

US ABS Market Review

Mid-Month Review: March 2010

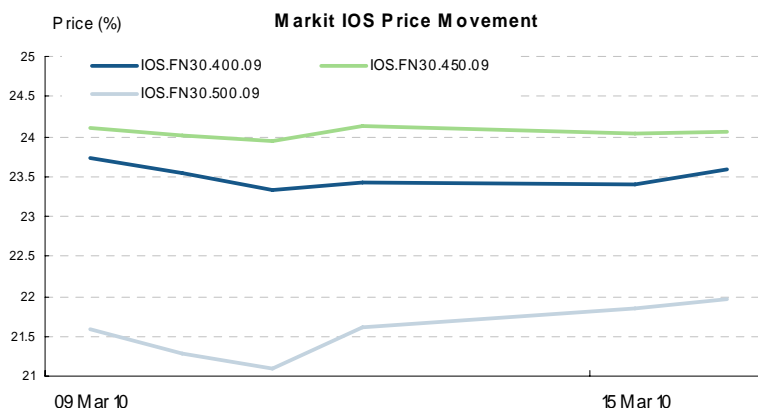
Markit IOS launches March 12th, 2010

The Markit IOS indices, which launched this past Friday, were well received by the market, with over 1 billion USD notional traded on the first day and over 2 billion USD estimated notional currently outstanding. The indices are synthetic Total Return Swap series referencing the interest component of 30-year fixed-rate Fannie Agency pools. According to a number of market participants, the index is gaining traction among numerous types of investors, and will have continued success as more firms become familiar with the product mechanics.

The Markit IOS is a synthetic Total Return Swap Index series referencing the interest component of 30-year fixed-rate Fannie Agency pools. The index is constructed by taking all FNCL pools issued in 2009 (with at least 90% of the underlying loans originated in 2009) and separating them into 3 sub indices:

- 4.0% coupon – Markit IOS.FN30.400.09
- 4.5% coupon – Markit IOS.FN30.450.09
- 5.0% coupon – Markit IOS.FN30.500.09

To date, the indices have performed relatively well, with the 5% coupon index appreciating and the 4% and 4.5% coupons stabilizing towards the middle of the week. According to market sources, the IOS indices have continued to gain momentum after a successful first day of trading, and should continue to be a liquid market.



In terms of the payments specific to an IOS contract, the long position on the index will pay a financing payment on a monthly basis and will receive any positive changes month over month in market value based on a specified notional. The short position on the index will pay a fixed coupon on a monthly basis and will receive any negative changes in market value based on a specified notional.

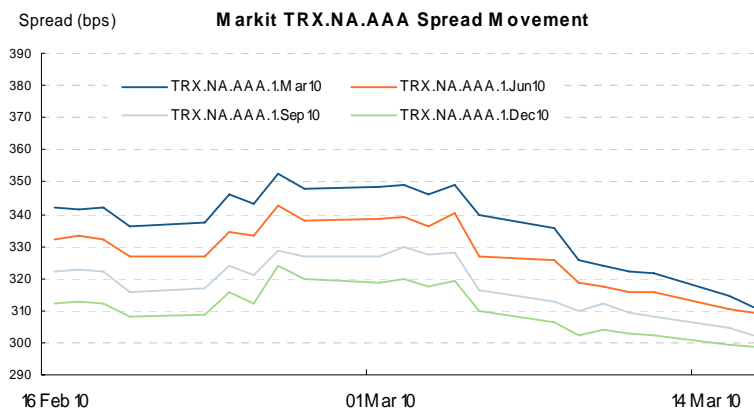
Given the volumes traded on the first day of the IOS launch and the positive outlook for the existing sub indices, it appears likely that there will be sufficient demand for Markit to expand into new sub-indices referencing additional pools with different coupons or from other GSEs. Using the defined roll mechanism, Markit will revisit the demand for additional sub-indices in September of 2010.

For more information on the Markit IOS indices, please visit our public website:

<http://www.markit.com/en/products/data/indices/structured-finance-indices/ios/ios-prices.page>

Markit TRX.NA Spread Tightens

The Markit TRX.NA has seen dramatic tightening in the first two weeks of March 2010, with several of the indices dipping below 300 basis points. The recent tightening continues the trend in 2010 of CMBS appreciation at the cash and synthetic levels. Since the launch of the TRX.NA indices, the implied price of the aggregate index has changed from 86.07 to 97.13.



A new TRX.NA index maturity (TRX.NA.AAA.1.Mar11) will be launching on April 1st, 2010.

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