participate in the Hope Program.

According to the Act, the borrower who has agreed to refinance his or her mortgage into an FHA loan has to share the value of the appreciation of the property with the government, the value of which ratchets down as time goes on, Taft explained. He added that the legislation permits the FHA to use part of this amount to pay off some second lien holders who relinquished their subordinate liens for the original loan.

Taft also refers to the *S.A.F.E. Mortgage Licensing Act*, which is expected to offer a much-needed overhaul of the current system for the regulation of mortgage brokers, as well as enhance protections for consumers by subjecting mortgage brokers to background checks, educational testing and possible enforcement actions.

He said that there's a move for a comprehensive database of state-licensed originators that consumers could actually access. "This would help consumers have a comprehensive listing of mortgage lenders and brokers so that they will know if a particular lender or broker has a disciplinary history," Taft said.

He mentioned that also included in the housing bill are changes to the disclosure and statutory damages provision of the *Truth in Lending Act*. These changes will require lenders to offer all borrowers early discolosure about the terms of their mortgage loan at least seven days before the closing, among other things. ASR

Legacy Sees Growing Pulse in Life Settlement Deals

With the U.S. population growing older and baby boomers hitting retirement age, life settlement plans are likely to see a boost in the coming years. These plans allow life insurance policyholders to sell their existing policies on a secondary market for a negotiated cash amount that is more than the cash value of the policy but less than the net death benefit.

This has industry participants forecasting substantial growth in the sector and searching for opportunities to expand their platforms, even into in the capital markets.

The estimated life settlement potential is $90 billion to $140 billion per year between 2007 and 2016, according to data from **Conning Research** cited in a **Legacy Benefits** presentation for **Houlihan Lokey** in April.

And this trend could become increasingly relevant as the U.S. population ages. In 2020, there will be an estimated 30 million in the 65- to 74-year-old age group, 20 million in the 75- to 84-year-old age group, 3 million in the 85- to 99-year-old age group and a small number in the 100-years-and-older age group, according to a **National Institute on Aging** report, which cited data from the **United States Census Bureau**.

Late last month, **Legacy Benefits** hired **Mark Hirshorn**, previously director of U.S. securitization at **Fortis Securities**, to head its capital market efforts. Hirshorn will develop and market life settlement-based products and structures while establishing relationships with clients, the firm said.

"We have hired a very qualified professional as our director of capital markets to pave the way on the capital markets front and leverage our ability to

Zohar Elhanani

aggregate these policies," said **Zohar Elhanani**, chief operating officer at Legacy. "This year we expect that our firm will underwrite policies with about $20 billion in death benefits."

In 2004, **Legacy Benefits Corp.** was the first life settlement provider to originate and securitize a portfolio of life settlement assets totaling $70 million, underwritten by **Merrill Lynch** and rated 'A1'/'Baa3' by **Moody's Investor Service**. The weighted average age of the policyholders was 77.

"This was a big accomplishment because the rating agencies were very cautious about how to rate such an asset class," Elhanani said. "There was also the question of what the collateral was valued at in order to generate the right type of rating."

To hedge the mortality risk, Legacy partnered with **Merrill Lynch** to buy an annuity against each life settlement policy that it had purchased. The annuities generated the cash flows needed to pay the interest costs as well as the premiums, keeping the policy in force for as long as that person was alive.

"It kept the structure whole and we were able to aggregate enough policies in spite of having to pay more for the annuity and the purchase price for the asset itself, as the market was less competitive than it is today," Elhanani said. He noted that the transaction was rapidly accepted by institutional investors.

"This year we expect that our firm will underwrite policies with about $20 billion in death benefits."

Mixing It Up

Since then, the industry has really been looking to securitize these assets but also eliminate the need for the hedge from annuities by increasing the size and diversification of the pools. For example, any potential deal now would have a much larger pool with many more lives. It would also be more diversified among age groups, among smokers and nonsmokers, among females and males, and among other groups.

But given the current market conditions, the rating agencies have taken a hands-off approach. Partly this is because of a 2005 deal gone awry with **Ritchie Capital Management.** The firm had agreed to buy life insurance products from **Coventry One** but later sued the company for trying to conceal unlawful conduct and accusing the firm of bid rigging and fraud. This was after a yearlong investigation into the life settlement industry by former New York Governor **Eliot Spitzer** when he was the state's attorney general, a probe that led to charges against Coventry of bid rigging and accepting commissions to reduce the amount owners received for their policies.

However, in a highly risk-averse market desperate for liquidity, life settlement deals might be just the medicine.

"In the future, we feel that this asset has tremendous appeal to the investment community given the fact that it is noncorrelated," Elhanani said. This is in part due to the fact that the asset value of the portfolios and their cash flows are based on mortality curves and actuarial calculations rather than on any direct macroeconomic impact.

Legacy Benefits
Capitalize On Experience

"The fact that oil prices are going up doesn't really affect this asset class," he said.

The life settlement payment is calculated based on the person's life expectancy, estimated premiums to keep the life insurance policy in place and the amount of the policy, among other factors.

Elhanani noted that his firm is being contacted by many institutional investors, including CDO fund managers, who are looking to build a diversified pool of assets that don't have direct correlation to the market, and so they are considering the addition of life settlements to their portfolios.

Legacy Benefits is also considering establishing a fund and other financial products that have longevity risk elements. "We know how to buy; we need to further expand our market to reach the investment community interested

See LEGACY on Page 21 >>

Fitch Ratings Touts Programwide CE for ABCP

Programwide credit enhancement (PWCE) is an essential component in the analysis of global ABCP programs, according to a new **Fitch Ratings** report.

The rating agency stressed the importance of the availability of PWCE for traditional ABCP programs, along with liquidity protection and sponsor quality. The rating agency believes that this level of credit enhancement has played a major role in the sector's relative resiliency in the current challenging credit and funding environment.

"Throughout the credit crisis, programs with PWCE were recognized for having an additional layer of credit protection and generally perceived as lower risk," said **Michael Dean,** managing director and U.S. ABCP group head. He also noted that many global ABCP programs have recently added or increased the size of existing PWCE facilities to further protect investors and reduce potential volatility.

Fitch said the availability of PWCE has always been a key consideration for the agency in its analysis of ABCP programs and its assignment of top short-term ratings, since it is difficult to achieve the highest short-term ratings of 'F1+' without PWCE, absent other structural mechanisms or full support features.

The PWCE facilities are "available to absorb losses in the event individual conduit funded transaction losses exceed their dedicated transaction specific credit enhancement levels," said Fitch Managing Director **Darryl Osojnak.**

He said that they align the interests of the bank sponsor and ABCP investors, as a PWCE support facility would be written down and exhausted before ABCP investors take a hit.

Though the majority of the Fitch-rated ABCP programs globally are supported by PWCE, other structural protections are instituted to reduce the need for PWCE in cases where they do not benefit programs.

These include: fully enhanced underlying transactions; asset eligibility limited to 'AAA' exposure only; springing PWCE requirements in the case of portfolio deterioration; or, asset ejection mechanisms, as in the case of many securities-backed vehicles, where assets are sold or put to liquidity providers in the event of downgrades.

Fitch's ABCP analysis consists of a review of the conduit's sponsor, program structure, legal documentation, investment guidelines, collateral composition and credit enhancement and liquidity facilities.

The agency focuses on the structure and characteristics of individual conduit transactions and may also apply a portfolio level analysis to quantify the credit risk on a program's overall portfolio.

For more granular pools, this portfolio approach utilizes a default simulation model to measure the conduit's PWCE amount, which simulates the default behavior of individual assets and allows for the modeling of the distribution of portfolio defaults and losses, taking into account default probabilities and recovery rates, as well as the correlation between assets in a given portfolio. The key inputs into this model include asset rating, notional amount and collateral type. — *Claire Luke*

July Remittance Reports Are More of the Same

The July remittance reports offered no surprises, staying true to analyst expectations of further credit performance deterioration.

In terms of delinquencies across the four series, **Barclays Capital**'s projections were consistent with July's actual results.

The 1.3% 06-2 increase on the 60+ bucket was very much in line with the projections, while the 0.5% increase on series 06-1 and 1.5% increase on 07-1 and 07-2 were also not far off the mark.

Although some Street analysts reported that delinquencies might be reaching a peak in the 06-1 series, a mortgage analyst argued otherwise, cautioning that it is still premature to claim that subprime delinquencies are flattening.

The analyst said that the loans underlying the indexes are not curing. Despite the flattening in new delinquencies, the existing delinquent loans are not becoming current, and as prepayment speeds on vintages slow, an increasing number of losses are building up in the pipeline.

With more loans moving through the delinquency pipeline and into liquidation, cumulative net losses continue to rise, as shown in the report. Overall, deterioration is anything but sluggish.

The 30-59 day delinquency bucket changed less than expected in 06-1 and 06-2 but rose more than forecasted in 07-1 and 07-2. Barclays believes this inconsistency was partly a result of the faded effect of this year's economic stimulus package.

Despite government initiatives such as the economic stimulus plan, evidence suggests that the positive effects on performance of such an initiative have dwindled. This implies that the impact of the government plans that kept economic growth positive in the second quarter is quite modest. This merely served as a bandage on the current problem at hand, the analyst said.

Initiatives of this nature only buy time, the analyst said, and lack any capability of achieving a widespread, long-lasting impact. Though there is talk about another round of stimulus payments, many market participants view the issue as a structural one, involving deeper problems such as personal credit, which requires a different approach.

Though government initiatives have the right intentions in ameliorating the performance of the indexes, the analyst said, they often attack the wrong problem, resulting in little impact and even unintended consequences, as was seen in the FHASecure legislation.

In terms of interest shortfalls, the July report indicated that they are being reimbursed through the regular operation of the interest and excess cash waterfalls.

Although servicers such as **Ocwen Financial Corp.** have made loan modifications on deals involving principal reduction that resulted in greater reimbursement, this issue is still not seen on an industry-wide level, as many servicers are not yet modifying loans to the same extent as Ocwen.

Total prepayments fell slightly for series 06-1 and 06-2 and inched higher on series 07-1 and 07-2, and default rates increased in all four series. This resulted in a decline in voluntary prepayments in all indices except 07-2.

Though home prices appear to be beginning to bottom out, until they decline more dramatically, it will be difficult to see that the indexes will perform better. — *Claire Luke*

ASR is pleased to announce that it will be covering new and developing structured finance markets in the U.S. — such as covered bonds, life settlement ABS, and Shariah compliant deals — through a section called Spotlight Series. Look for the first edition next week. To suggest a story idea, email Karen.Sibayan@SourceMedia.com. Byline pieces will also be accepted.

IOSCO Code Falls Short of What the EU Wants

The European Union wants a tighter reign on credit rating agencies

The **International Organization of Securities Commission** (IOSCO) announced last week a three-point plan to monitor compliance of its new code of conduct for credit rating agencies (CRAs). This was done amid charges that its proposed plan will do little to restore market confidence in ratings.

In Europe, rating agencies self-monitor their activities and operate under a code of conduct. IOSCO suggested a new code that properly addressed issues related to the activities of these firms for structured finance products. However, IOSCO believes that, for the code of conduct to be effective, rating agencies need to comply with the prescribed disclosures and regulators should take steps to ensure compliance.

The options IOSCO has suggested for the effective monitoring of compliance with the code of conduct include detailed arrangements for exchanging information between national securities regulators, cooperative inspection programs for CRAs and a specialized IOSCO committee to confer on compliance with the code of conduct by CRAs.

"The code of conduct focuses on transparency and disclosure in relation to CRAs' methodologies, conflicts of interest, use of information, performance and duties to issuers and the public," an IOSCO spokesperson said. "It does not dictate business models or governance but rather seeks to provide the market with information to judge and assess CRA activities, performance and reliability."

Meanwhile, the **Committee for European Securities Regulators** (CESR) has been urging the **European Commission** to create a regulatory body for the rating agencies and takes the view that if it can't be done internationally, it should be done within the **European Union** (EU) immediately. The work done by IOSCO would be the basis for any EU regime, said the spokesperson at IOSCO.

"The code of conduct is not active monitoring on the part of IOSCO," the spokesperson said. "Essentially it's a voluntary code, and it has been used as a basis for assessment by CESR."

> *"The code of conduct is not active monitoring on the part of IOSCO."*

However, EU Commissioner **Charles McCreevy** said he intends to introduce stricter controls for rating agencies that assess the creditworthiness of businesses. He also dismissed IOSCO's proposal for a rating agency code of conduct as falling short of what is required to restore investor and public confidence.

"The IOSCO code of conduct to which the rating agencies signed up has been shown to be a toothless wonder," McCreevy said while addressing the inaugural *Global Financial Services Conference* held in Edinburgh, Scotland, last May. "The fact is that despite the checks on compliance with the IOSCO code, no supervisor appears to have got as much as a sniff of the rot at the heart of the structured finance rating process before it all blew up. I am deeply skeptical that the appropriate response lies in building on and strengthening the IOSCO code."

McCreevy believes that many of the recent IOSCO task force recommendations do not appear enforceable in a meaningful way. He instead suggested limited but mandatory, well-targeted and robust internal governance reforms as the way forward to ensure stronger external oversight of rating agencies. He said that a regulatory solution at the European level is necessary to deal with some of the core issues facing CRAs.

"While some of the additional steps that the main rating agencies have announced are welcome, they are insufficient," he said. "I know some would be willing to do more, but I can quite understand why they are reluctant to move forward with more ambitious proposals if there isn't going to be a level playing field."

David Toube, an associate at **Cleary, Gottlieb, Stein & Hamilton**, said at a recent **European Securitization Forum** briefing that it's probable that McCreevy will deliver his solution before October this year. It will likely follow a sensible conduct to business rules much like the code applied to investment bank researchers. — *NC*

Brazil's Belo Horizonte Serves as Obligor in ABS

Having spent years without seeing a dime for certain services rendered, Brazil's **Construtora Andrade Gutierrez** (AG) has gone ahead and securitized those payment flows.

The money stems from a debt recognition agreement between the sizable construction company and high-profile client the municipality of **Belo Horizonte**, the capital of Minas Gerais state in southeast Brazil.

The deal resembles a fairly vibrant segment, the collateralization of *precatorios* — court-ordered payments that the government at any level must make to a given creditor. But in this case the collateral stems from an agreement and does not originate in a judicial decision. The transaction does, however, take place against a backdrop of legal snags.

> *"It could become a precatorio only if Belo Horizonte refuses to pay."*

Led by **Unibanco**, the long-windedly named FIDC Nao Padronizados Obras Civis de BH is a receivable investment fund. The senior shares amount to R$230 million ($147 million), with a tenor of 72 months. **Moody's Investors Service** rates the six-year series 'Aa3.br' on the national scale and 'Ba2' on the local currency, global scale. A negligible subordinated chunk of R$4 million, also with a six-year maturity, is unrated.

The underlying receivables for the transaction, credit rights from an agreement signed in January 1999, have a rocky history. The agreement sets out a schedule of payments for infrastructure work that AG completed for Belo Horizonte between 1979 and 1987. Apart from the fact that the payments are for projects that are decades old, there have been payments renegotiated yet again in 2004 and 2005. But most of the payments have been made as originally set forth in the agreement.

"They mutually agreed to these renegotiations," said **Norton Bastos**, assistant vice president at Moody's. "It could become a precatorio only if Belo Horizonte refuses to pay."

The transaction has also faced legal challenge in the form of a public class-action suit seeking to invalidate the debt agreement signed in 1999. A local politician was behind the suit, according to Bastos. Lower appellate courts dismissed the case, but it could be appealed.

Each annual payment is for R$16.3 million, corrected upward by the wholesale inflation index IGPM and a 9% yearly interest rate. Payments on the shares will mirror the timetable. The amount will bear an interest rate determined by book building.

AG's business lines include the construction of hydroelectric and thermoelectric power plants, petrochemical plants and oil refineries, highways, airports, tunnels, overpasses, ports and related work in Brazil and abroad. The company's assets totaled R$4.89 billion in December 2007.

Moody's rates Belo Horizonte 'Aa2.br' and 'Ba1', a notch higher than the respective rungs of the AG transaction. The debt backing the transaction ranks pari passu with the municipality's other debt obligations.

The transaction could serve as a blueprint for future deals backed by renegotiated debt between service providers and sub-sovereign governments in Brazil. "I would guess that construction companies would carefully study a transaction like this," Bastos said. For local institutional investors, instruments bearing state and municipal risk are hard to come by, as the law prohibits these entities from issuing bonds directly.

Meanwhile, in the precatorio asset class, while public issuance hasn't provided much to talk about, there have been private transactions, both unrated and rated by local agencies such **Austin Rating** and **SR Rating**. "They're mostly focused on federal government precatorios," said **Jayme Bartling**, senior director of structured finance at **Fitch Ratings** in Sao Paolo. "They're moving forward, but not necessarily into the debt capital markets."

And not all these deals are done via FIDCs. In some cases the precatorios are sold directly to the investors, which are often offshore hedge funds.

Precatorios are typically generated after a drawn-out legal battle in which the government in question challenges an alleged debt and loses the case in court. **Banco do Brasil**, **Deutsche Bank** and **Standard Bank** are among the players that led precatorio-backed deals in the market since early 2007.

Overall, higher interest rates are dampening the appetite for structured deals among Brazilian investors. Asset managers would prefer to keep their money parked in yieldy time deposits than roll the dice with an ABS that might not offer much pick-up. Two weeks ago, Brazil's Central Bank jacked up the country's reference interest rate by 75 basis points to 13%. That's on top of 100 basis points earlier this year. The move, and expectations of more to come, complicates selling any fixed-income instrument to a market that can reap such high returns from a no-frills deposit. — *FO*

European Deals Remain Retained

The story remains the same in Europe. Much of what little public ABS deal flow there is continues to be retained for **European Central Bank** eligibility.

Bradford & Bingley brought to market its fully retained deal from its Aire Valley master trust. This transaction follows the bank's recent retained standalone vehicle issued earlier in July.

According to market reports, the issuer has committed to take care of its rating breach of selected trust triggers and has significantly increased the credit enhancement provided by its new Aire Valley series compared to the existing master trust.

The liabilities include a double-B tranche which was last seen in the inaugural 2004 Aire Valley transaction. **Societe Generale** analysts reported that the new double-B tranche increases the subordination of all higher-rated tranches. The subordination of the triple-B notes, for instance, increases from 0.42% to 2.37%.

"This provides a new credit buffer to existing notes and strengthens the existing ratings," SocGen analysts said. "This will help the master trust to cope with the current deterioration of the buy-to-let market in the U.K., and should hopefully enable the structure to appeal to investors, if they recover some appetite at some point."

Moody's Investors Service released a presale report on GAT FTGENCAT 2008 FtdA — the €810 million Spanish SME CLO backed by loans and real estate lease contracts.

The collateral comprises 11,640 contracts to 10,399 Spanish corporates and self-employed individuals in Catalonia with weighted average seasoning of 1.6 years and concentration in the building and real estate sector.

At the triple-A level, the Class A1 tranche priced at 40 basis points. Pricing spreads on the Regional Government of Catalonia-guaranteed Class A2(G) tranche were not disclosed. The double-A minus-rated Class B notes priced at 50 basis points, the single-A rated Class C tranche at 60 basis points, the triple-B rated Class D notes priced at 120 basis points and the double-B rated Class E tranche at 250 basis points over the three-month Euribor.

JPMorgan, **Caixa Catalunya**, **Caixa Terrassa**, **Caixa Manlleu** are managers on the deal.

Details also emerged on the €500 million retained Spanish auto ABS for **Santander FTA** — Santander Consumer Spain 08-1. The collateral comprises a mix of consumer receivables and auto loans with eight-month seasoning and regional concentration in Andalucia, Catalonia and the Canary Islands.

The triple-A rated 2.2-year Class A notes priced at 30 basis points, the single-A rated 5.6-year Class B tranche priced at 50 basis points, the triple-B rated 5.7-year Class C notes priced at 150 basis points and the double-B rated 5.7-year Class D tranche priced at 175 basis points.

AyT Colaterales Global Hipotecario Caixa Laietana I, the €170 million Spanish RMBS for **Caixa Laietana**, also priced. The pool comprises 1,064 mortgages with a weighted average LTV of 85.8% and regional concentration in Barcelona (74.5%), Madrid (13.2%) and Girona (12.2%). The triple-A rated 6.2-year Class A notes priced at 30 basis points, the single-A rated 11.9-year Class B tranche priced at 60 basis points, the triple-B minus rated 11.9-year Class C notes priced at 100 basis points and the double-B minus-rated 11.9-year Class D tranche priced at 200 basis points. All the notes were retained. — *NC*

Covered Bonds Set Sail in Greece

Greece launched its inaugural covered bonds earlier this month via the €8 billion program by **Alpha Bank**.

Barclays Capital was arranger and lead manager on the transaction. **Allen & Overy** advised on the structuring.

This is the first covered bond program to be established by a Greek entity and the first to be established under the new Greek covered bond legislation.

Under the program, Alpha Bank has simultaneously issued two series of floating-rate covered bonds, namely Series 1 €1 billion ($1.55 billion) floating-rate covered bonds due 2011 and Series 2 €1billion floating-rate covered bonds due 2013. **Dresdner Kleinwort** analysts said these are likely to have been used for **European Central Bank** (ECB) funding purposes.

Each series of covered bonds is listed on the regulated market of the Luxembourg Stock Exchange and has been assigned a triple-A rating by **Moody's Investors Service**, **Standard & Poor's** and **Fitch Ratings**. "This places them in a similar category to Canadian or Dutch covered bonds, although the Greek structured issuance model is subject to a relatively detailed legal framework," Dresdner analysts said.

The program has been structured to permit Alpha Bank to sell loans from its mortgage portfolio to a newly established special purpose vehicle incorporated in England, Alpha Bank Covered Bond. Alpha Bank in turn guarantees all payments due under the covered bonds

See **GREECE** on Page 20 >>

GREECE

Continued from page 19

issued by Alpha Covered Bond.

"This covered bond program is an important step forward for the Greek financial markets," **David Shearer**, securitization partner at **Allen & Overy,** said. "Following the new legislation, covered bonds are increasingly being recognized as a valuable means by which Greek institutions can diversify their funding sources. This was an exciting deal to work on, and it is another first that Allen & Overy has been involved with in relation to covered bonds."

Shearer said he did not expect covered bonds to take off as quickly as seen in some other countries. He explained that while all banks could execute a covered bond similar to the Alpha structure, some banks might see more advantage to do an issue directly from the bank, but are not in a position to do so immediately. Although he added that, over time, he believes most Greek banks will tap the market. "The potential for the market is there; issuers are certainly interested, but there are some technical factors that could slow the market initially," he said.

Investors might also initially have to get used to Greek structuring. Greek covered bonds can be issued under two different structures. One, like most of continental Europe, allows the bank to issue the bonds directly and segregate an asset pool on its own balance sheet.

However, under the second option, the covered bonds are issued by an SPV and guaranteed by the bank. This is unusual for continental European covered bonds but is likely to be the most practical option for Greek banks, at least in the medium term.

Shearer also said that covered bonds are likely to be part of the funding mix for Greek banks. This might also, in time, lead to a relative decline in RMBS, although it does not signal an end to Greek securitization.

"I think you will see a change in flavor of asset classes, and the Greek market will see more SME, consumer loan and auto loan securitizations than it has to date," he said. "However, I wouldn't expect RMBS to die out altogether — that hasn't been the experience in the U.K., for instance, where covered bonds have now been established for a number of years." — *NC*

WHISPERS

Continued from page 6

THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) proposed a single effective date for the amendments to FAS 140 and FIN 46R. For calendar year companies, the effective date would be for new transactions before January 1, 2010. Existing QSPEs would not be grandfathered, and they will have to be evaluated for consolidation on the effective date. The FASB staff expected to have an external reviewer's draft of the amendments to FIN 46R by the end of last week and to have a pre-ballot draft of the amendments to FAS 140 to the Board this week. There will also be a fast-track project for a disclosure-only FSP with a 30-day comment period. The Board is pushing for the new disclosures to be required as soon as possible, which could mean this year-end, and no later than 1Q09. In a letter to FASB, Rep. **Spencer Bachus**, R-Ala., ranking minority member of the House Financial Services Committee, said changes to securitization accounting potentially affects $10.5 trillion in securitized assets, including $7.2 trillion in mortgage-related securities, as reported by *ASR*'s sister publication *National Mortgage News*.

GOLDMAN SACHS has opened its newest administration services office (GSAS) in Toronto. The office focuses on fund accounting and the investor servicing areas of its hedge fund administration operations. GSAS will begin operations with a full staff and intends to expand its business and build its Ontario personnel over the next five years.

1010DATA has been given access to performance databases for securities in the structured finance market from **Moody's Analytics**. Data from the ABS, RMBS and CDOs may now be viewed via 1010data's Web-based service, providing a comprehensive glimpse into the global securitization markets. With 1010data providing Moody's performance data, the goal is better analysis of complex mortgage data during this time of volatility in the mortgage market, the company said.

PAULSON

Continued from page 9

offer covered bonds on a regular basis, it will begin to attract more issuers to the market, Tanenbaum said.

Part of the confidence in a blossoming market comes from the comprehensive set of "best practices" for issuing covered bonds, which market players expect to be a jumping-off point not only for mortgage-backed covered bonds but also perhaps for other asset classes as well.

"It is clear from reading the policy statement and best practices that they have been informed by all of the different constituencies, including the issuers, the dealers, the rating agencies, other government regulators and investors," Stengel said. "The best practices provide a wonderful framework from which this market can spring."

But covered bonds will not replace structured finance vehicles, although they may play a critical role in the market's recovery. "I expect a robust covered bond market to exist alongside whatever emerges in the structured finance world. It is an additional tool in the liquidity arsenal," Tanenbaum said.

He predicted that the covered bond industry could see growth within the next sixth months. It will first be lead by market leading institutions, and then it will be followed by a wider range of issuers. — *GS*

LEGACY

Continued from page 15

in this asset class," Elhanani said.

The company is currently licensed in 29 states and focuses on purchasing insurance from higher-net-worth individuals with policies averaging $2 million in death benefits. The largest business volume comes from big states such as New York, California and Texas.

In January, **Mofet Holdings** made a strategic investment in Legacy Benefits, buying a 50% stake in the company. (Mofet, like its parent company **Kamen Holdings**, is a public company in Israel.) The capital infusion will be used to expand the breadth of the settlement plans that Legacy currently purchases.

At the time of the investment announcement, **Meir Eliav**, founder and president of Legacy, said that purchasing life insurance policy portfolios or blocks is more attractive from an investor standpoint than individual policies. "Investors are recognizing that the purchase of a block of policies minimizes ramp-up and immediately generates fully realized returns because the portfolio purchasing process is completed in a short time frame. Therefore, the acquisition of a quality portfolio generates a significant premium," he said.

Eliav is also a founding member and past president of the **Life Settlement Association**, formerly the **Viatical and Life Settlement Association of America**. — *GS*

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

AUTOS ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Citigroup Global Markets	6,386.8	1	18.7	10
Wachovia Securities	4,181.5	2	12.2	7
Barclays Capital	3,589.4	3	10.5	6
JPMorgan Securities Inc.	3,202.1	4	9.4	7
Deutsche Bank Securities	2,741.8	5	8.0	6
Credit Suisse	2,528.7	6	7.4	5
RBS Greenwich Capital	1,908.3	7	5.6	3
Merrill Lynch	1,855.9	8	5.4	3
Banc of America Securities	1,642.7	9	4.8	5
Goldman Sachs	1,581.1	10	4.6	3
Industry Total	34,231.8	-	100.0	30

CDOs

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Morgan Stanley	3,386.3	1	21.8	6
Citigroup Global Markets	2,879.7	2	18.5	7
JPMorgan Securities	2,224.5	3	14.3	7
Deutsche Bank Securities	2,048.5	4	13.2	30
Banc of America Securities	1,424.0	5	9.2	3
Lehman Brothers	1,303.0	6	8.4	8
Wachovia Securities	991.1	7	6.4	3
Barclays Capital	608.2	8	3.9	1
Merrill Lynch	423.9	9	2.7	1
UBS	169.0	10	1.1	1
Industry Total	15,560.6	-	100.0	67

CREDIT CARD ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
JPMorgan Securities	14,491.3	1	24.5	21
Banc of America Securities	14,989.8	2	25.3	19
Citigroup Global Markets	13,958.7	3	23.6	14
Credit Suisse	2,956.9	4	5.0	8
Barclays Capital	2,667.1	5	4.5	6
Deutsche Bank Securities	2,354.6	6	4.0	5
RBS Greenwich Capital	1,843.2	7	3.1	7
Wachovia Securities	862.5	8	1.5	2
Lehman Brothers	829.8	9	1.4	2
Morgan Stanley	687.2	10	1.2	4
Industry Total	59,264.5	-	100.0	64

REAL ESTATE ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Lehman Brothers	1,715.6	1	64.2	2
Credit Suisse	223.0	2	8.3	2
Citigroup Global Markets	123.0	3	4.6	1
RBS Greenwich Capital	100.0	4	3.7	1
BB&T Capital Markets	59.9	5	2.2	1
Industry Total	2,671.5	-	100.0	6

STUDENT LOAN ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Citigroup Global Markets	4,711.3	1	20.3	4
JPMorgan Securities	3,469.6	2	14.9	6
Barclays Capital	3,165.4	3	13.6	7
Banc of America Securities	3,057.1	4	13.2	5
Deutsche Bank Securities	2,974.7	5	12.8	5
RBS Greenwich Capital	2,127.9	6	9.2	4
Merrill Lynch	1,235.2	7	5.3	3
UBS Securities	812.7	8	3.5	2
RBC Capital Markets	488.3	9	2.1	2
Dexia Capital Markets	362.7	10	1.6	1
Industry Total	23,245.0	-	100.0	19

COMMERCIAL MBS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Banc of America Securities	3,821.1	1	26.2	4
Merrill Lynch	2,953.9	2	20.2	3
Citigroup Global Markets	1,709.5	3	11.7	3
Morgan Stanley	1,060.5	4	7.3	2
UBS Securities	933.0	5	6.4	2
Goldman Sachs	925.0	6	6.3	1
Bear Stearns	616.9	7	4.2	1
JPMorgan Securities	583.0	8	4.0	1
CIBC World Markets	583.0	8	4.0	1
Barclays Capital	522.2	10	3.6	1
Industry Total	14,605.2	-	100.0	13

Dollar value reflects full credit.

Source: ASR for all tables except CDOs.
CDO rankings are based on Thomson Reuters data and give equal credit to book.

CONSOLIDATED STREET RESEARCH

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BARCLAYS CAPITAL

MBS

Analysts turn overweight on the agency MBS basis. While mortgages have had a very poor past two weeks, analysts expect mortgages to outperform as the omnibus housing bill approaches passage. As the link to the government appears poised to grow, both agency MBS and debt should outperform. While MBS looks cheap from a valuation standpoint, analysts are more cautious longer-term due to questions regarding foreign demand and the outlook for GSE portfolio growth. (07/28)

DEUTSCHE BANK SECURITIES

MBS

On the ABS front, liquidity has slowly dried up brought on by the continued volatility in the equity and corporate markets. Investors have slowed their buying as they wait to see what shoe is going to drop next. Sectors outperforming are areas which have already widened dramatically since the crisis began. These sectors are more correlated to risk/reward then risk free rates. Cards, prime autos and FFELP student loans are highly correlated to risk free rates and have widened in sympathy. Risk free rates have expanded once again this past month due to issues at Fannie Mae and Freddie Mac. Going forward, analysts would anticipate more negative headliners as the economy sputters. (07/25)

FTN FINACIAL

MBS

The market is digesting a residential credit picture that seems to worsen by the day. The GSEs are certainly not immune from this. Despite these real issues and lax underwriting standards during 2H07, it must also be acknowledged that the credit profile of the combined guarantee books of the GSEs is much stronger than that of the non-agency market and is improving thanks to tighter underwriting standards and more realistic risk-based pricing going forward. When asset bubbles deflate/pop/decompress (choose your own term), the outcome is always messy. In the current environment, it is important for investors to choose the best among the bad when making investment decisions. Analysts believe investors are up to that task and the result will be tighter agency MBS spreads over a 12-month horizon. (07/29)

JPMORGAN SECURITIES

ABS

Markets now need to respond to the massive stimulus that has been put in place. Given the capital plight of the banking system, that is still a major challenge. Auto ABS credit performance deterioration continues, but structures generally remain robust. However, fundamentals in consumer ABS will likely take a backseat for now under the barrage of credit headlines and bankruptcy speculation, not to mention oil. In the meantime, ABS spreads will remain biased toward further widening. ABX remit day brought more of the same bad news. Three more ABX reference obligations started taking principal losses-MASC 06-WMC2 (in 06-2) and HEAT 06-7 and LBMLT 06-6 (in 07-1) joins SAIL 06-4 (in 06-2) on the defaulting bonds list. ABX remits showed more credit deterioration, but at a slightly slower pace. "Value" at the top of the ABX capital structure persists. (07/25)

CMBS

Analysts remain underweight in the very near term at the top of the structure. Although triple-A bonds offer fundamental value at their current spread levels, onerous financing conditions, balance sheet constraints and better relative value in other credit products give senior CMBS spreads little impetus to tighten. Analysts recommend holding short risk positions on tranches rated triple-A to double-A on the CMBX.3 and CMBX.4. The high dollar prices offers macro hedgers a cheap way to buy protection and spreads will drift wider as market sentiment deteriorates. Remain short-risk tranches rated single-A and below on the CMBX.2 and those rated triple-B and below on the CMBX.3. Prices declined as much as 1.5 points this week, but still have as much as 10 points more to fall before reaching "fair value." (07/25)

MBS

With mortgage spreads still hovering around the recent wides, analysts maintain a mortgage overweight. They review the recent housing bill; while its passage is unlikely to drive agency portfolio growth significantly higher, it removes a scenario where the agencies are forced to sell. Higher TBA loan limits could cost as much as seven ticks for conventional 6s currently, but the impact on TBA will be determined by the amount of issuance of this product. Analysts review the FDIC activity in the 1980s, and find that there were very few cases where banks were forced to pay out and liquidate assets. Stay long mortgages versus swaps or Treasurys. Stay down in coupon with Trust IO. Buy Golds over FNMAs. Move up-in-coupon in GNMAs, offset with down in coupon in conventionals. Own VADMs backed by seasoned collateral. (07/25)

Continued on Page 26 >>

CONSOLIDATED STREET RESEARCH

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Continued from page 25

JPMORGAN SECURITIES

CDO

The sharp decline in oil prices and tightening in credit suggested a positive end to July. But a late-week plummet in equities and renewed growth concerns brought the fundamental outlook back down to earth. Indicative triple-A to double-B CLO spreads widened to 200, 450, 650, 900 and 1400 basis points as broader markets remained volatile and bids softened. Analysts stay overweight single-As to triple-As and neutral triple-Bs. Underweight double-Bs. Senior tranche liquidity premia should become more attractive as Bank funding levels improve over the next couple of years, but it's less clear junior tranche credit premia are attractive as fundamentals look set to further erode. CLO spread volatility remains so long as the financial system continues to grapple with write-downs and a dearth of liquidity; we note S&P placed Fannie Mae and Freddie Mac on negative watch the previous week. (07/28)

UBS

MBS

Mortgages outperformed Treasurys and swaps by 12 and 6 ticks, respectively, on the week, but still look very cheap (4 std. dev. cheap versus swaps on our model). Analysts expect passage of the housing bill to spur MBS buying by foreign investors and-continue to recommend the mortgage overweight analysts instituted the previous week, as well as our overweight to conventionals at the expense of GNMAs. agency floaters The past two months, new agency CMO floaters (trading near par with fuller coupons) began to trade much better than their more seasoned counterparts (trading well below par, with skimpy coupons). Analysts make the case this is unjustified; more seasoned floaters are far cheaper. Non-agency super seniors Analysts believe SSNR Alt-A fixed and hybrid ARMs as well as option ARMs have cheapened to the point where (even if losses are substantially higher than our current expectations) they have attractive yields. They show Alt-A SSNR paper is much cheaper than jumbo counterparts. They also compare yields on these securities to total returns on other asset classes; non-Agency super seniors stack up very favorably. (07/29)

CALENDAR

**To include an event in the calendar please e-mail:
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AUGUST 2008

AUG. 6: Sao Paolo, Brazil - The Information Management Network will hold its 'Summit on Brazilian Real Estate Finance and Securitization' at Milenium Conference Center. For more information, go to http://www.imn.org

AUG. 7: LexisNexis Mealeys will hold 'A Comprehensive Overview of Reinsurance' at 2:00 pm Eastern. For more information or to register, go to http://mealeys.lexisnexismail.com

AUG. 7-12: New York, New York - The American Bar Association will hold its annual meeting at the Grand Hyatt, New York Hilton and Marriott Marquis. To register, go to http://www.abanews.org

AUG. 13: LexisNexis Mealeys will hold 'Subprime Mortgage: Coverage Issues Arising from Subprime Lending' at 2:00pm Eastern. For more information or to register, visit http://mealeys.lexisnexismail.com

AUG. 19: Sao Paulo, Brazil - Information Management Network and Latin Finance will hold 'Brazilian Real Estate Investment, Finance & Securitization' at Milenium Centro de Convencoes. For more information, visit http://www.imn.org

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SEPTEMBER 2008

SEPT. 7-8: Scottsdale, AZ - Opal Financial Group will hold 'Private Equity Summit for Institutional Investors' and 'Green Innovation Venture Capital Summit' at the Phoenician. For more information, go to http://www.opalgroup.net

SEPT. 8: London, UK - The Information Management Network presents 'The Inaugural Summit on Insurance-Linked Securities'. For more information, go to http://www.imn.org

SEPT. 8-9: Sao Paolo, Brazil - The Information Management Network will hold its 'The Second Annual Summit on Brazilian ABS' at Marriott Renaissance Sao Paulo Hotel. For more information, go to http://www.imn.org

SEPT. 9: New York, NY - The Securities Operation Forum will hold 'Fixed Income Trading and Processing Conference' at Bayard's, 1 Hanover Square. For more information, visit http://www.soforum.com/conferences

SEPT. 11-12: Carlsbad, CA - The Mortgage Bankers Association will hold its 'Quality Assurance Conference' at La Costa Resort and Spa. For more information or to register, go to http://mbaa.org

SEPT. 12: London, UK - The Information Management Network presents 'The Global ABCP Summit - Assessing the Market After the Storm'. For more information, go to http://www.imn.org

SEPT. 12: New York, NY - Information Management Network will hold 'Cross-Atlantic ABCP Summit' on 11 Madison Avenue. For more information, go to http://secure.imn.org

SEPT. 14-16: Washington, D.C. - Mortgage Bankers Association will hold its 'Regulatory Compliance Conference' at the JW Marriott Hotel. For more information or to register, go to http://mbaa.org

SEPT. 15-16: Chicago, IL - The Information Management Network will hold 'Distressed Retail & Shopping Center Symposium' at the Hyatt Regency McCormick Place. For more information or to register, go to http://www.imn.org

SEPT. 15-16: Rome, Italy - Securities Industry and Financial Markets Association will hold 'Opportunities in the Italian Funding Market: Securitization and Covered Bonds' at the Palazzo Altieri. For more information, visit http://events.sifma.org

SEPT. 16: New York, NY - Securities Industry and Financial Markets Association will hold 'eTechnology North American Conference & Exhibit: Trading/Risk Strategies & Systems' at midtown's Grand Hyatt. For more information, visit http://events.sifma.org

SEPT. 17: Financial Markets World will hold 'Managing Risk by Creating a Risk-Aware Culture' at Bayard's. For more information or to register, go to http://www.fmwonline.com/

SEPT. 17-18: Macau - ASIFMA will hold 'Asia Pacific Securitisation Forum' at the Venetian Hotel. For more information or to register, go to http://events.sifma.org

SEPT. 17-18: Las Vegas, NV - Information Management Network will hold 'Distressed Debt Investing & Risk Management: Navigating the Post-Subprime World' at the Four Seasons Hotel. For more information, go to http://secure.imn.org

SEPT. 21-23: Charlotte, NC - Mortgage Bankers Association will hold its 'Document Management and Custody Conference' at the Westin Charlotte. For more information or to register, please go to http://mbaa.org

SEPTEMBER 22-23: London, England - C5 will hold "Commercial Loans & Security' at Millennium Knightsbridge Hotel. For more information, go to http://www.c5-online.com

SEPT. 23-24: Washington, DC - World Research Group will hold 'Executive Summit on Mortgage Fraud' at the Grand Hyatt Washington. For more information, go to http://www.worldrg.com

OCTOBER 2008

OCT. 1-3: Miami, FL - Securities Industry and Financial Markets Association will hold 'Fixed Income and Derivatives Operation Forum' at Doral Golf Resort & Spa. For more information or to register, visit http://events.sifma.org

OCT. 2: New York, NY - Securities Operation Forum will hold its 17th Annual 'Securities Operations Conference' at Bayard's. For more information or to register, visit http://www.soforum.com/conferences