

# Asset Securitization

September 22, 2008  
Volume 8, Number 36

The Premier Guide to Asset and Mortgage-Backed Securitization

## REPORT



### ABS LANDSCAPE CHANGES

as Wall Street  
Giants Fall

ABS Market Focuses on  
Crisis' CDS Impact

BofA Might Return to EM  
With Merrill Purchase

Update on Euro  
ABCP Market

[StructuredFinanceNews.com](http://StructuredFinanceNews.com)

Whispers: Standard Bank Hires David McCaig as Global Head of Securitization



**Getting ahead means having  
the right people behind you.**

**To give your clients the absolute best service possible,  
you need a supporting cast that does the same for you.**

Wilmington Trust is an industry leader in corporate services, with over a century of experience serving clients in many of the world's most attractive jurisdictions. Our state-of-the-art technology and world-class local experience allow for easier customization of products and services to your specific needs. In short, there are no limits to your success with us at your side. Let us show you.

- innovative administration and reporting for collateralized debt obligations
- managing spvs and other entities
- trust services for all asset classes
- representing investors on creditors' committees in corporate restructurings and bankruptcies

Call Don MacKelcan, Head of Client Development, at 302.636.6071.



## 9 Cover Story

# ABS Landscape Changes as Wall Street Giants Fall



### FEATURES

- 10 Market Focuses on CDS Impact
- 12 CMSA Discusses Market Dislocation
- 13 Lehman Presence in Euro CMBS and RMBS
- 14 With Merrill, BofA Could Return to EM

### WHISPERS

- 5 South Africa's Standard Bank in London recently hired David McCaig as global head of securitization. This is one of the featured people moves in *ASR* this week.

### ABS

- 8 ABS Market Sidelined By Wall Street Fears
- 16 AIG Bailout: Catalyst for Consolidated Authority?

### MBS

- 17 MBS Can't Compete with Financial Crisis

### COLUMN

#### 7 Without Federal Backup, More are Likely to Follow Lehman

The case of Lehman Brothers proves that the bar for banks has just been raised. Until last week, financial institutions of such size were seen as being in the too-big-to-fail category.

>> *Nora Colomer*

### GLOBAL

- 19 Hope for European ABCP

### DATA

- 21 Manager Activity
- 22 Scorecards
- 24 Trade Matrix
- 25 Calendar



# Asset securitization

## REPORT

The Premier Guide to Asset and Mortgage-Backed Securitization

One State Street Plaza, 27th Floor, New York, NY 10004

### Editorial

**Executive Editor:** Tom Granahan  
thomas.granahan@sourcemedia.com; 212.803.8723

**Editor:** Karen Sibayan  
karen.sibayan@sourcemedia.com; 212.803.8735

**Senior Editor/Europe:** Nora Colomer-Gaffney  
nora.colomer@sourcemedia.com; (44) (0) 207.014.3479

**Editor/Emerging Markets:** Felipe Ossa  
felipe.ossa@sourcemedia.com; 212.803.8709

**Senior Editor:** Gabrielle Stein  
gabrielle.stein@sourcemedia.com; 212.803.8721

**Special Contributor:** Aleksanders Rozens  
212.803.8758

### Contributors

Sally Ann Runyan • Albert Durso  
Bonnie McGeer

### Publishing

EVP/Managing Director, Capital Markets Division: Mike Stanton  
212.803.6552

Advertising Sales, National Account Manager: Louis Fugazy  
212.803.8773

Advertising Coordinator: Ashley Johnson  
212.803.6075

Marketing Manager: Robert Han  
212.803.6551

Circulation Sales: Jessica Silveira  
212.803.8761

Reprint Sales Manager: Charlton Sanbria  
212.803.8377

### Production & Fulfillment

Exec. Dir. of Creative Services: Sharon Pollack

Associate Art Director: Fritz Laurore

Group Circulation Director: Michael O'Connor

Exec. Dir. of Manufacturing: Stacy Ferrara

Assoc. Production Manager: Naphtali David

Distribution Manager: Mark Ferrara

Assistant Distribution Manager: Raphaela Keohane

Fulfillment Manager: Lynn Sherwood



SourceMedia, Inc.

Chairman & CEO: James M. Malkin

Chief Financial Officer: William Johnston

V.P., Sales & Customer Service: Steve Andreazza

S.V.P., Finance & Accounting: Richard Antoneck

S.V.P., Operations: Celie Baussan

E.V.P. & Chief Content Officer: David Longobardi

E.V.P., Marketing & Strategic Planning: Anne O'Brien

S.V.P., Brand Management: Holly Sraael

Senior Director, Human Resources: Ying Wong

Reproduction or electronic forwarding of this product is a violation of federal copyright law!

Site licenses are available – please call Customer Service  
1.800.221.1809 or custserv@sourcemedia.com

### Subscription Information

Phone: 800.221.1809 212.803.8333

Bulk subscription US/Canada \$2,259

Annual Rate (48 issues) International \$2,359 Fax: 212.803.1592  
custserv@sourcemedia.com

**Asset Securitization Report** - (ISSN # 1547-3422) is published weekly except January 1, August 27, September 3, December 24 and December 31 by SourceMedia, One State Street Plaza, 27th Floor, New York, NY 10004. Postmaster: Send address changes to **Asset Securitization Report**, SourceMedia, One State Street Plaza, 27th Floor, New York, NY 10004. All rights reserved. Photocopy permission is available solely through SourceMedia, One State Street Plaza, 27th Floor, New York, NY 10004. For back issues and bulk distribution needs, please contact Customer Service at (800) 221-1809 or e-mail: custserv@sourcemedia.com.

**Asset Securitization Report** is a general-circulation publication. No data herein is or should be construed to be a recommendation for the purchase, retention or sale of securities, or to provide investment advice of the companies mentioned or advertised. SourceMedia, its subsidiaries and its employees may, from time to time, purchase, own, or sell securities or other investment products of the companies discussed or advertised in this publication.

©2008 Asset Securitization Report and SourceMedia, Inc. All rights reserved.



# ASR SCORECARDS

To improve on the extensive deal data covered in **Asset Securitization Report**, we would like you to try out **ASR Scorecards**, an online database designed to help you search for deals inside our crucial scorecard data with 2 modes: **DEALS** and **RANKINGS**. You will not only get current deal information but full deal listings from 2007.

Go to [http://www.structuredfinancenews.com/asr\\_scorecards](http://www.structuredfinancenews.com/asr_scorecards) for a free 30-day trial and see for yourself what you've been missing.

South Africa's **STANDARD BANK** in London recently hired **David McCaig** as global head of securitization. McCaig had been at **WestLB** from July 1998 until the spring of this year. At WestLB, he headed up asset securitization and commodity finance and oversaw, among other things, a thriving business in financial future flows from banks in Turkey and Kazakhstan. Prior to WestLB, David spent seven years at **Morgan Grenfell** and **Deutsche Bank** in London, where he was responsible for the origination and structuring of cross-border receivables financings in the emerging markets. It will be interesting to see whether Standard's hire of McCaig marks an effort to build up business in emerging markets. The bank had, in the spring of 2006, made a short-lived attempt to beef up its Latin American operation out of New York, hiring **Christian Corcino** from **Moody's Investors Service** and **Erick Hernandez** from Deutsche. In May of 2007, Corcino left for Deutsche, and Hernandez was let go last December.

**DUFF & PHELPS CORP.** has hired **John Schrader** as a managing director in its financial engineering team at the firm's New York office. Schrader has over 19 years of experience in structured products, risk management, fixed income, capital markets and investment banking. Schrader was formerly at **Morgan Stanley**, where he was a managing director and head of global risk management in the securitized products group. During his time at Morgan Stanley, he helped ABS, CDO, MBS, CMBS and proprietary traders with purchasing and selling, structuring, hedging and risk management activities. Schrader also developed valuation processes and created analytical tools for pricing complex derivatives. Before his role at Morgan Stanley, Schrader was a senior managing director at **Bear Stearns** where he was in charge of market risk management for the mortgage group. Schrader has exper-

tise in various collateral types, including prime, subprime, Alt-A, scratch and dent loans, commercial loans, Chapter 13 claims and tax liens.

**ORRICK, HERRINGTON & SUTCLIFFE LLP** and **Holters & Elsing (Partnerschaft von Rechtsanwälten)** have merged their partnerships. The merged partnership will operate in Germany as **Orrick Holters & Elsing**. The combined firm will have 55 lawyers in three offices in Germany and 1,100 lawyers — over 250 throughout Europe — in 21 offices across Asia, Europe and North America. Over one-third of the firm's lawyers will work outside North America. **Arno Frings**, former managing partner of Holters & Elsing, will serve in the newly created position of partner-in-charge of Germany, and will have a seat on Orrick's European supervisory committee.

The offshore law firm **APPLEBY** said it plans to extend its global network with offices opening in Dubai and in Zurich. The expansion will provide the firm's clients with greater access to high-growth Middle East, Asian, Indian and African capital and to private bank and institutional services in Switzerland, Appleby said in a statement. The new offices will begin operations in early 2009. The Dubai office will be staffed by two partners, including **Jeanne Bartlett**, head of the firm's global structured finance practice, and an assistant. The office will focus on investment funds, private equity, structured finance, major projects, property and private client services. Appleby said it had a significant inflow of work from the GCC region at the Dubai office and would ensure that this is expanded directly into the core offshore markets that provide its Middle East clients with a significant choice of offshore jurisdiction. The Zurich office will focus on both corporate and private wealth markets, providing private

banks, wealth management and other institutions, as well as Middle East- and Asian-based clients whose funds are managed in Switzerland, with direct access to high-level offshore services. On the corporate side, the office will focus on the insurance and funds sectors to offer direct access to the firm's specialist expertise in the Bermuda and Cayman markets. The office will be initially staffed by a partner and an assistant.

**PETRINA DAWSON**, senior managing director and general counsel at **Standard & Poor's**, has left the company. Dawson was appointed as general counsel of the rating agency in mid-1999, replacing **Joanne Rose** who was then promoted to executive managing director for S&P's structured finance ratings unit. Dawson joined S&P in 1991.

**FEDERAL HOUSING FINANCE AGENCY (FHFA)** Director **James Lockhart** announced the appointments of new non-executive chairmen of the Boards of Directors of **Fannie Mae** and **Freddie Mac**. **John Koskinen** will be the non-executive chairman of Freddie Mac while **Philip Laskawy** will serve as the non-executive chairman of Fannie Mae. FHFA called for the formation of new boards for both GSEs to ensure "solid leadership and good corporate governance." Koskinen has extensive public and private sector experience, including serving as president and chief executive officer of **Palmieri Co.** from 1979 to 1993. There he participated in the restructuring and turnarounds of many companies, including the **Penn Central Transportation Co.** and **Mutual Benefit**, the largest insurance company in history to fail. Most recently, Koskinen served as president of the **United States Soccer Foundation**. Before that, he served as deputy mayor and city administrator of the District of Columbia, where he was responsible for the operation of all city departments. Koskinen has also occupied several

senior positions with the federal government, including deputy director for management in the **Office of Management and Budget**, where he coordinated the work of the chief financial officers, chief information officers and inspectors general of all government agencies.

**STIFEL FINANCIAL CORP.** announced that **Joseph Sullivan**, a director of the firm and head of fixed-income capital markets for the company's principal subsidiary, **Stifel, Nicolaus & Co.**, will resign from these posts to become chief administrative officer of **Legg Mason**. Sullivan joined Stifel in December 2005 in connection with the company's acquisition of the investment banking, research, institutional equity and fixed-income capital markets businesses of Legg Mason.

Following a majority dealer vote, **MARKIT's** CDX index rolls will be delayed by one week. The Markit CDX North America Investment Grade index and its related sub-indices will roll on Sept. 29 instead of Sept. 22. This is also true for the Markit CDX North America Crossover, Markit CDX Emerging Markets and Markit CDX Emerging Markets Diversified indices. The Markit CDX North America High Yield index and its related sub-indices will roll on Oct. 6 instead of Sept. 29. Meanwhile, the Markit *iTraxx* European investment-grade and crossover indices will now roll on Sept. 29 instead of Sept. 22 as initially planned. The decision to call a vote was caused by the significantly higher trading and clearing activity seen in today's CDS markets. Markit's *iTraxx* Asia, Japan and Australia indices will now roll into Series 10 on Sept. 29 instead of Sept. 22 as previously planned.

Gross lending in the U.K. totaled an estimated £21.8 billion (\$39.7 billion) in August, a 12% fall from July and a 36% fall from August 2007, according to the

**COUNCIL OF MORTGAGE LENDERS.** This is the lowest monthly figure since April 2005 and the lowest August figure since 2002. Exceptionally slow housing market turnover and less-than-expected remortgaging activity will keep monthly lending subdued in the immediate future. **Michael Coogan**, CML director general, said that the figures reflect the heightened uncertainty for both lenders and consumers in the mortgage market at present. "Lenders are uncertain about future sources of funding and the cost of funding, while consumers are unsure about how much further and for how long house prices will continue to decline," Coogan said.

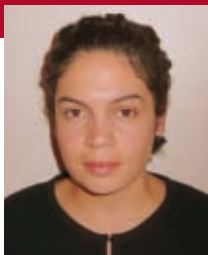
The **BANK OF ENGLAND** announced last week that the Special Liquidity Scheme would be extended from Oct. 20 to January 30, 2009. The central bank also noted that it will publish its consultation document on proposals for permanent reforms of its market operations at a later date, suggesting that changes may be afoot for repo.

**MOODY'S INVESTORS SERVICE** recent downgrade of U.K. mortgage lender **Bradford & Bingley** to 'P-3' means that the borrower can no longer add new mortgage collateral to its Aire Valley master trust. With a ratings cut to 'Baa3', the company is also on the cusp of having to notify borrowers of the loans' sale to the trust and compulsory specific identification of loan files and deeds. Moody's left the company on a negative outlook. The company is left with limited funding options with respect to the trust, but it recently completed a covered bond offering that is expected to help keep its balance sheet levered. According to one of the later deals' offering circulars, the company may have a bit of latitude to introduce some collateral, but such an introduction requires the consent of the rating agencies as well as the trustee.

The **FINANCIAL ACCOUNTING STANDARDS BOARD** released three exposure drafts last week. These are: the Accounting for Transfers of Financial Assets, which is an amendment of both FASB Statement No. 140, the Disclosures About Transfers of Financial Assets and Interests in Variable Interest Entities, and the Amendments to FASB Interpretation No. 46(R). The first exposure draft will amend Statement 140 to revise and clarify the derecognition requirements for transfers of financial assets, as well as the initial measurement of beneficial interests that are received as proceeds by a transferor that are related to financial asset transfers. This proposed Statement would also enhance the disclosure requirements to offer users of financial statements greater transparency regarding transfers of financial assets. Further, it would ensure a transferor's continuing involvement with such transferred financial assets. The purpose of the second proposed FASB Staff Position (FSP) is to require improved disclosures by public entities until the pending amendments to FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was revised December 2003 — are effective. This proposed FSP would amend Statement 140 and Interpretation 46(R) to require enhanced disclosures by public entities regarding financial asset and interest transfers in variable interest entities. The third proposed Statement would amend FASB Interpretation No. 46 (revised December 2003), called the Consolidation of Variable Interest Entities. This requires ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity, the FASB stated.

See **WHISPERS** on Page 20 >>





# Without Federal Backup, More are Likely to Follow

**"The credit crunch has now moved into a phase where financial consolidation and failure has begun."**

**T**he case of **Lehman Brothers** proves that the bar for banks has just been raised. Until last week, financial institutions of such size were seen as being in the too-big-to-fail category.

Lehman found itself forced into bankruptcy as **Barclays** and **Bank of America** walked away from buyout talks. The failing firm listed more than \$613 billion of debt.

The fact that the **Federal Reserve** and the U.S. government refrained from intervening to save Lehman has removed the perceived safety net that had rested under this type and size of institution.

**Andrew Liegel**, product management specialist in risk and reporting at **FRSGlobal**, believes that Lehman's fall might have saved investors billions of dollars. By stepping away, regulators have forced investors to readdress their outlook on risk measurement, management and reporting, as well as communication policies.

Measures are already being put in place by both regulators and investors to hopefully prevent a similar meltdown in the future. These should contribute to the development of new regulatory standards for global markets.

However, after walking away from Lehman, the U.S. government had to step in to bailout the world's biggest insurance company, **AIG**, in an \$85 billion emergency rescue.

"The credit crunch has now moved into a phase where financial consolidation and failure has begun," said **Paul Niven**, head of asset allocation at **F&C Management**. "This potentially has some way (and time) to run. Looking at history as a guide, we will likely eventually see state-backed guarantees for depositors being extended, and more government intervention, such as the establishment of entities to work out loans and support asset values."

The risk posed by Lehman asset unwinds has taken European ABS spreads to their widest level ever. Spreads have catapulted beyond the widest reached in mid-March, setting a new historical price low for the ABS market, according to **Deutsche Bank** analysts, who also said that any

further financial credit weakness would likely drag on ABS performance.

Meanwhile, the financial industry's total write-downs amounted to \$519 billion, and loan-loss provisions increased to \$119 billion. The **International Monetary Fund** expects losses to reach \$945 billion globally, with 59.8% of the losses stemming from the residential mortgage market. **Standard & Poor's** said losses related to structured finance products with subprime exposure are likely to amount to as much as \$550 billion.

As the pressure mounts, the U.K. government has held steadfast in its belief that government intervention would not be the best option to get the market back on track.

It's true that U.K. banks, as a result of the credit turmoil, are already lending more responsibly against sensible criteria, but there is no denying that the collapse of Lehman has started a chain reaction that could force more drastic measures from the government. By mid last week, shares in **HBOS**, Britain's biggest mortgage lender, fell as much as 50pc to 88pc.

Amidst this latest blow, even the **Bank of England** (BoE), which, up to last week, intended to end its Special Liquidity Scheme (SLS) according to deadline, has now found its back against the wall.

BoE announced that, given current market conditions, it would provide an extension of the drawdown period for its SLS. This move is intended to provide additional time for banks to plan their loss of access to the scheme in an orderly fashion. The drawdown period will now end on January 30, 2009.

As the turmoil intensifies and deteriorating credit and liquidity conditions lead to further negative reaction, the U.K. government, like the U.S. government, will find itself under increasing pressure to find ways to help its country out of its mounting financial crisis. The BoE said it will publish its consultation document on proposals for permanent reforms of its market operations at a later date. **ASR**

# ABS Market Sidelined With Wall Street Fears

Market goes into a wait-and-see mode as many participants ponder their fate

**T**he mood in the ABS market was understandably gloomy last week, as traders expressed disbelief and apprehension about the sector, not to mention the financial industry as a whole.

While many traders were furiously unwinding their positions with **Lehman Brothers**, others were sitting on the sidelines waiting for the news to shake out.

This was especially the case in the primary ABS market. "Nobody wants to bring a deal to market under these conditions," an ABS trader said. "We are just waiting around to see what will happen next."

The secondary market did see some activity last week, he said, but it was relatively contained as bank liquidity woes and fears of pending layoffs remained front and center.

While Lehman employees took solace in the fact that a **Barclays** acquisition would save many U.S.-based jobs, **Merrill Lynch** awaited word on what groups would be transferred over to **Bank of America** in an acquisition.

One headhunter suggested that the fixed-income unit at Merrill could see sizeable layoffs, while groups like M&A and the firm's overseas businesses would remain relatively intact.

Market fear continues to put pressure on spreads, which are gaping out to new historic wides.

Spread movement in consumer

and commercial sectors is expected to lag other structured products, which has been the case for most of this year, Merrill said in a report last week.

Tiering among issuers and sectors such as auto, credit cards, student loans as well as sub-sectors like prime and subprime will remain pronounced, the bank said.

**American Express** Credit Account Master Trust, Series 2008-8 launched a

at 400 basis points over one month Libor on the five-year single-A paper.

While increasingly harsh economic conditions and rising unemployment continue to threaten consumer spending and put pressure on new card deals coming to market, **Moody's Investors Service** analysts recently placed 1 in 25 odds on a downturn severe enough that credit card charge-offs rise into the low double digits, **UBS** pointed

*"Nobody wants to bring a deal to market under these conditions. We are just waiting around to see what will happen next."*

\$738 million credit card securitization, arranged by **RBS Greenwich Capital** and **Merrill Lynch**. Lehman Brothers, **Williams Capital Group**, and **Morgan Stanley** were co-managers on the deal, though the market waits in limbo to see how the fates of some of these banks play out.

Pricing on the triple-A piece with a two-year average life was at 110 basis points over one month Libor. The single-A piece, also with a two-year average life, was priced at 325 basis points over one month Libor.

**American Express** also launched a ninth series out of the same trust last week, this time the \$624 million deal was arranged by **RBS Greenwich** and **Deutsche Bank Securities**. Pricing on the five-year triple-A paper was at 160 basis points over one month Libor and

out in a research report, calling those odds "optimistic."

Other deals to hit the market under rough conditions include an auto deal from **JPMorgan Securities** to the tune of approximately \$353 million, according to a presale report from **Fitch Ratings**.

**JPMorgan Auto Receivables Trust (JPMART)** 2008-A is the third auto loan securitization issued by the trust.

The most recent transaction to be issued prior to these notes was **JPMART 2007-A** in February 2007.

While the deal includes high-quality borrowers with a weighted-average FICO score of 729, and high seasoning of 22 months, the current economic outlook could affect both delinquencies and losses, the rating agency said. — GS



A hand is shown pulling a blue wooden block from a tall, precarious stack of colorful wooden blocks (red, yellow, blue, and white). The stack is leaning to the right, and the background is a warm, orange-brown gradient. The hand is positioned at the bottom right, with the thumb and index finger gripping the blue block.

CoverStory

# ABS LANDSCAPE CHANGES

as Wall Street  
Giants Fall

# Market Focuses on CDS Impact Amidst Wall Street Chaos

Sept. 15 was a day of reckoning for Wall Street as the market said goodbye to two U.S. financial institutions, 158-year old **Lehman Brothers**, whose parts will be wrapped into **Barclays Capital**, and 94-year old **Merrill Lynch**, which will now exist under the **Bank of America** umbrella.

On most ABS participants' minds last week was the impact these events would have on the already ravaged structured finance market. Sources reiterated that the ABS market depends on the ability to access term funding, which has already been weakened by investor fears, though isn't changed dramatically by last week's events.

Spreads on the consumer ABS side have a subprime-like scenario built in, which is not expected to come to fruition, according to a senior ABS analyst from an investment bank.

While the stress of Lehman Brothers and Merrill Lynch layoffs will only exacerbate the rising unemployment rate and put further pressure on consumers, "this recession is not going to create collateral performance on the consumer side that is as bad as the subprime performance," the analyst said. "Some people will suffer from being over levered but there are still deals that will be okay. So there is probably still pretty decent relative value even if spreads widen out a bit further."

## Centered on CDS

Concerns last week about ABS exposure at Lehman were centered more on the credit default swap (CDS) issue. "It is really the counterparty exposure through the CDS market that has to be sorted out," the ABS analyst said. This includes dealer-to-dealer counterparty exposure, and the counterparty exposure clients

have to Lehman.

Many market players held swaps for derivative contracts with various Lehman entities other than the parent holding company, but where the parent holding company provided a guarantee. Many of those swaps became subject to events of default because, in these situations, a default or bankruptcy on the part of the parent guarantor constituted a default on the underlying swap itself, said **Joel Telpner**, partner at **Mayer Brown**.

Lehman acted as swap counterparty in 69 **Fitch Ratings**-rated synthetic CDOs: 31 in Europe, 35 in Asia and three in the U.S. In many of these transactions, Lehman Brothers Special Financing acted as the buyer of credit protection from the CDO as CDS swap counterparty, and Lehman

becomes whether Barclays is assuming the obligations to unwind these swaps and whether the market would be willing to reconsider or rescind the decision to unwind some of these swaps based upon them being assumed by Barclays," Telpner said. However, it may be pragmatically too late, since players on the street have already begun to terminate swaps with Lehman, and to unwind hedges or enter into hedges as part of the unwind, he said.

While the technicals behind the Lehman deal with Barclays were still being fleshed out as of press time, counterparties on the street last week were calculating what they are owed and making those claims, creating confusion and uncertainty among other banks. "What this is showing you is that part of the prob-

*"Some people will suffer from being over levered but there are still deals that will be okay. So there is probably still pretty decent relative value even if spreads widen out a bit further."*

Brothers Holdings acted as a guarantor or credit support provider.

The impact on CDO note ratings where a Lehman entity was a swap counterparty will depend on a number of factors. These include whether the CDO transaction faces an automatic unwind following the Lehman bankruptcy, whether the swap may be transferred to another counterparty, and the extent to which noteholders may be subject to the market value risk of eligible securities in the event of early termination of the transaction, Fitch said.

If Barclays acquires business activities that include some of these entities and ultimately takes on the positions, "the ques-

lems we are seeing in these investment banks is to what extent they are exposed to one another through the CDS market," the bank analyst said.

"Banks want to keep CDS over-the-counter and non-transparent in terms of pricing. They want big bid offer spreads and everything that comes with that," he said. As a result, their solution to the clearing problems and counterparty risk is to have the clearing corp. do it. But the clearing corporation is owned by almost the same ten dealers, so they are just going to commingle their exposure, the analyst said. "That doesn't do much to unwind their exposure to one another."

Regarding the Bank of America ac-



quisition of Merrill, the market will remain in a wait-and-see period until it knows to what extent various swaps can be assigned or transferred. "The question here becomes how they ultimately combine the entities and whether or not, as part of that process, there are attempts for different exposures to be assumed by entities or to consolidate them," Telpner said.

## Bigger Piece of the Pie

What is consolidating in the ABS market is business competition as banks are wrapped into bigger players like **JPMorgan** and Bank of America. But the outlook is still not very optimistic for the remaining players, the bank analyst said. He did not expect an equitable distribution of market share to result from the restructuring on Wall Street. "It will push more business to the top of the league tables. I am not sure that a less crowded

market is good for player number six through 10," he said. The analyst expected that Bank of America would eclipse **Citigroup** and JPMorgan to become the biggest universal bank in the country. "When all this shakes out and the credit crunch is over, they are going to be the big winner in the league tables."

But the U.S. capital markets will also see increased competition from overseas institutions. "[The liquidation and acquisition of U.S. financial institutions] will be destructive to the U.S. competitive advantage," said **Robert Ellis**, senior vice president at **Celent**, adding that the U.S. does not make products as cheaply and efficiently as other parts of the world. "The capital markets business has traditionally been a strong industry for the U.S. economy. This will reduce capability."

Ellis noted that while specialized teams leaving financial institutions in distress will continue to under-

write niche deals in the U.S., either by starting their own shops or moving to boutique firms, with Lehman being acquired by a British bank and the rumors of a potential acquisition of **Morgan Stanley** by a big international bank (as of press time), many deals will move overseas.

Indeed, regional and boutique firms are hiring to some degree, but with credit continuing to tighten, the challenge is for these firms to find professionals who can transfer their origination, execution and closing experience, said **Richard G. Lipstein**, managing director at **Boyden Global Executive Search** in New York. "If you were a fixed-income capital markets banker at a bulge bracket firm whose clients were not currently doing any business with your firm because of these markets, it would be very challenging to take these clients to a smaller firm without as strong a product capability." — GS

**Structured Finance NEWS.com**

Check It Out...

Asset Securitization Report unveils a new website: **StructuredFinanceNews.com**

**Structured Finance NEWS.com**





# CMSA Discusses Rising Delinquencies, Offers Assurance

**T**he Commercial Mortgage Securities Association (CMSA) gathered in New York last week amidst a firestorm of financial distress and a radical shift on Wall Street.

On most panelists' minds was the impact that present investment banking changes would have on commercial mortgage vacancies, particularly in New York. Also much discussed was the possibility of further stress in the overall sector because of consumer troubles and heightened investor fears.

"**Lehman Brothers** was a leader and innovator in the CMBS market," said a panelist, who further noted that the CMBS sector has also had to say goodbye to other bulge-bracket firms in the past several months.

Indeed, among all firms Lehman had the highest exposure to commercial real estate-backed securities with \$39.5 billion.

**Morgan Stanley** is not far behind with \$31.5 billion in exposure, **Brad Hintz**, an analyst at **Sanford C. Bernstein**, estimated earlier this year (ASR 3/3/08).

But the problems in the sector have been driven by pricing and not by credit, according to panelists at the half-day conference. Panelists stressed that investor hesitation is more a product of fear than fundamentals. "We need to have a weekend where a major financial institution doesn't fail. I am more worried on Friday at 5pm than on Monday at 9am," another panelist said. The market needs to see these negative events stop before it can recover, he said.

Indeed, CMBS defaults are expected to be .4% compared with 14% on the RMBS side and 29% in subprime RMBS,

a panelist said.

However, ultimate losses will vary based on the severity of the financial crisis. The cumulative loss rate in the sector could range from 1% to 10%, a panelist estimated. For a shallow recession, the loss expectations among panelists stood around 3% to 3.5%. Regarding a possible deeper recession those numbers jumped to between 6% and 7%.

The disappearance of major financial institutions will certainly put pressure on the property demand-side, depending on how the office space is divided up. In its purchase agreement for certain Lehman Brothers assets, **Barclays** bought the firm's Midtown headquarters, totaling approximately one million square feet of space, and two data centers, according to reports. Lehman owns or leases over two million square feet total in Midtown, and it was unclear at press time how the balance would be divided.

**Merrill Lynch** is also big presence in downtown Manhattan, occupying 4.2 million square feet at its headquarters at the **World Financial Center**, reports said. It is still unclear how Merrill real estate will come out of the buyout by **Bank of America**.

Panelists expected that vacancies from troubled financial institutions would almost certainly have a near-term impact on the commercial real estate market. "Rents will severely soften in New York," a panelist said.

Consumer-driven properties like hotels were also highlighted as properties to be cautious of, especially since they are more leveraged. Panelists cautioned against properties with residential exposure and low barriers to entry like condominiums.

While delinquencies are expected to rise, the tone of the conference was hopeful. "Soft if a good relative performance, everything else is really bad," a panelist said.

As far as buying in the CMBS market is concerned, investors are focusing on the triple-A paper, which last week priced at 300 basis points for a triple-A A4 bond, for example, a panelist said. "Anything less than triple-A is the Wild Wild West. You have to put a gun to people's heads to get bids."

Investors, however, have taken on more exposure to the assets as banks seek to delever their balance sheets, although there is still a lot of capital sitting on the sidelines for the triple-A as well as the high yield paper. What is gone is the middle investors that buy the single-A and high 'B' paper, a panelist said, since these buyers, in some deals, run the risk of being completely wiped out.

While the potential for a developing covered bond market has been touted as a method of boosting liquidity in the credit markets, banks will have to structure these deals so that the profit is greater than the retained interest in the bond. That doesn't get rid of delinquencies, a panelist said. "It is not a silver bullet."

In order to get the seated capital back in play, the securitization market will need to step up its efforts toward better disclosure, panelists said. Demand will also need to stabilize to jumpstart the sector. In the meanwhile, floating rate and IO loans that are approaching maturity will most likely be extended by at least one 12-month period, with another extension possible due to the lack of capital to refinance. — GS

# Lehman Presence Prevails in European CMBS and RMBS

**T**he Lehman Group Holding Co.'s Chapter 11 filing was followed by its London-based European holding subsidiary being placed in administration. **Pricewaterhouse Coopers** was appointed administrator to manage the wind-up.

Lehman's direct exposure to the European ABS market takes several forms. The bank had a large stake in the European securitization market, which was focused on two sectors — RMBS and CMBS — where it acted as an originator/seller and, sometimes, as a servicer.

The bank holds multiple roles in various CMBS transactions, said **Hans Vrensen**, director and head of securitization research at **Barclays Capital**. As the obligor, Lehman is a key tenant in the Canary Wharf II and Broadgate Financing deals, providing 21% of rents in the Canary Wharf II transaction and 11% of rents in the Broadgate Financing transactions. Even if Lehman remains as a paying tenant, the multi-notch downgrade of this major tenant would lead to a rating review of the CMBS bonds, according to Barclays.

In its swap counterparty role, Lehman acts as a fixed-floating, basis and currency swap counterparty in the bank's Windermere CMBS transactions, with Windermere VII-XIV remaining outstanding.

The transactions had requirements in their legal structures in the case of a swap counterparty downgrade.

"Given the June 2 downgrade by **Standard & Poor's** and the July 17 downgrade by **Moody's Investors Service** of Lehman Holding to 'A'/'A2', it is yet to be confirmed that each of the Windermere

issuers acted in compliance with the downgrade triggers to either find an appropriate replacement swap counterparty; procure another person to become co-obligor or guarantor; or collateralize its obligations under the hedging arrangements," Vrensen said.

Lehman also fulfills the role of an interest rate swap provider in a number of securitizations that are not its own. These include several Italian deals from the Berica, Italease, Sestante series, along with a number of Portuguese transactions under the Lusitano deals.

Lehman also provides interest rate caps in several of its own-originated transactions, **Deutsche Bank** analysts said. These securitizations were execut-

a number of loans backing CMBS deals. According to Barclays, Lehman acts as a joint venture partner in at least three loans. This includes the Windermere XII Coeur Defense, where the single loan is backed by a Lehman joint venture, and an additional two loans in Windermere XI where Lehman serves as a joint venture partner.

On the RMBS side, the outstanding amount of Lehman's securitized assets in the U.K. and Dutch near-prime and nonconforming business is €8.4 billion (\$11.9 billion) from roughly €12.75 billion of assets at origination, according to the **ABSXchange** database.

Through its subsidiaries **Preferred Mortgages** and **Southern Pacific Mort-**

**"In the case of these swap agreements the insolvency of the Bank is a termination event, requiring novation to a suitably rated counterparty in order to avoid rating downgrades on the bonds."**

ed after the second half of 2007 and were likely to have been used as central bank repo collateral.

"In the case of these swap agreements the insolvency of the Bank is a termination event, requiring novation to a suitably rated counterparty in order to avoid rating downgrades on the bonds," Deutsche analysts said. "Any downgrade of the senior-most single-A rated bonds would make [this] paper ineligible for [European Central Bank] (ECB) liquidity and potentially pose recovery risks to the central bank, just one week after the ECB refined its collateral eligibility rules to specifically mitigate such risks."

**Lehman** has also acted as sponsor for

**gages**, Lehman is the main originator behind the Preferred Residential securities PLC, 11 series; Southern Pacific Funding and Southern Pacific Securities PLC, 3 and 13 series; and Eurosail PLC, 13 series. These were all non-prime RMBS deals. The entity that is both normal and special servicer on the deal, **Capstone Mortgage Services**, is also a Lehman subsidiary.

It is yet unclear if the Capstone will be called on, and there have been no indications as to whether servicing will continue on as normal for now, or whether the operations will be wound down immediately. Analysts at Deutsche Bank said that in the

**See EURO CMBS on Page 15 >>**

# With Merrill, BofA Could Return to Emerging Markets

In the emerging market space, **Bank of America's** purchase of **Merrill Lynch** resonates far and wide. While the commercial bank has been a non-entity in the business since 2003, Merrill has been an active player at least through last year.

Indeed, the investment bank has a storied history in EM ABS, especially the Latin American region.

Whether BofA dismantles Merrill's EM ABS business, leaves it alone or builds it up, rivals have their ears to the door, although a couple key personnel changes since the beginning of the year suggest that a diminished EM profile might have been in the offing regardless of a sale.

Officials at BofA in New York and Merrill in both New York and London either declined to comment on the article or didn't respond to repeated requests for comment.

## Latin America – Pivotal Deals

For some time, Merrill Lynch was a giant in Latin American ABS. A handful of sources said its rise in the business, and the attention garnered for some pivotal deals, is the handiwork of **Michael Lucente**. Hired in 1998, Lucente was promoted to the head of Latin American ABS by the end of the year and stayed perched there for most of a 10-year tenor. Earlier this year, he left Merrill to become CEO of Indonesian conglomerate **PT Bakrie & Brothers**, a company whose acquaintance he made while doing an export future flow transaction from **PT Bumi Resources**.

Lucente declined to comment for this article.

Under Lucente, Merrill became a

familiar name in the future flows space. "Merrill did a lot of the historic firsts in this market," said a market source involved in some of those transactions. "One groundbreaker was the Nikkei deal for **Banco do Brasil** in summer 2001. That opened financial future flows in Brazil."

Amounting to \$250 million, the Nikkei deal collateralized remittances from Brazilian nationals living in Japan. While similar deals had been done in Turkey and Mexico, it was a first for Brazil. BdB followed with a diversified payment rights (DPR) deal later that year, also via Merrill.

The bank remained active during the aftermath of the Argentine devaluation and the nerve-racking lead up to the Brazilian elections of 2002. Both led to a

thused at the time: "We'd do it all over again, maybe even a little tighter."

## The Principal Shift

By that point, the pricing landscape was beginning to change, with conduits and monoline insurers putting out increasingly aggressive bids. This led to a significant shift in Merrill's thinking, according to sources familiar with the bank. As margins in the future flow space shriveled, the bank was easing into a principal approach to deal-making. "As the investor base changed, Merrill moved with them," said one source.

Up against wrappers like **MBIA**, which was parcelling future flow deals out to re-insurers, Lucente's group teamed up with the re-insurance desk at Merrill. In a typical trade, Merrill might retain some

*"Merrill did a lot of the historic firsts in this market. One groundbreaker was the Nikkei deal for Banco do Brasil in summer 2001. That opened financial future flows in Brazil."*

plunge in cross-border volumes of Latin American securitizations that by some accounts exceeded 40% from 2001.

Once the political climate calmed in 2003, Merrill was there to ramp up. It not only brought stalwarts like **Banco Itau** and **Banco do Brasil** into the market, it also arranged a \$500 million securitization of credit card vouchers from Brazil's **Visanet**, which priced tight despite the fact that one of the originator's shareholders, **ABN Amro**, backed out of the deal at the eleventh hour. The transaction went on to win **ASR's** Latin American deal of the year for 2003. One U.S. fund manager en-

on its balance sheet, sell part to the market and sell a portion to re-insurers, according to another source familiar with the bank's workings. This was apparently how **Visanet** was executed.

The arrival of more monolines in the primary space and amped-up conduit competition only tightened the squeeze on spreads. The future flow sector had become commodified. While some of its competitors moved into domestic markets and existing assets, namely residential mortgages, in Latin America in 2004 Merrill started to beef up an infrastructure practice in the region. Transactions followed that



were backed by airport receivables, toll road rights and government obligations from Peru. At the same time, the bank held to its principal strategy. That approach, according to one source, was epitomized by a \$634 million deal by **Odebrecht** in Peru. Backed by government payments to the construction company, the deal was pitched to investors as basically Peruvian sovereign risk, with a pick-up in coupon. "Merrill principalized that risk, bought the cash flows...put those flows into an SPV and sold [the issued notes] broadly to investors," said a source familiar with the transaction.

The bank hadn't tuned out future flows altogether, however. In a landmark deal in 2005, which went on to earn ASR's Asian deal of the year, Merrill arranged an export-backed deal for Indonesia's PT Bumi Resources. At the time, ASR wrote: "Indonesia had not produced a single ABS deal since the Asian Crisis hit in 1997, and few predicted a comeback in 2005."

Apart from future flows and infrastructure, Merrill also remained a player in transactions backed by political risk insurance.

In 2006, Lucente, who had been navigating different areas at Merrill, formally settled into the principal side — which included areas outside of emerging markets. **Augusto Urmeneta** then became

head of Latin American debt capital markets. In May of 2007, **Reggie DeVilliers** was hired from **UBS Securities** to work on the Latin American side for the global ABS team.

By that time, Merrill had also gotten its feet wet in Mexican existing assets. **Roland Vigne**, hired to drum up Mexican business, arranged a peso-denominated

**Goldman Sachs** as a managing director in the new markets area.

A PR official from Goldman declined a request for commentary from von Sponeck.

The word from rival bankers was that Merrill was aiming to get more involved in existing assets from the CIS and emerging Europe area, in particular Rus-

*Over the last year, on both the Latin American and emerging Europe side, Merrill has been much quieter.*

auto-lease deal originated by **Navistar Mexico Units** and closed in late 2006.

### Emerging Europe, a London Affair

During the period in which the New York team was transitioning from future flows to infrastructure, Merrill was also busy arranging DPR deals out of London. Often partnering with another arranger — at least in the public realm — the bank brought to market deals for banks in Kazakhstan, Turkey and Russia. It also solely led a DPR transaction for Kazakhstan's **Alliance**, a credit card deal for Russia's **Rosbank** and DPR deals for Turkey's **Denizbank** and **Finansbank**.

**Alex von Sponeck**, director of EM structured finance, was responsible for most of these transactions, according to sources. Last June, Sponeck moved to

sia. But, while its peers have closed warehousing facilities for Russian originators, it was unclear whether Merrill had done the same.

In early 2006, talk surfaced that Merrill had a mandate to craft an RMBS for **Finansbank**. The deal, which would have been a first for Turkey, never surfaced.

Over the last year, on both the Latin American and emerging Europe side, Merrill has been much quieter, even while many of its competitors either push forward on warehousing front or close DPR transactions by selling to multilaterals or retaining deals. Nonetheless, the bank still has people in the area, and BofA will have to decide whether it wants to leverage Merrill's expertise and relationships or stay out of emerging markets. — FO

### EURO CMBS

Continued from page 13

event that normal servicing functions are interrupted, the back-up servicer, **Homeloan Management**, a subsidiary of the **Skipton Building Society**, would take over.

"The impact of Lehman's bankruptcy should be limited to the extent that in order to reach 'AAA' level, securitization structures are bank-

ruptcy-remote and protected from counterparty risk," explained **Jean-David Ciotteau**, an analyst at **Societe Generale**. "Also, reading the RMBS transactions, Lehman subsidiaries operated in well-developed markets, i.e. markets which have reached a high level of businesses tiering. What we mean here is that for the U.K. and the Netherlands, originating and servicing functions are performed by independent counterparties with genuine

possibilities of backup functionalities if required."

However, in the case of Lehman's Dutch RMBS deals, while the primary servicer is **Stater BV**, a subsidiary of **ABN AMRO**, the special servicer is the Lehman subsidiary **ELQ Hypotheken**.

"As far as we can tell, there is no contingent backup special servicer in the Lehman Dutch mortgage securitizations," Deutsche analysts said. — NC

# AIG Bailout: Catalyst for Consolidated Authority?

**L**ehman Brothers, Merrill Lynch and American International Group (AIG) have at least one thing in common: They owned depositories but were not overseen by the **Federal Reserve Board**.

Each own a thrift but opted not to use the holding company structure laid out in the Gramm-Leach-Bliley Act of 1999. That left oversight to either the **Office of Thrift Supervision (OTS)** or the **Securities and Exchange Commission (SEC)**, neither of which has as much power as the Fed's authority over financial holding companies.

That's a legacy of the Gramm-Leach-Bliley Act of 1999, which created the financial holding company structure and

automatically had the OTS serve as its consolidated holding company regulator. Though both Lehman and Merrill also own thrifts, and are technically considered thrift holding companies, both opted for the SEC to be considered their consolidated holding company regulator.

Observers said both those agencies lacked sufficient authority and resources to oversee the parent companies. The OTS, for example, is largely focused on a parent company's potential to jeopardize a thrift — something that was not at issue in AIG's case.

"The holding company authority idea was always that you wanted to make sure that involvement of the regulated entity ...

**Karen Shaw Petrou**, managing director of **Federal Financial Analytics**, agreed with that assessment.

"There's the Bank Holding Company Act, which defines any number of expressed Federal Reserve authorities, requirements, restrictions, authorities, with regard to the bank holding company," she said. In contrast, there are only "limited references" to the thrift holding company powers "and expressed provision in law that bars the OTS from reaching into the holding company."

The central bank also has more experience in overseeing diversified financial services holding companies, such as **Bank of America Corp.** and **Citigroup**.

The SEC has allowed the largest broker-dealers to use an umbrella structure known as "consolidated supervised entities" oversight. The regime was established as foreign regulators required investment banks to be subjected to consolidated supervision.

Yet the legal status of these entities here is unclear. As lawmakers have considered legislation to reform regulation of industrial loan companies — a number of which are owned by investment houses — some, including **Sen. Richard Shelby**, R-Ala., have balked at provisions that would effectively ratify the structure in the United States. Shelby then said Congress needed to study the structure further before approving it.

Since the housing crisis began to deepen this year, a growing chorus of lawmakers have urged giving the Fed more power over all firms of systemic importance to the economy. The latest government steps only give more impetus to that, observers said.

**See AIG on Page 20 >>**

*"The idea that the regulator was going to be able to control the activities of the holding company was really never a realistic possibility."*

put the Fed in charge of policing these companies. But most nonbanking companies did not want to subject themselves to Fed oversight, so those that wanted to own a depository institution did so through the thrift charter.

At a congressional hearing last Thursday on the housing crisis, lawmakers were expected to investigate the issue, including whether a stronger holding company regime could have prevented the companies from unraveling.

"If there had been safety-and-soundness regulation of the holding companies, in principle there shouldn't have been these difficulties," said **Lawrence White**, a professor at **New York University's Stern School of Business**.

Because it owned a thrift, AIG au-

with the holding company didn't endanger the insured institution," said White, a former member of the **Federal Home Loan Bank Board**.

The system was never designed to ensure control over the parent company, he said. "The idea that the regulator was going to be able to control the activities of the holding company was really never a realistic possibility."

The Fed sets capital requirements for all financial holding companies, but the OTS has decided to set those on a case-by-case basis. Also, the Fed has regulatory authority over the entire holding company and all its affiliates. The OTS has power only over entities that directly affect the thrift, said **L. Richard Fischer**, a partner at **Morrison & Foerster**.

# MBS Can't Compete with Financial Crisis

Flight-to-quality trades transpire even with the Fed's AIG bailout

Cataclysmic changes occurred in the financial landscape last week. **Lehman Brothers** failed to find a buyer and declared Chapter 11, **Merrill Lynch** was bought for \$50 billion by **Bank of America** in a total stock transaction and **American International Group** (AIG) was taken over by the Fed in an \$85 billion bailout.

When 2008 opened, there were five major Wall Street brokers: **Bear Stearns**, **Goldman Sachs**, **Lehman**, **Merrill Lynch** and **Morgan Stanley**. Two are left now — but for how long? While **Morgan Stanley** reported better-than-expected third-quarter earnings, there were reports at press time that it was weighing the possibility of merging with a bank.

Despite the resolution of AIG on Tuesday evening, Wednesday's session had a strong flight to quality going.

Meanwhile, global central banks were busy pumping liquidity into the markets to help lower overnight lending rates in response to this latest turmoil. On Monday, the **Federal Reserve** injected \$70 billion in reserves and another \$50 billion on Tuesday.

The week also included a **Federal Open Market Committee** meeting on Tuesday. Given the weekend events, odds had increased on Monday that the Fed would cut the funds rate by 25 basis points. However, the Fed instead held rates unchanged in a unanimous decision.

"Strains in financial markets have

increased significantly, and labor markets have weakened further. Economic growth appears to have slowed recently, partly reflecting a softening of household spending. Tight credit conditions, the ongoing housing contraction and some slowing in export growth are likely to weigh on economic growth over the next few quarters.

Over time, the substantial easing of monetary policy, combined with ongoing

measures to foster market liquidity, should help to promote moderate economic growth," the Fed's statement said. "Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain."

See **MBS** on Page 18 >>

## Mortgage Indexes

W/E	Refi Index	Purchase Index	FH30YR Mtge Rate
09/12/08	2300	380	5.93%
09/05/08	1223	372	6.35%
08/29/08	1060	349	6.40%
08/22/08	1038	316	6.47%
08/15/08	1035	314	6.52%
08/08/08	1075	315	6.52%
08/01/08	1122	315	6.52%
07/25/08	1074	310	6.63%
07/18/08	1393	336	6.26%
07/11/08	1475	360	6.37%
07/04/08	1379	366	6.35%
06/27/08	1269	343	6.45%
06/20/08	1212	333	6.42%
A Year Ago	1962	452	6.31%

Sources: MBA, FHLMC



## MBS

Continued from page 17

MBS volume was running above normal through mid-week in two-way flows. Monday experienced more than \$3 billion in convexity-related buying from servicers, along with a like amount from money managers and hedge funds. Real money was a heavy seller, as were originators with more than \$2.5 billion in supply. Spreads closed wider to the curve by six and nine ticks in 5s and 5.5s, respectively, and by 14 and 17 in 6s and 6.5s. Versus swaps, spreads ranged from four weaker in 5s to 15 in 6.5s.

On Tuesday, spreads versus the curve ended wider by 19 ticks on 5s, nine on 5.5s, three on 6s and two on 6.5s. Versus swaps, spreads ranged from 17 ticks weaker on 5s to one on 6.5s. Servicers were heavy sellers in the early going, sending spreads sharply wider, but money managers and hedge funds stepped up to pull spreads off their wides. Originator supply was heavy again at close to \$3 billion.

### *Mortgages remained in positive territory for September last week but were off their recent performance gains.*

The mortgage picture was not pretty on Wednesday as the markets remained gripped with fear. At mid-day, mortgages were wider to the curve by 27 and 19 ticks in 5s and 5.5s and by 13 ticks in 6s and 6.5s. Up-in-coupon was outperforming on Tuesday and Wednesday given its recent underperformance as investors, particularly servicers, aggressively added duration as mortgage rates fell.

In other mortgage-related news, overseas investors were better sellers, 15s outperformed 30s, specified pools were mixed with some profit taking reported and GNMA/FNMAs

were lower. Dollar rolls were weaker on the increased funding costs. Supply through mid-week averaged between \$2.5 billion and \$3 billion per day and consisted of 75% in 5% coupons and 25% in 5.5% coupons.

Mortgages remained in positive territory for September last week but were off their recent performance gains. For example, month-to-date through Sept. 11, Lehman's MBS Index had outperformed Treasuries by 111 basis points but was ahead by just 38 basis points through Sept. 16. Mortgages, however, continued to substantially outperform competing sectors: ABS at negative 16 basis points, CMBS at negative 272 basis points and corporates at negative 360 basis points.

### Mortgage Applications Surge

Refinancing activity surged — as was expected — in response to the dramatic decline in mortgage rates following the government takeover of the GSEs. For the week ending Sept. 12, the Refinance Index jumped 88.1% to 2300, its highest

that about 42% of the outstanding 30-year agency MBS universe has a 50-basis-point incentive to refinance, and 14% have a 100% incentive. This is up tremendously since July, when less than 10% of the mortgage universe had an incentive to refinance. Street expectations are for the Refinance Index to soar above 3000 and possibly up to 5000 in the weeks ahead.

Current conditions in the market are not favorable for mortgage performance in the near term. Liquidity is thin, balance sheets are constrained (particularly with quarter end approaching) and funding costs have risen sharply. One positive note for Agency MBS is that it at least provides better liquidity than other sectors of the mortgage market.

UBS analysts moved to a mortgage overweight last week based on the recent cheapening and expectations that volatility should drop following the resolution of Lehman, Merrill and AIG.

### Prepayment Outlook

Speeds in September are projected to be lower by 5% in Fannies and 2% in GNMA's. Contributing to the decline are lower refinancing activity in August as well as higher mortgage rates. The Refinance Index averaged 1052, down 18% from July's average. At the same time, the 30-year fixed mortgage rate averaged 6.48%, off five basis points from July's average. Day count holds steady in September at 21 days.

The 30-year fixed mortgage rates have dropped more than 40 basis points since the GSE takeover. As a result, speeds are projected to surge 25% to over 30% in October, with the largest percentage gains seen in 2007 vintages. Speeds currently are expected to turn modestly lower in November on slower seasonals and five less collection days compared with October. — Sally A. Runyan/Thomson Reuters

level since early May. The Purchase Index rose just 2.8% to 342.8.

The **Mortgage Bankers Association** reported that the 30-year fixed contract rate averaged 5.82%, down 24 basis points from the previous report. The one-year ARM rate slipped five basis points to 6.95%.

As a percent of total applications, refinancing share was 51.6%, up from 36.3%. The last time refinancing share was above 50% was in April. ARM share fell to 4% from 6.4%.

Further gains, particularly in refinancing activity, are expected to continue. **FTN Financial** said in a report

# There's Hope for ABCP, But Buyers Remain Wary

**Euro issuers still want to bring deals to market despite investor skepticism**

**A**t **Information Management Network's** first *Cross Atlantic ABCP Summit* held earlier this month, market panelists remained optimistic that, once the dust settles, investors will come back to the European ABCP market in greater numbers.

On the issuer side, there remains a willingness to keep bringing deals to market, particularly with regards to multiseller conduits.

**Kevin Hawken**, a partner in the finance group at **Mayer Brown** and a speaker at the conference, said that the market has seen sponsors making first efforts toward setting up new programs to sell ABCP in Europe over the last year. However, programs to sell U.S. ABCP have received more inquiries. He added that the market is still very much in a wait-and-see mode.

The financial markets must be more stable for ABCP conduits to stage a return. "We have a situation where investors and money funds are flooded with cash, but there isn't a lot of incentive for investors to buy," a market analyst said.

Creating the stability that would allow a return in confidence would require the success of two key processes:

For starters, panelists said that more transparency by way of standardized reporting would potentially reduce the market's current bottleneck. Panelists also said that headline risk and negative publicity needs to be reduced to regain investor confidence.

"We need to convince the market that ABCP is not a toxic waste," said **R. Oliver Furst**, senior managing director, head of structured products, Europe at **State Street Bank & Trust**, who was also a speaker at the event. "In many cases, we are having good discussions regarding the assets in the structure, and investors see the strength, but the headline risk turns them off."

There also needs to be much more flexibility in terms of funding, and simplicity in the structuring programs. The panelists also highlighted the importance of timeliness, or that reports are received early.

***"We need to convince the market that ABCP is not a toxic waste."***

In July, **Fitch Ratings** reported signs that some multiseller programs were continuing to originate new transactions.

However, **Emma-Jane Fulcher**, head of ABCP at the rating agency, said that time consuming delays for getting approval have hindered the process, and few investors have dedicated ABCP analysts in place to help accelerate this tedious process.

The panelists also noted that the European paper that has had trouble finding funding has really come from the SIV side; multiseller and credit arbitrage vehicles have performed well. "The problem that we've had in Europe is that most investors have made very little distinction between the different categories," Hawken said.

The trauma has been felt more acutely in the European ABCP market compared with the U.S., because U.S. regulators have historically been more stringent with regard to money funds. Anecdotal, there is definitely a difference in what these funds can buy on both sides of the Atlantic, Hawken said.

Some European money funds, for example, are holding products that would not be eligible in 2a-7 funds in the U.S., specifically in terms of maturity. Under the 2a-7 standards, funds can have a maximum weighted average maturity of

60 days. These attributes give comfort to U.S. investors in that they know exactly what they are buying, a confidence boost that is lacking in Europe, where boundaries are blurred.

In Europe, triple-A-rated funds can provide high-quality, diversified and liquid structure for operational cash, from overnight to as long as three months, targeting a return around overnight Libor. But these funds can also offer enhanced yield or the option of a short duration bond fund that holds a larger proportion of ABS, MBS or corporate floaters.

The pitfall, Hawken said, would come if European regulators overreact and suddenly money funds in Europe become overregulated, which wouldn't be good either. — NC

## AIG

Continued from page 16

"I believe we need to restructure the financial system," said **Ernest Patrikis**, a former general counsel at the **Federal Reserve Bank of New York**, who is now a partner in **Pillsbury Winthrop Shaw Pittman**. "I pose the question of wheth-

er the Fed should get the top 25 systemic entities in the country: commercial banks, investment banks, private funds, hedge funds, insurance companies. There's a criteria, and the Fed should get the top 25."

Others agreed with that assertion.

"It seems to me that if one of the

purposes of that safety net is to maintain the stability of the financial system, you have to look at bringing those other players into that safety net," said **Oliver Ireland**, a partner at Morrison & Foerster and a former Fed lawyer. — *Joe Adler and Steven Sloan/American Banker*

## WHISPERS

Continued from page 6

The **FEDERAL DEPOSIT INSURANCE CORP.** (FDIC) is reducing average monthly payments by \$400 when it modifies troubled loans from IndyMac's portfolio, FDIC Chairman **Sheila Bair** said Wednesday in congressional testimony, *ASR* sister publication *National Mortgage News Online* reported. The **IndyMac Bank** receivership has already identified 7,400 loans that are eligible for loan modifications, and 1,200 of these homeowners have already accepted the offers, Bair told the House Financial Services Committee. The IndyMac modification program is targeted at borrowers in default who cannot afford to continue payments on their loans, many of which are adjustable-rate or hybrid loans that face resets. It aims to modify these loans into 30-year fixed-rate loans at the **Freddie Mac** survey rate, but the interest rate can be lowered further to ensure that borrowers are not spending more than

38% of their income on principal, interest, taxes, and insurance. Bair said **James Lockhart**, director of the **Federal Housing Finance Agency**, has decided that **Fannie Mae** and **Freddie Mac** will participate in the IndyMac loan modification program.

**WACHOVIA** last week named **Kenneth Phelan** chief risk officer. Phelan, who will join the firm in early October, was most recently head of risk management services at **JPMorgan Chase**. He will report to Wachovia President and CEO **Robert Steel**. As chief risk officer, Phelan has leadership responsibility for credit risk management, market risk management and operational risk management across all lines of business. He will oversee risk strategy, risk policy, risk analytics and modeling, portfolio methodology and risk reporting for the corporation. When he was head of risk management services for JPMorgan, Phelan led corporate risk functions including risk policy, risk analytics and operational risk. Before his time at

JPMorgan, from 2001 to 2004 Phelan served as head of risk strategy development and head of market risk at **Bank One**. From 1996 to 2000, he worked with **UBS** as head of global loan portfolio risk management and hedging. This experience comes with leadership roles in the capital markets businesses at **Credit Suisse First Boston** between 1986 and 1996.

**MIKE HESS**, president of **Brooke Capital Corp.**, said that **Albert Riederer** had been appointed special master of **Brooke Capital** until such time as securitization investors and Brooke Capital settle their dispute concerning securitization servicing fees and securitization cash flows. Riederer served as the Jackson County (Missouri) Prosecuting Attorney from 1980 to 1992. After leaving public office, he entered private practice. Riederer was named the first chairman of **Missouri Employers Mutual Insurance Co.** and has served on the Missouri Court of Appeals.

**ASR** is 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**. To suggest a story idea, email [Karen.Sibayan@SourceMedia.com](mailto:Karen.Sibayan@SourceMedia.com).  
Byline pieces will also be accepted.



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

## AUTOS ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Banc of America Securities	7,283.4	1	18.3	6
Citigroup Global Markets	6,386.8	2	16.0	10
Wachovia Securities	4,181.5	3	10.5	7
Barclays Capital	3,589.4	4	9.0	6
JPMorgan Securities	3,202.1	5	8.0	7
Deutsche Bank Securities	2,741.8	6	6.9	6
Credit Suisse	2,528.7	7	6.3	5
RBS Greenwich Capital	1,908.3	8	4.8	3
Merrill Lynch	1,855.9	9	4.7	3
Goldman Sachs	1,581.1	10	4.0	3
<b>Industry Total</b>	<b>39,872.6</b>	<b>-</b>	<b>100.0</b>	<b>31</b>

## CDOs

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Morgan Stanley	5,408.3	1	27.9	8
JPMorgan Securities	3,731.0	2	19.2	11
Citigroup Global Markets	3,264.9	3	16.8	8
Deutsche Bank Securities	1,992.0	4	10.3	6
Banc of America Securities	1,424.0	5	7.3	3
Lehman Brothers	1,303.0	6	6.7	8
Wachovia Securities	991.1	7	5.1	3
Barclays Capital	608.2	8	3.1	1
Merrill Lynch	423.9	9	2.2	1
UBS	169.0	10	.9	1
<b>Industry Total</b>	<b>19,417.9</b>	<b>-</b>	<b>100.0</b>	<b>49</b>

## CREDIT CARD ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
JPMorgan Securities	18,937.7	1	28.9	26
Banc of America Securities	16,592.4	2	25.3	24
Citigroup Global Markets	13,958.7	3	21.3	14
Barclays Capital	3,020.7	4	4.6	7
Credit Suisse	2,956.9	5	4.5	8
RBS Greenwich Capital	2,836.4	6	4.3	12
Deutsche Bank Securities	2,667.1	7	4.1	6
Morgan Stanley	1,040.9	8	1.6	5
Merrill Lynch	992.8	9	1.5	5
Wachovia Securities	862.5	10	1.3	2
<b>Industry Total</b>	<b>65,610.7</b>	<b>-</b>	<b>100.0</b>	<b>78</b>

## 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
<b>Industry Total</b>	<b>2,671.5</b>	<b>-</b>	<b>100.0</b>	<b>6</b>

## STUDENT LOAN ABS

Managers	Proceeds (mils)	Rank	Mkt. Share	# of Issues
Citigroup Global Markets	5,006.7	1	16.7	6
Banc of America Securities	4,378.6	2	14.6	7
JPMorgan Securities	3,797.0	3	12.6	7
RBS Greenwich Capital	3,476.6	4	11.6	6
Deutsche Bank Securities	3,359.0	5	11.2	6
Barclays Capital	3,165.4	6	10.5	7
Credit Suisse	1,739.1	7	5.8	3
Merrill Lynch	1,562.6	8	5.2	4
RBC Capital Markets	1,509.8	9	5.0	3
UBS	812.7	10	2.7	2
<b>Industry Total</b>	<b>30,052.2</b>	<b>-</b>	<b>100.0</b>	<b>27</b>

## 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	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
<b>Industry Total</b>	<b>14,605.2</b>	<b>-</b>	<b>100.0</b>	<b>13</b>

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.

## U.S.

## American Express Credit Account Master Trust 2008-8

Date: 9/16/2008

Seller: American Express Centurion Bank

Amount: \$738 million

Sector: credit card ABS

Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A	\$650.0	Aaa/AAA/NA/NA	1.99y	1M LIBOR	n/a	+110bp	n/a	100.0000	3.85%
B	\$40.0	A2/A/NA/NA	1.99y	1M LIBOR	n/a	+325bp	n/a	100.0000	6.00%
C	\$48.0	Baa2/NA/NA/NA	n/a	1M LIBOR	n/a	n/a	n/a	n/a	n/a

Credit Enhancement: sr/sub

Manager: RBS Greenwich Capital, Merrill Lynch

Notes: Settles: 09/18/08; co-mgrs: Lehman Brothers, Williams Capital Group, Morgan Stanley, Credit Suisse

Collateral type: bank/general purpose

## American Express Credit Account Master Trust 2008-9

Date: 9/16/2008

Seller: American Express Centurion Bank

Amount: \$624 million

Sector: credit card ABS

Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A	\$550.0	Aaa/AAA/NA/NA	4.99y	1M LIBOR	n/a	+160bp	n/a	100.0000	4.35%
B	\$34.0	A2/A/NA/NA	4.99y	1M LIBOR	n/a	+400bp	n/a	100.0000	6.75%
C	\$40.0	Baa2/NA/NA/NA	n/a	1M LIBOR	n/a	n/a	n/a	n/a	n/a

Credit Enhancement: sr/sub

Manager: Deutsche Bank Securities, RBS Greenwich Capital

Notes: Settles: 09/18/08; co-mgrs: Lehman Brothers, Williams Capital Group, Morgan Stanley, Credit Suisse

Collateral type: bank/general purpose

## Bank of America Auto Trust 2008-1

Date: 9/9/2008

Seller: Bank of America, N.A.

Amount: \$5.63 billion

Sector: auto ABS

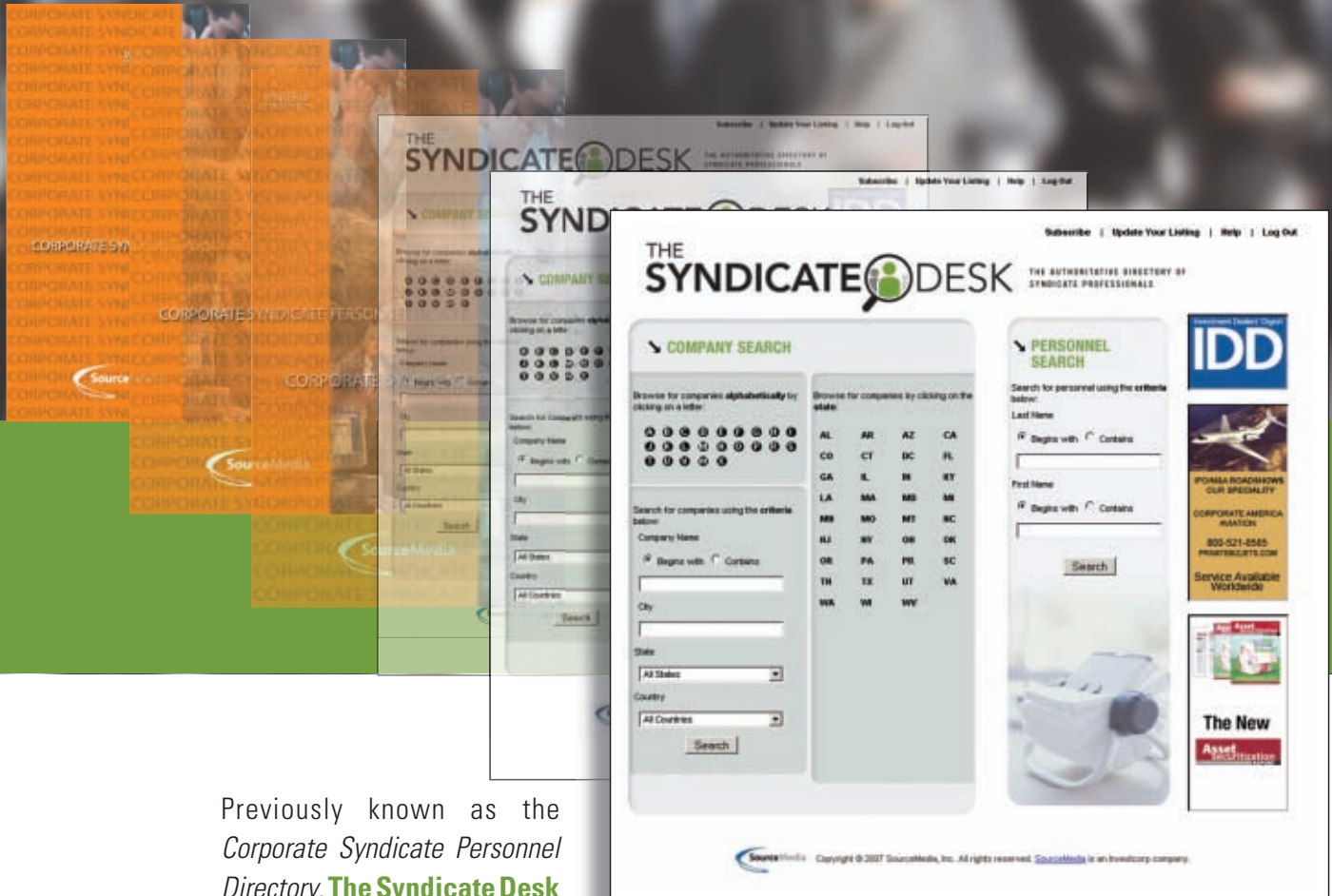
Class	Amount	MDY/S&P/FTC/DBRS	Avg. Life	Benchmark	Guidance	Spread	Coupon	Price	Yield
A1	\$1824.0	Prime-1/A-1+/F1+/NA	0.29y	Interpolated	n/a	+7bp	2.95%	n/a	n/a
A2A	\$1603.0	Aaa/AAA/AAA/NA	1.10y	EDSF	n/a	+140bp	4.25%	n/a	n/a
A2B	\$120.0	Aaa/AAA//NA	1.10y	1M LIBOR	n/a	+130bp	n/a	n/a	3.82%
A3A	\$1096.0	Aaa/AAA/AAA/NA	2.10y	SWAPS	n/a	+185bp	4.97%	n/a	n/a
A3B	\$98.0	Aaa/AAA//NA	2.10y	1M LIBOR	n/a	+175bp	n/a	n/a	4.27%
A4	\$383.0	Aaa/AAA/AAA/NA	2.76y	SWAPS	n/a	+245bp	5.73%	n/a	n/a
A5	\$100.0	Aaa/AAA/AAA/NA	2.76y	n/a	n/a	n/a	6.27%	n/a	n/a
B	\$130.0	NA/AA/AA/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C	\$19.0	NA/AA-/AA-/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
D	\$77.0	NA/A/A/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
E	\$19.0	NA/A-/A-/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
F	\$90.0	NA/BBB/BBB/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
G	\$8.0	NA/BBB-/BBB-/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
H	\$17.0	NA/BB/BB/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
I	\$20.0	NA/BB-/BB-/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a
J	\$28.0	NA/B/B/NA	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Credit Enhancement: sr/sub

Manager: Banc of America Securities

Notes: Settles: 09/17/08; Collateral type: retail loans/prime

**AT A TIME WHEN THE DEBT AND EQUITY MARKETS ARE ACTIVE BUT VOLATILE, IT'S IMPORTANT TO HAVE THE MOST UP-TO-DATE SYNDICATE DESK CONTACTS AT YOUR FINGERTIPS**



Previously known as the *Corporate Syndicate Personnel Directory*, **The Syndicate Desk** has been an indispensable guide for capital markets pros for over 35 years. Whether you're looking to buy bonds, participate in an IPO, confirm pricing on a transaction or reconnect with a syndicate desk pro, there's no better source of this hard-to-find information.

This year **The Syndicate Desk** has introduced an online component to complement its annual print guide. In addition to providing online users with a convenient search tool, the new product will be updated continuously, which will make the information accurate throughout the year. Once you subscribe, you'll be able to log on as often as you like and get immediate access to a complete listing of corporate syndicate professionals nationwide.

THE  
**SYNDICATE****DESK** THE AUTHORITATIVE DIRECTORY OF  
SYNDICATE PROFESSIONALS

For more information or to subscribe, please visit [www.syndicatedesk.com](http://www.syndicatedesk.com)  
or contact Jessica Silveira at (212) 803-8761 or [jessica.silveira@sourcemedia.com](mailto:jessica.silveira@sourcemedia.com).





## CONSOLIDATED STREET RESEARCH

To submit research recommendations e-mail [research.asr@sourcemedias.com](mailto:research.asr@sourcemedias.com)

## CITIGROUP GLOBAL MARKETS

**ABS**

Analysts recommend a small underweight in consumer ABS and a long cash/short CMBX position. They see value in ABS and CMBS credit for long-term investors who can ride out volatility. (08/12)

## JPMORGAN SECURITIES

**ABS**

Building momentum for federal assistance to automakers will help mitigate liquidity risk for the Detroit 3 and reduce event risk on auto ABS. With auto ABS spreads at record widths, this represents an opportunity to invest in consumer ABS (again, begin with top quality names and proceed slowly). ABX bond-level analysis highlights the difference among underlying reference obligations. Timing of loss helps in understanding the credit IO nature of single-As and below for the 06-1 and 06-2 and double-A and below for 07-2 and 07-1. At the single-A level, bonds start taking losses anywhere from five months to three years from now. ABX.06-1.PENAAA is the only sub-index projected not to take any loss. (08/12)

**CMBS**

Higher rated cash spreads are likely to remain under pressure as quarter end deleveraging and fear regarding financial system uncertainty drives sentiment over the near term. Over the coming months into 2009, however, this could set the stage for spreads to stabilize, albeit at new, wider levels. Refrain from entering negative basis trades, as analysts expect synthetics will continue to outperform cash bonds. Remain short-risk tranches rated single-A and below on the CMBX.2 and those rated triple-B and below on the CMBX.3. (08/18)

**MBS**

Stay overweight mortgages versus Treasuries, but recognize that mortgage performance will be very directional. Mortgages should trade much shorter in duration as government purchases are likely to be greater when rates are higher. The correlation of mortgages to Treasuries should stay relatively low. Government policy is targeted at reducing homeowners' costs and spurring refinancings, which could drive 5.5s up to 102. Lower coupons should benefit from government sponsorship and continued servicer buying, while higher coupons are vulnerable to event risk (e.g. possibly lower g-fees, government-induced refis, etc.) Stay long mortgage / Tsy; hedge MBS short. Stay down-in-coupon into 5s. Buy rolls. Buy ARMs over fixed rates. Sell Ginnie/Fannie, especially discounts. Add to 15-year positions. Buy LLB 6s and 6.5s within premiums. Buy Golds over Fannies floaters continue to trade cheap to creation value. (08/12)

## LEHMAN BROTHERS

**CMBS**

Analysts recently shifted to an overweight stance on the basis from neutral, with a preference for cash senior triple-As. Recent actions related to the GSEs should provide an element of stabilization to the residential credit market and remove some downside risk to the economy. A reduction in systemic risk concerns should prove positive for super-senior asset classes such as 30% credit support triple-A CMBS. In addition, the sharp post-announcement rally in both agency debt and passthroughs, which represent 50% of the Lehman Brothers U.S. Aggregate Index, should make senior triple-A CMBS more attractive to crossover fixed income investors. However, given an escalation in financial sector concerns, analysts believe that investors should proceed with caution in the near term; an attractive alternative to position for a rally is through negative basis trades between triple-A CMBX and cash securities. (08/15)

**MBS**

It only takes one look at roll-implied financing levels to see that stresses remain in the system. As a result, analysts closed their overweight to the mortgage basis. Indeed, the market reversed about one-quarter of the spread tightening on Tuesday, and we think spreads are biased to leak wider from current levels. On the other hand, the collapse of GNMA/FNMA swaps in light of the Treasury's announcement is a new opportunity. Analysts view the market's reaction as overdone and think the GNMA sector will benefit from improving liquidity. They are moving to neutral on the basis. They no longer have a strong view on the mortgage basis. At current spread levels, they think it makes sense to take a neutral stance on the basis until some of the near-term volatility subsides. The Treasury's planned program to purchase agency MBS has restored a backstop bid for the sector, which had come into question as concerns swirled around the GSEs. Analysts do not think spreads can get back to the distressed levels seen in August without the Treasury stepping in — it is likely to take measures to keep mortgage rates contained. However, spreads are unlikely to get back to sub-Libor levels from a year ago given current supply/demand conditions. As a result, our target range for current coupon spreads is L plus 30 to 40 basis points. (08/15)

## CONSOLIDATED STREET RESEARCH

To submit research recommendations e-mail [research.asr@sourcemediacom](mailto:research.asr@sourcemediacom)

### MERRILL LYNCH

#### MBS

When the agencies were put into conservatorship a week and a half ago, analysts believed that the declining mortgage rate and uncertainty about changing agency underwriting standards would likely favor lower coupons relative to higher coupons. However, at this point, higher coupons have given up so much ground — since the Friday before the announcement 5s are up 2-08 while 6.5s are down 0-03. Analysts believe the risk has been priced into the market. In a broader context, it could be argued that on a curve-adjusted basis, coupon swaps now are lower than they were in 2003 when spreads were at all-time highs. (08/17)

### UBS

#### CMBS

The Lehman bankruptcy is clearly a near-term negative for CMBS/X spreads; analysts expect spreads to drift wider and remain volatile the next few weeks. However, Lehman's commercial real estate assets will likely take time to liquidate, and resulting marks are not necessarily applicable for the broader loan market. They believe that one of the lasting effects of the capital markets crisis is the billions of dollars of capital that is now absent from commercial real estate lending. Borrowers will need to contribute greater equity to refinance (which analysts suspect they will) or risk losing their properties. (08/16)

#### MBS

Given the now explicit government guaranty, agency MBS shouldn't suffer from the flight to quality. And, analysts believe that with resolution of Lehman, Merrill and AIG, volatility should decline. Analysts move to a mortgage overweight. The mortgage market has become much more refinancable this past month. In light of the lower rates and possible changes in GSE refinance policies, analysts re-examine the up-in-coupon trade and conclude it still makes sense. Agency CMOs cheapened to Agency passthroughs. Agency PACs are particularly cheap; investors can buy a better structured security without giving up yield. PACs have stronger TROR performance than passthroughs, as investors benefit from both the lockout (providing the ability to roll down a steep yield curve) and the superior structure, providing outperformance across a wide range of scenarios. Short PACs are particularly cheap to short Treasuries and agency debentures. (08/16)

### WACHOVIA SECURITIES

#### CMBS

Analysts provide their short-term and long-term view of implications for the CMBS market in light of this week's events. In our opinion, much of the bad news regarding de-levering and credit issues were previously reflected in CMBS pricing. The resolution of uncertainty about intervention in the GSEs is positive news for the bond market. They anticipate triple-A CMBS spreads will tighten to some degree in sympathy with GSE debt in the near term, since historically the two are highly correlated. However, they do not anticipate a one-to-one tightening bias in the market since now the government is explicitly backing the agency securities and triple-A CMBS remains supported by cash flows from commercial mortgages albeit with significant credit enhancement. (08/12)

## CALENDAR

To include an event in the calendar please e-mail: [Research.ASR@sourcemediacom](mailto:Research.ASR@sourcemediacom)

### September 2008

**SEPT. 21-23:** Charlotte, NC - The 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>

**SEPT. 24:** London, UK - UBS will host its 'Sixth Annual London Structured Product Conference' at its One Finsbury Avenue offices. The conference will address collateralized loan obligations in the morning, structured credit products after lunch, and RMBS and ABS in the late afternoon. For more information, contact a UBS sales representative or go to [www.ubb.ubs.com/Conferences/e-vites/sixthannual\\_cdo/index.html](http://www.ubb.ubs.com/Conferences/e-vites/sixthannual_cdo/index.html)

Continued on Page 26 >>

Continued from page 25

## October 2008

**OCT. 1-3:** Miami, FL - The 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>

**OCT. 2-3:** Miami, FL - Mortgage Bankers Association will hold its 'Reverse Mortgage Lending Fall Conference' at Hyatt Regency Miami. For more information or to register, go to <http://mbaa.org>

**OCT. 6:** New York, NY - Financial Markets World will hold its 'Fixed Income 101: Introduction to Fixed Income Products and Markets' at Bayard's (Downtown). For more information or to register, go to <http://www.fmwonline.com/>

**OCT. 6-7:** London, England - The European Securitization Forum and the Information Management Network will hold 'European CLOs, & Structured Credit Products and Credit Derivatives Summit' at Clifford Chance. For more information, go to [http://secure.imn.org/web\\_main/index.cfm](http://secure.imn.org/web_main/index.cfm)

**OCT. 13:** New York, NY - Financial Markets World will hold its 'Mortgage-Backed Securities: An Introduction to Securitization and Processing' at Bayard's (Downtown). For more information or to register, go to <http://www.fmwonline.com/>

**OCT. 14-15:** New York, NY - Financial Markets World will hold its 'Fixed Income MasterClass: An Advanced Look at Fixed Income Products, Risk Management and Valuation' at Bayard's (Downtown). For more information or to register, go to <http://www.fmwonline.com/>

**OCT. 15-16:** San Francisco, CA - Mortgage Bankers Association will hold its 'State and Local Workshop' at the San Francisco Marriott. For more information or to register, go to <http://mbaa.org>

**OCT. 15-16:** New York, NY - BVR Legal/Mealey's Conferences will hold its 'Structured Finance and Derivatives Litigation Conference' at the Lighthouse Executive Conference Center and Theater. For more information or to register, go to [www.bvrresources.com/bvrlegalMealeysConferences](http://www.bvrresources.com/bvrlegalMealeysConferences)

**OCT. 19-21:** Boston, MA - Opal Financial Group will hold 'Endowment and Foundation Forum' at the Hyatt Regency. For more information, go to <http://www.opalgroup.net>

**OCT. 19-21:** Hollywood, FL - The Information Management Network will hold 'ABS East: Charting a New Course to Safe Harbor' at the Westin Diplomat. For more information, go to <http://www.imn.org>

**OCT. 19-22:** San Francisco, CA - The Mortgage Bankers Association will hold its 95th annual convention and expos at Moscone West. For more information, go to [www.mortgagebankers.org/95th\\_annual](http://www.mortgagebankers.org/95th_annual)

**OCT. 20-21:** New York, NY - Financial Markets World will hold 'Securities Operations World 2008' at Bayards (Downtown). For more information, go to <http://www.fmwonline.com/Conferences>

**OCT. 21:** Hollywood, FL - The Information Management Network will hold 'Covered Bonds — The Americas' at the Westin Diplomat. For more information, go to <http://www.imn.org>

**OCT. 22-24:** Monte Carlo, Monaco - Opal Financial Group will hold the 'European CDO Summit' at Fairmont Monte Carlo Grand Hotel. For more information, go to <http://www.opal-group.net>

**OCT. 27:** London, U.K. - The Information Management Network will hold the inaugural summit on 'Insurance-Linked Securities' at One Great George Street. To register, visit <http://www.imn.org>

**OCT. 27-28:** Ledyard, CT - The Information Management Network will hold its ninth semiannual 'Native American Finance Conference' at Foxwoods Resort and Casino. For more information or to register, visit <http://www.imn.org>

**OCT. 28:** New York, NY - Securities Industry and Financial Markets Association will hold its annual meeting at the Marriott Marquis. For more information, visit <http://events.sifma.org>

# Asset Securitization REPORT

The Premier Guide to Asset and Mortgage-Backed Securitization

## WHAT ARE YOU DOING TO STAY ON TOP?

In a **struggling market**, don't count on finding your next deal without promoting your brand to a captive audience of people who can give you the business.

Maintain your competitive edge by advertising in **Asset Securitization Report**. Structured Finance professionals rely on **Asset Securitization Report's** full range of news, people coverage, analysis and expert commentary. And it's a reliable source for unparalleled advertising opportunities in these uncertain times.

### FOR CONSULTING ON MULTI-PLATFORM OPPORTUNITIES AND A MEDIA KIT, CONTACT

Louis V. Fugazy, National Account Manager  
at (212) 803-8773 or  
email [louis.fugazy@sourcemedia.com](mailto:louis.fugazy@sourcemedia.com)





# THE INAUGURAL SUMMIT ON INSURANCE-LINKED SECURITIES

27 OCTOBER, 2008

ONE GREAT GEORGE STREET • LONDON, UK

## FEATURED SPEAKERS INCLUDE:

Des Potter  
*Capital Markets*  
BENFIELD ADVISORY

Luca Albertini  
*Chief Executive Officer*  
LEADENHALL CAPITAL PARTNERS

Karsten Bromann  
*Managing Partner and Chief Risk Officer*  
SOLIDUM PARTNERS

Michael Stahel  
*Senior vice President, Head of Insurance Linked Securities*  
CLARIDEN LEU

Andreas Mueller  
*Head of Origination, Distribution, ILS Investments*  
MUNICH RE

Jean-Louis Monnier  
*Director*  
SWISS RE CAPITAL MARKETS

## 50+ Investors Confirmed to Attend Including Representatives from:

APG INVESTMENTS  
M & G INVESTMENTS  
AXA IM  
PRIVATE EQUITY MANAGEMENT GROUP  
BARCLAYS GLOBAL INVESTOR  
ROTHSCHILD & CIE GESTION  
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

SANNE GROUP  
HIM CAPITAL LIMITED  
UNIQA ALTERNATIVE INVESTMENTS  
INSIGHT INVESTMENT  
WESTLB CAPITAL MARKETS  
INVESTEC  
...and more

## SPONSORS

### Titanium



FRESHFIELDS BRUCKHAUS DERINGER



Münchener Rück  
Munich Re Group

### Gold



Swiss Re

### Silver



### Bronze



For more information on speaking or sponsoring the event, please contact:

**Cynthia Kern, Event Producer**

+1 212 901-1885 • [ckern@imn.org](mailto:ckern@imn.org)

For more information, or to register for this event, please visit: [www.imn.org/esb1092/smasrm](http://www.imn.org/esb1092/smasrm)

Tel: 1-212-768-2800 | Fax: 1-212-768-2484 | Email: [mail@imn.org](mailto:mail@imn.org)