

US ABS Market Review

Month End Review: May 2010

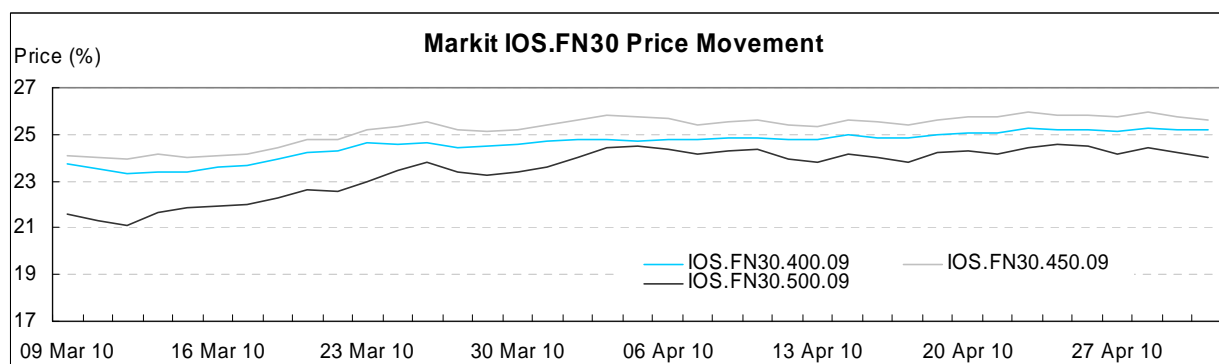
RMBS Market Commentary

Agency MBS

Agency MBS pass-throughs performed well over the course of May in line with longer-dated Treasuries and swap spreads. TBA's across the coupon stack rose by 4-5 pts over the course of the month as investors fled to more liquid sectors of the bond market as concerns mounted about various European nations' sovereign debts. Commensurate price decreases were seen for prime non-agency paper (as we discuss later in this article).

IOS.FN prices came under pressure during the broader risky assets sell-off during May. In particular, lower IOS coupons – i.e. 4, 4.5, and 5's - saw greater drops in prices than their higher coupon counterparts. Interestingly, these were the same TBA coupons that saw lesser price increases over the course of May. Both were driven by the overall drop in mortgage rates over the course of the month.

IOS activity continues to remain robust with notional outstanding as of May 21st (based on the DTCC warehouse data) exceeding \$15 billion for the initial three coupon/cohorts issued. The largest outstanding in terms of notional amount are for the IOS.FN.450.09 with over \$6 billion. The IOS.FN.500.09 index has just under \$5 billion of outstanding notional, and the IOS.FN.400.09 has over \$2.3 billion.

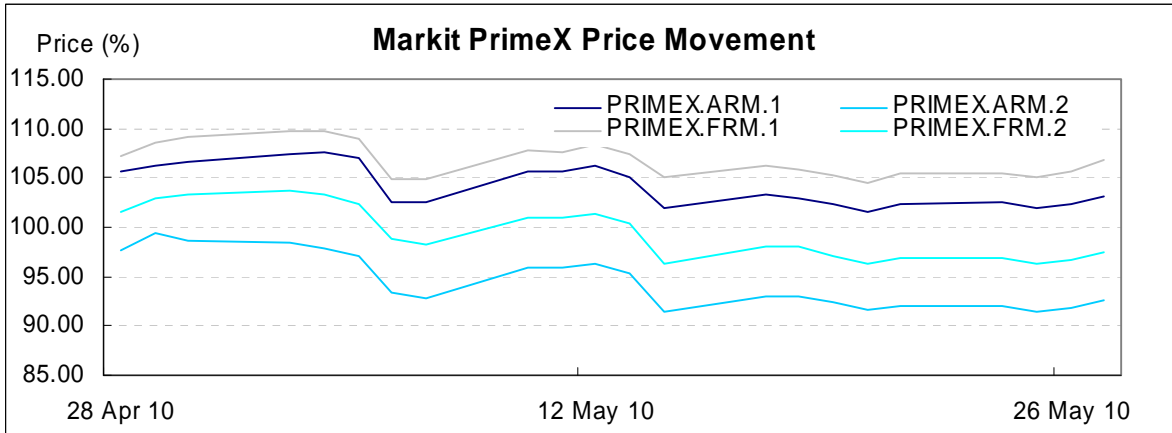


Prime Non-Agency RMBS

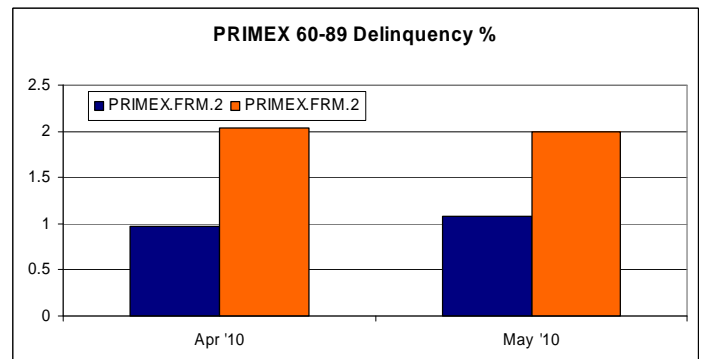
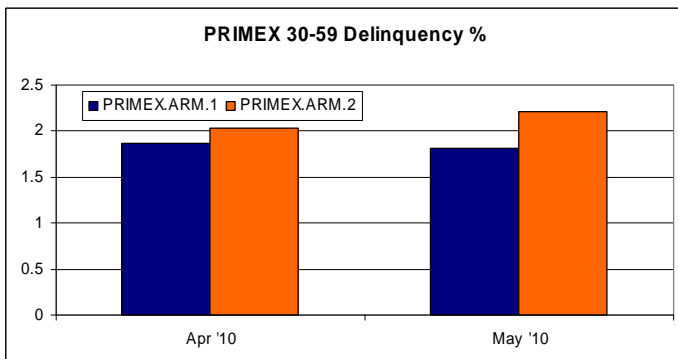
Cash non-Agency RMBS prices dropped over the course of May as concerns about financial stability in Europe roiled the markets. Cash bond prices for prime fixed-rate and ARMs dropped by 3-5pts over the month, while senior Alt-A and Option ARM paper dropped between 5-7pts. The PrimeX index saw drops in prices as well, with Series 1 ARMs and FRMs dropping by 3pts from April month-end levels, and Series 2 indices dropping by about 6pts.

Performance for the loans underlying the PrimeX constituents was reported last week, and in general serious delinquency levels remained around the same levels as March levels. In aggregate, serious delinquencies across all four sub-indices remained around 11.5%.

Voluntary prepayments inched up for both fixed-rate sub-indices, with both rising to over 16% CPR in May. ARM sub-indices saw speeds drop slightly with both sub-indices reporting around 12% CPR in May. Loss severities averaged around 36-39% across the PrimeX.FRM.1 and PrimeX.ARM.1 underlying deals, and were around 48% for the PrimeX.FRM.2 and around 55% for the PrimeX.ARM.2.

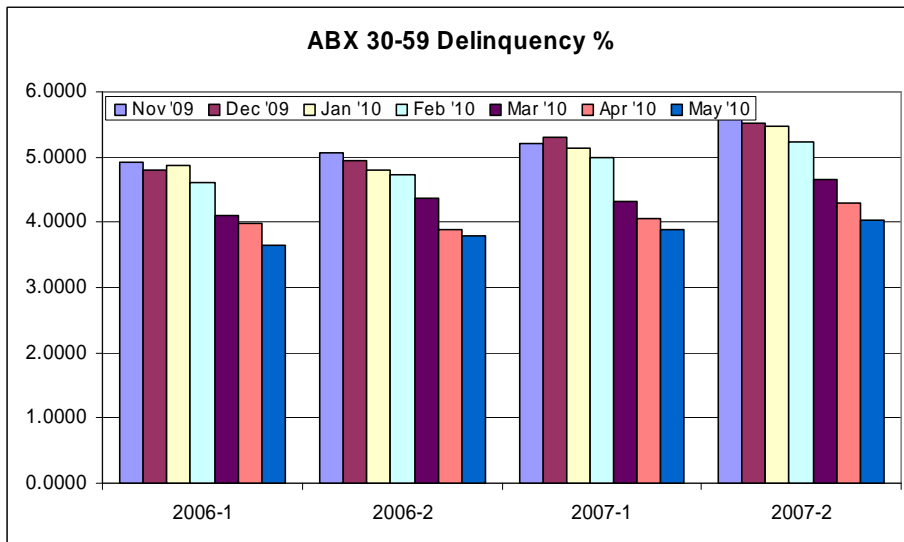
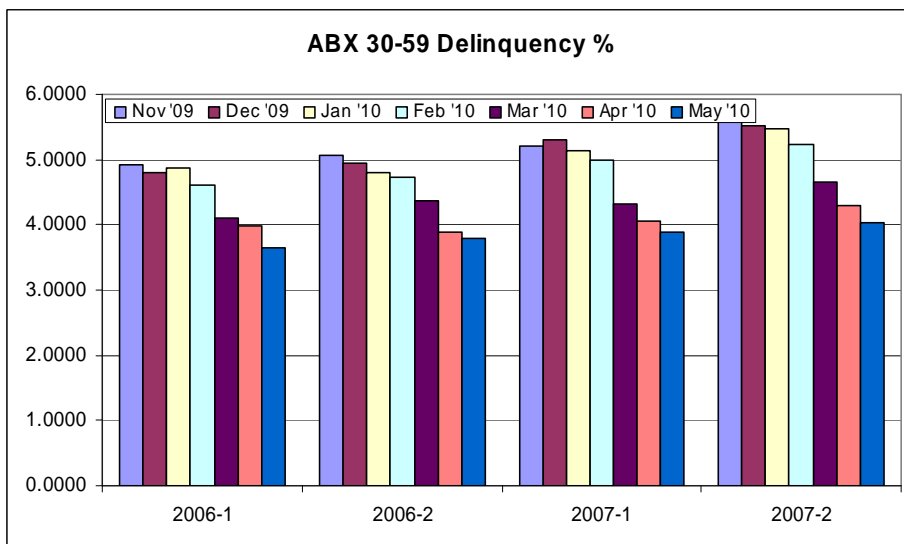
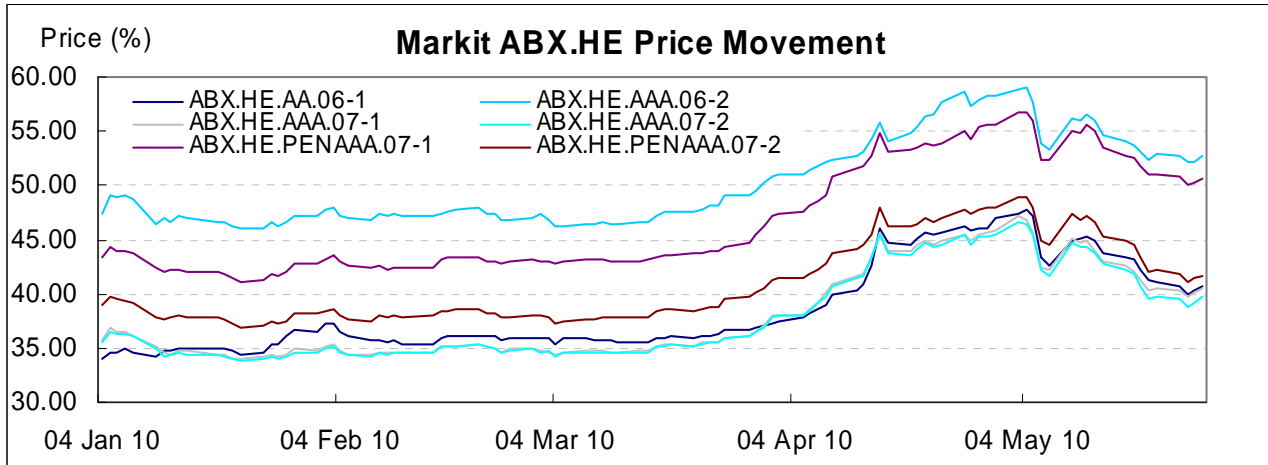


According to the DTCC warehouse data, as of May 21st, outstanding notional amounts across the various PrimeX.FRM and PrimeX.ARM tranches totaled over \$10 billion. The largest notional amount outstanding was in the PrimeX.FRM.1 with over \$2.8 billion, followed by PrimeX.FRM.2 with over \$2.7 billion, PrimeX.ARM.2 with over \$2.5 billion, and PrimeX.ARM.1 with over \$1.3 billion.



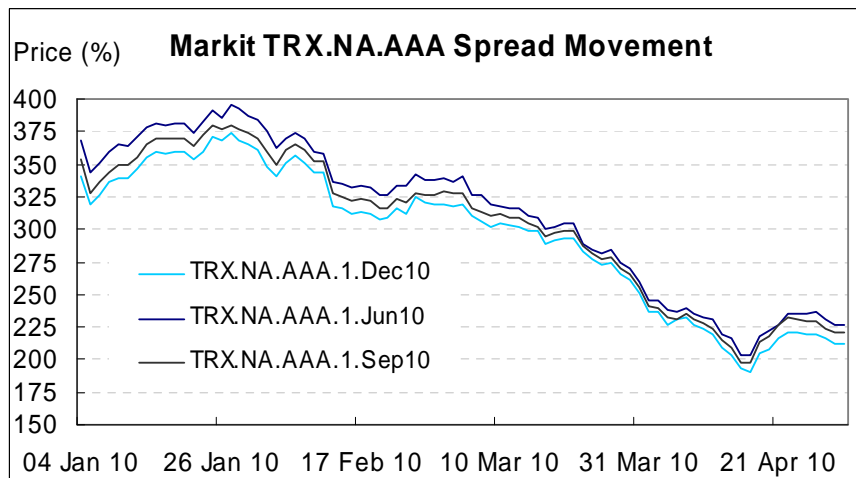
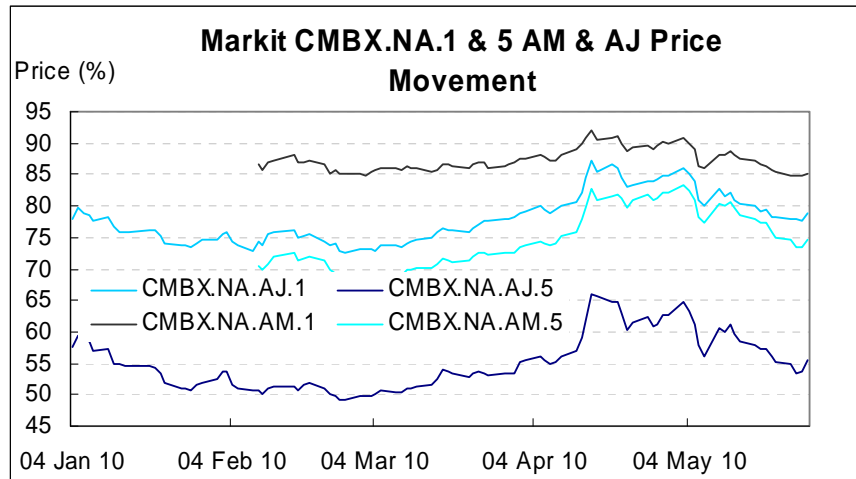
Sub-Prime RMBS

The market's concerns over Europe spilled over into the sub-prime RMBS markets as well, with PenAAA and AAA tranches from the 06-2 through 07-2 indices dropping by 5-6pts.



CMBS Commentary

The sell-off in securitized credit products affected the CMBS market as well, as CMBS cash spreads on last cash-flow seniors gapped wider throughout the month of May. Spreads for 2007 vintage super senior tranches were anywhere from 50-75bps wider from April month-end levels. Cash AM and AJ prices were also lower over the course of the month by anywhere from 2-4 pts for more recent vintages.



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