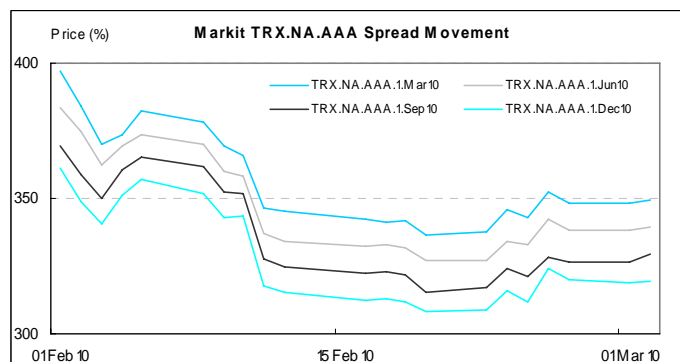
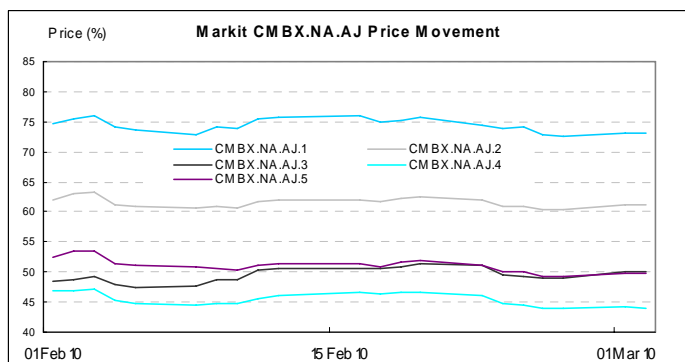


# US ABS Market Review

## Month End Review: February 2010

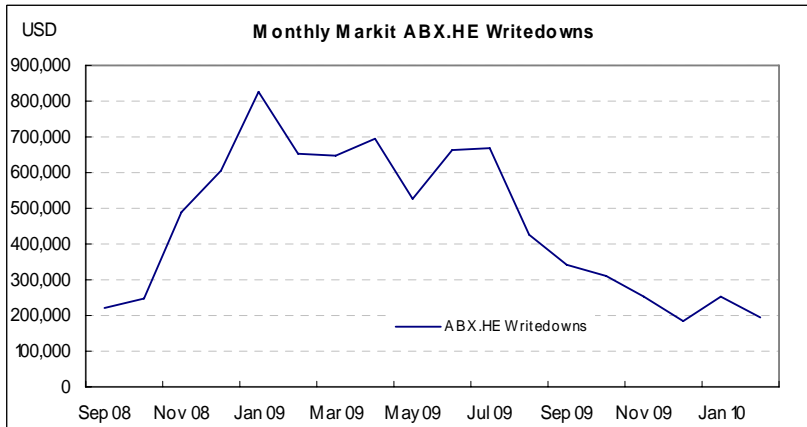
### Structured Finance Indices

Throughout February, the Markit CMBX indices continued to improve at the AAA level, while the lower tranches of the index continued to decline in price. Cash CMBS constituents of the TRX.NA tightened this month, leading to another MTM cashflow to the long position holders of the index. Despite this tightening, the CMBX.NA.AJ indices continued their price drop and showed the largest movements of any Markit Structured Finance Indices.



On the ABX.HE side, writedowns decreased from last month, continuing the trend over the past 6 months. However, losses managed to reach the AAA classes for the first time this month. The ABX.HE.PENAAA.06-2 and the ABX.HE.AAA.06-2 both experienced “implied writedowns” this month, which occurs at the swap level when a certificate is under-collateralized but does not have a mechanism to write down at the cash level. This marks the first time that any of the ABX.HE.AAA or PENAAA indices have experienced any loss of principal.

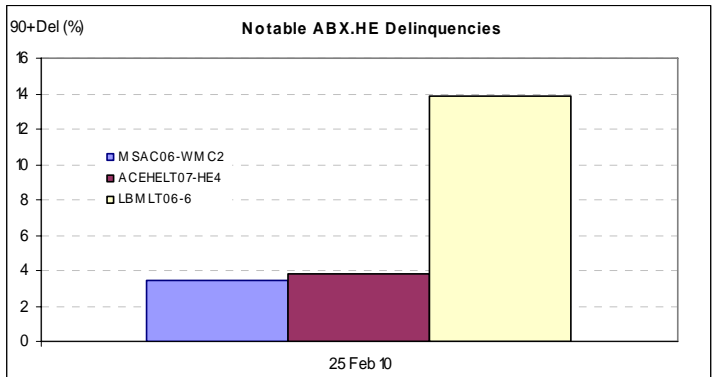
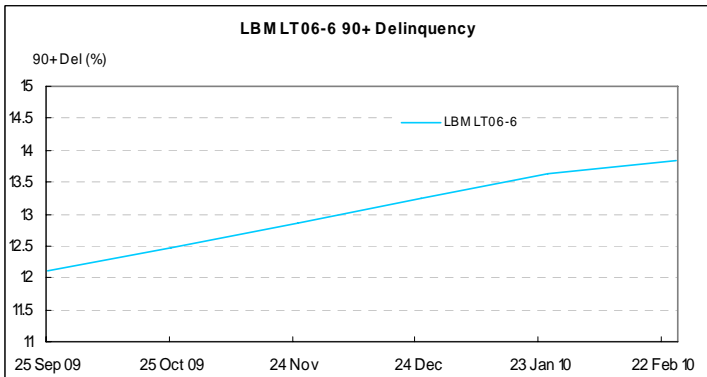
| February 2010 Writedowns  |                             |                          |                        |
|---------------------------|-----------------------------|--------------------------|------------------------|
| Index                     | Factors as of February 25th | Writedown (1mm notional) | Swap Notional Loss (%) |
| ABX.HE.A.07-2             | 0.468366677                 | 47532.27393              | 4.75%                  |
| ABX.HE.A.06-2             | 0.489496063                 | 27856.69531              | 2.79%                  |
| ABX.HE.AA.07-2            | 0.890940174                 | 26135.11141              | 2.61%                  |
| ABX.HE.BBB.06-1           | 0.448516181                 | 16226.10979              | 1.62%                  |
| ABX.HE.BBB-.06-1          | 0.297372507                 | 16177.59384              | 1.62%                  |
| ABX.HE.A.06-1             | 0.859138522                 | 11865.02015              | 1.19%                  |
| ABX.HE.BBB.07-1           | 0.15                        | 9402.597508              | 0.94%                  |
| ABX.HE.AA.07-1            | 0.848296565                 | 7755.053619              | 0.78%                  |
| ABX.HE.BBB.06-2           | 0.125060075                 | 6653.459415              | 0.67%                  |
| ABX.HE.AA.06-1            | 0.984413949                 | 6395.636781              | 0.64%                  |
| ABX.HE.A.07-1             | 0.472252455                 | 4332.096401              | 0.43%                  |
| <b>ABX.HE.PENAAA.06-2</b> | <b>0.738643892</b>          | <b>3496.933152</b>       | <b>0.35%</b>           |
| <b>ABX.HE.AAA.06-2</b>    | <b>0.988248162</b>          | <b>3496.933152</b>       | <b>0.35%</b>           |
| ABX.HE.AA.06-2            | 0.934303253                 | 3492.389247              | 0.35%                  |
| ABX.HE.BBB-.07-1          | 0.139025804                 | 2899.867189              | 0.29%                  |



### End of Month Remittance

February ABX remittance data continues to display no major surprises as it relates to performance. Voluntary CPR continue to trend lower and after our loan level analysis across the indices, there has been an uptick in loan modifications as evidenced by an increase in loan balances from prior missed payments (negative curtailment). There has also been some stabilization in the 30-59 DQ bucket which could be a result of borrowers beginning to receive their tax refunds and using them to avoid rolling to serious delinquent status. Markit will continue to monitor this performance and determine if any trends are transpiring or if this is a direct result of the seasonality of the loans.

There has been the first official (implied) writedown this month at the AAA level with ABX.HE.AAA.06-2 and ABX.HE.PENAAA.06-2 in part from the poor performance of the Morgan Stanley ABS Capital I Inc. 2006-WMC2. All of the subordinate bonds in this deal have been reduced to zero. Two other deals, ACE Securities Corporation 2007-HE4 and Long Beach Mortgage Loan Trust 2006-6, from the ABX.HE.07-2 and ABX.HE.07-1 respectively, both have lost almost all of the subordinate bonds and will be watched closely to see if any AAA implied writedowns will occur. All three deals have California and Florida as their top 2 concentrated states and, as shown below, the two comparable deals have higher 90+ average delinquencies from the past six months.



With the Treasury's recent announcement asking servicers to postpone foreclosure until any of these distressed borrowers are first put through the HAMP application process, we will closely observe what effects this may have on delinquencies and severities going forward.

## US Structured Finance Cash Markets

### New Issuance

ABS new issuance last week saw deals in the prime auto loan and FFELP student loan sectors of the market. As anticipated, the last bit of TALF issuance hit the market early this week as issuers try to squeeze in deals before the expiration of the program. In the market currently is a student loan deal from Sallie Mae and an equipment lease deal from the CIT Group, and according to market sources, total deal volume for the week may exceed \$5 billion.

### Agency MBS Commentary

Fannie Mae pass-through MBS continue to come under-pressure as the market digested the news surrounding buy-outs. Earlier in February, both Fannie Mae and Freddie Mac announced that they would be buying out 120+ day delinquent loans. While Freddie Mac indicated that it would buy out most of the loans by March, Fannie Mae indicated that it planned to purchase the loans over a period of few months starting in April. According to research reports from Barclays Capital, the expected size of the buy-outs will be \$127 billion for Fannie Mae and \$72 billion for Freddie Mac. Consequently, research analysts across the street expect a pick-up in prepayment speeds as a consequence of the buy-outs for both Fannie and Freddie pools, in particular for higher-coupon 2006-2008 vintage loans. Fannie Mae dollar roll prices declined towards the end of last month, as market participants tried to anticipate the timing and sizing of the buy-outs over the next three to four months.

### Non-Agency RMBS

Non-Agency RMBS prices were largely unchanged over the course of the past two weeks after dropping by about 1-2 pts in early February.

### Consumer ABS

Consumer ABS spreads started to widen towards the end of February, though in general demand for short average life paper continued to remain strong. Both senior credit card and retail auto ABS paper widened by about 3-5 bps.

### CMBS Commentary

Spreads on 10-year senior CMBS widened by about 5-10bps over the last week after having tightened back to levels seen at the end of January after a sell-off of 25bps the prior week. Shorter-dated paper, particularly CMBS with 5-year and shorter average lives, saw about 20-25bps of tightening mid-month following the general rally in other credit markets.

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