

# Markit PRIMEX.FRM and PRIMEX.ARM Index Rules

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## Introduction

The Markit PRIMEX Fixed Rate Mortgage (PRIMEX.FRM) and PRIMEX Adjustable Rate Mortgage (PRIMEX.ARM) indices reference the prime fixed rate and hybrid RMBS sectors. Each of the PRIMEX.FRM Index and the PRIMEX.ARM Index (each, an "Index") shall be composed of reference obligations that are tranches of residential mortgage-backed securities, issued under various issuer programs, that meet the criteria specified in these Index Rules.

## I. Administration of the Index

- 1.1. Initially, there shall be two sub-indices of each Index, each consisting of securities of each such issuer program satisfying the criteria in Section 3.2 below. Markit North America ("MARKIT") and/or the administrator for each related Index (the "Administrator") shall from time to time publish an updated list of eligible members participating in the determination of the related Index (the "Participants"). The PRIMEX.FRM Index (and the sub-index thereof), and the PRIMEX.ARM Index (and the sub-index thereof) will be launched on April 28th, 2010 (such date, a "Roll Date"); provided that if a Member Majority votes to change the Roll Date of an Index, the Roll Date of such Index shall be the date designated by such Member Majority.
- 1.2. The determination of each Index will be administered by the Administrator based upon the rules and procedures provided herein. All information submitted by the related Participants to the Administrator shall be received by the Administrator in confidence.
- 1.3. Except as otherwise provided herein, these Index Rules will be subject to the General Rules of the Index Methodology for Dow Jones CDX Indices (other than Section 1.3 thereof).
- 1.4. Except to the extent otherwise set forth in these Index Rules, with respect to any vote pursuant to these Index Rules, the outcome shall be determined by the votes of a majority of the related Participants (a "Member Majority").
- 1.5. All times referred to in these Index Rules refer to local time in New York, New York.
- 1.6. Except as specifically set forth herein, these Index Rules shall govern both the PRIMEX.FRM Index and the PRIMEX.ARM Index.

## II. Eligibility Rules

- 2.1 (a) It is the obligation of each Participant to provide within the time frame specified by the Pricing Rules (as defined below) the end of day prices, and other periodic prices, that are duly solicited by the Administrator on each day other than Saturday, Sunday, any New York holidays and any federal holidays of the United States of America (each, a "Holiday").  
  
(b) The Administrator shall monitor and maintain a record of such participation by the Participants. At the end of each day that the Administrator has solicited prices from a Participant, the Administrator will send a written notice to such Participant informing such Participant whether it has met its obligation to provide prices for such day, and if it has not met such obligation, briefly stating how it has failed to meet such obligation. If during the period from and including a Review Date (as defined below) to but excluding the next Review Date (a "Determination Period"), a Participant has failed to provide prices for the most recent related Index by the applicable deadline more than ten percent (10%) of the time, the

Administrator shall send such Participant a written warning notifying such Participant of its failure to perform its obligations. If, during any Determination Period, (i) a Participant has failed to provide prices for the most recent related Index by the applicable deadline more than fifteen percent (15%) of the time or (ii) a Participant has failed to provide prices by the applicable deadline for more than 15% of the required submissions for all Prior Sub-Indexes in the aggregate, the Administrator shall send such Participant a written notice advising that such Participant has been “Suspended” for purposes of these Index Rules with regard to the related Index and informing it of the reason(s) it has been Suspended. Such Participant shall remain Suspended until the Review Date at the end of a Determination Period during which the Participant (i) has provided relevant prices for the sub-index of the most recent related Index by the applicable deadline at least eighty five percent (85%) of the time during such Determination Period [and (ii) has provided prices by the applicable deadline for at least 85% of the required submissions for all Prior Sub-Indexes in the aggregate]. “Prior Sub-Index” means a sub-index for an Index that (i) was launched on a Roll Date prior to the most recent Roll Date and (ii) is determined by the Administrator or MARKIT to be the subject of outstanding credit derivative transactions.

- 2.2 At any time, a Participant shall be deemed not “Eligible” with respect to any vote under these Index Rules or any polling or submission with respect to the Roll Date of an Index pursuant to Section 3.3 or Section 3.4, if at such time the Participant remains Suspended pursuant to Section 2.1 above. Notwithstanding the foregoing, MARKIT shall at all times have the right to waive any or all of the foregoing criteria and to deem a Participant to be Eligible.

### III. Polling Process for Roll Dates

- 3.1. (a) No later than the tenth Business Day prior to each Roll Date of a new Index (the “Review Date”), the Administrator shall conduct a review of all issuances of residential mortgage-backed securities issued pursuant to a shelf registration statement filed with the United States Securities and Exchange Commission (each, a “Shelf Issuance,” and the program pursuant to which the Shelf Issuance was issued, the “Issuer Program”) during a period designated by the Member Majority (a “**Designated Period**”) that, in the determination of the Administrator, are backed primarily by prime, first lien residential mortgage loans (which determination may be made by reference to Shelf Issuances classified as, in the case of the PRIMEX.FRM Index, “Whole 30 Yr”, and in the case of the PRIMEX.ARM Index, “Whole ARM” on [Bloomberg Financial Markets (“Bloomberg”)]). The Administrator shall determine, with respect to each such Shelf Issuance, the aggregate face amount of the securities issued (the “Deal Size”). Based on such review, the Administrator shall create two initial lists (in the case of the PRIMEX.FRM Index, the “FRM Initial List”, and in the case of the PRIMEX.ARM Index, the “ARM Initial List”, and each, an “Initial List”), consisting of the fifty (50) largest Shelf Issuances, ranked in decreasing order by Deal Size, each of which satisfy the criteria in Section 3.2 below (each such Shelf Issuance, an “RMBS Transaction”).

- 3.2 Each RMBS Transaction must meet the following criteria as of the Review Date:

- (i) The Deal Size of the RMBS Transaction must have been at least US\$250 million as of its issuance date.
- (ii) The RMBS Transaction must include at least one tranche of securities with Applicable Ratings (as of the date of issuance and the Review Date) of AAA (such securities, the “Required Tranches”). “Applicable Rating” means, for a tranche of securities, the ratings thereof as provided below:

“AAA” means a rating of any two of the following: AAA by Standard & Poor’s Rating Services (“S&P”), AAA by Fitch Ratings (“Fitch”) and Aaa by Moody’s Investor Service, Inc. (“Moody’s”).

- (iii) None of the RMBS Transactions may be re-securitizations, net interest margin securitizations or synthetic securitizations.
- (iv) Each Required Tranche must be (a) a note or other debt security or (b) a pass-through certificate or similar security, in each case, entitling the holders thereof to receive payments that depend (except for rights or other assets designed to assure the servicing or timely distribution of proceeds to the holders) on the cash flow from a discrete pool of assets that substantially consists of closed end (i.e., not revolving) loans ("Residential Loans") secured by a lien on one-to-four family residences or by security interests on proprietary leases on residential cooperative apartment units and the related stock of the cooperative apartment corporation.
- (v) A Required Tranche must have cash flow characteristics that reflect a "pass-through" interest (as determined by the Administrator subject to the approval of a Member Majority) in the entire "AAA" portion of the Residential Loans backing the RMBS Transaction. If there is more than one group of the Residential Loans backing separate tranches of securities, the Required Tranche will be backed by the largest loan group (measured by aggregate unpaid principal balance of mortgage loans as of the cut-off date (the "Deal Cut-Off Date") for the RMBS Transaction). If there is no one tranche that reflects the required "pass-through" characteristics, then the Required Tranche can be constituted by the fewest number of tranches of securities, which, when combined together, reflect such a "pass-through" interest.
- (vi) Each Required Tranche must have been issued within the Designated Period as decided by the Member Majority.
- (vii) Each Required Tranche must be registered pursuant to the U.S. Securities Act of 1933.
- (viii) The scheduled payment dates for the payment of interest under each Required Tranche must be the 25th calendar day of each month.
- (ix) Each Required Tranche must bear publicly disclosed ratings from at least two of Moody's, Fitch and S&P.
- (x) No Required Tranche may be insured or guaranteed pursuant to a financial guarantee insurance policy, guarantee or similar instrument issued by a third party.
- (xi) The business day convention for each Required Tranche is based on New York business days only.
- (xii) 100% of the Residential Loans backing the RMBS Transaction must have a first priority lien on the related residential properties; provided that if the information required to make such determination is not readily available to the Administrator then this clause (vi) will be satisfied if the prospectus with respect to such RMBS Transaction states that such RMBS Transaction is backed by first lien mortgage loans.
- (xiii) The Residential Loans backing the RMBS Transaction must bear interest at (x) in the case of the PRIMEX.FRM Index, a fixed rate, and (y) in the case of the PRIMEX.ARM Index, a fixed rate initially for a period of not less than 30 months following the date of origination of the applicable Residential Loans, and a floating rate thereafter.

- (xiv) None of the Residential Loans backing the RMBS Transaction may be negative amortization loans.
- (xv) The Residential Loans backing the RMBS Transaction must have original weighted average terms to maturity of more than 330 months and no Residential Loan shall have an original term to maturity of less than 240 months.
- (xvi) The weighted average loan age of the Residential Loans backing the RMBS Transaction may not exceed 12 months as of the date of issuance of such RMBS Transaction.
- (xvii) The weighted average FICO credit score of the obligors on the Residential Loans backing the RMBS Transaction must exceed (x) in the case of the PRIMEX.FRM Index, 735, and (y) in the case of the PRIMEX.ARM Index, 730, in each case as of Deal Cut-Off Date.
- (xviii) The Residential Loans backing the RMBS Transaction must have a weighted average loan-to-value ratio less than 73% as of the Deal Cut-Off Date.
- (xix) If disclosed in the prospectus for the RMBS Transaction, the combined loan-to-value ratio of the Residential Loans backing the RMBS Transaction must be less than 85% as of the Deal Cut-Off Date.
- (xx) More than 90%, in the case of the PRIMEX.FRM Index, and more than 85%, in the case of the PRIMEX.ARM Index, of the residential properties securing the Residential Loans backing the RMBS Transaction must be owner-occupied (measured by aggregate unpaid principal balance of mortgage loans as of the Deal Cut-Off Date for the RMBS Transaction).
- (xxi) Not more than 60%, in the case of PRIMEX.FRM Index, and not more than 75%, in the case of PRIMEX.ARM Index, of the Residential Loans backing the RMBS Transactions (in each case measured by aggregate unpaid principal balance of mortgage loans as of the Deal Cut-Off Date for the RMBS Transaction), may have been originated under a limited or reduced documentation program under which an obligor's income and/or assets are stated by the obligor but not verified.

3.3 No later than the seventh Business Day prior to the Roll Date, the Administrator shall simultaneously provide to the related Participants and publicly disseminate (through its website or as otherwise agreed between MARKIT and the Administrator) the FRM Initial List (in the case of the PRIMEX.FRM Index) and the ARM Initial List (in the case of the PRIMEX.ARM Index), and will solicit from each related Participant a vote as to which RMBS Transactions and Required Tranches thereof, if any, in the related Initial List in such Participant's judgment should be removed from such list. The Administrator will eliminate from the related Initial List those RMBS Transactions and Required Tranches receiving votes for removal from at least seventy-five percent (75%) of the related Participants of such Index. The Administrator will inform the related Participants of the RMBS Transactions and Required Tranches that have been eliminated from the related Initial List and publish to the public a list of such eliminated RMBS Transactions and Required Tranches. Each Participant shall notify the Administrator of its vote no later than 5:00 p.m. on the first Business Day following receipt of the related Initial List (the "Submission Deadline"). If a Participant fails to provide votes by the Submission Deadline, the Administrator may disregard such Participant's votes. Upon receipt of the votes timely and properly submitted by the Participants, the Administrator shall create a master list for each

Index (each, a "Master List") of twenty (20) RMBS Transactions. The RMBS Transactions in each Master List shall be ranked in decreasing order by Deal Size.

- 3.4 After such RMBS Transactions or Required Tranches thereof have been eliminated from the related Initial List pursuant to the above and no later than six (6) days prior to the Roll Date, the Administrator will determine the number of additional RMBS Transactions and Required Tranches, if any, required to add to those RMBS Transactions and Required Tranches remaining in each Master List so that such Master Lists each include twenty (20) RMBS Transactions and with respect to each such RMBS Transactions there is specified a single Required Tranche (subject to Section 3.2(iii)) meeting the eligibility criteria in Section 3.2 for each Index. The Administrator will propose additional RMBS Transactions that contain Required Tranches or additional Required Tranches of RMBS Transactions remaining in the Master List (in either case, other than the RMBS Transactions or Required Tranches that have been eliminated pursuant to Section 3.3) to add to the related Master List. The Administrator will inform the related Participants of the additional RMBS Transactions and additional Required Tranches of RMBS Transactions remaining in the Master List proposed by the Administrator and publish to the public a list of such additional RMBS Transactions and Required Tranches. The Administrator will solicit from each related Participant a vote as to which additional RMBS Transactions and additional Qualified Tranches should be eliminated from the related Master List and will eliminate from the related Master List those RMBS Transactions and Required Tranches receiving votes in each case from at least seventy-five percent (75%) of the related Participants. The foregoing process shall be repeated until each Master List totals twenty (20) RMBS Transactions and with respect to each such RMBS Transactions there is specified a single Required Tranche meeting the eligibility criteria in Section 3.2 for the related Index and no such RMBS Transactions or Required Tranche received votes in favor of its elimination from such Master List from at least seventy-five (75%) of the related Participants. The Reference Obligations in each Index for the Designated Period shall be the Required Tranches set forth in such related Master List.
- 3.5 Upon determination of a Master List for each Index that satisfies the requirements pursuant to Section 3.4, the Issuer Programs for the RMBS Transactions in the Master List for each Index shall constitute the reference entities for the related Index for the Designated Period. The securities included in each Sub-index shall be the reference obligations for such Sub-index. The sub-index shall be constituted as follows: The "FRM Sub-index" (PRIMEX.FRM) shall consist of the Required Tranches of the RMBS Transactions in the Master List for the PRIMEX.FRM Index. The "ARM Sub-index" (PRIMEX.ARM) shall consist of the Required Tranches of the RMBS Transactions in the Master List for the PRIMEX.ARM Index.
- 3.6 Promptly following the determination thereof and, in any event, no later than 11:00 a.m. on the earlier of (i) the first Business Day following the date of such determination and (ii) four Business Days prior to the Roll Date, the Administrator will simultaneously provide to the Participants and publicly disseminate (through its website or as otherwise agreed between MARKIT and the Administrator) the composition of each new Index and each sub-index to be launched on that Roll Date. At such time, the Administrator will also publicly disseminate (through its website or as otherwise agreed between MARKIT and the Administrator) the current list of the related Participants for each new Index.
- 3.7 No later than two Business Days prior to the Roll Date, the Administrator will provide to the Participants a draft of the annex for each Index and its sub-index.
- 3.8 At or about 9:00 a.m. on the Business Day immediately prior to the Roll Date (the "Fixed Rate Determination Date"), the fixed rate for each sub-index for each new Index for purposes of the Transactions Standard Terms Supplement will be determined by the Administrator by soliciting each Participant to submit an average mid-market spread for each sub-index (in increments of 1 basis point). The Administrator will re-solicit Participants until at least two-thirds of the related Participants (rounded down) from each Index have submitted such spreads. The Administrator shall rank such submissions for each sub-index from lowest to

highest spread and discard the top and bottom quartiles thereof (the number of submissions  $q$  in each discarded quartile will be given by  $q=\text{int}(N_s/4)$  where  $N_s$  is the total number of submissions). The Administrator shall determine the fixed rate for each sub-index by averaging the remaining submissions for such sub-index (rounded up to the nearest basis point). The Administrator will not notify any Participant of, or otherwise publicize, the fixed rates for each new Index until after 5:00 p.m. on the Fixed Rate Determination Date, at which time the Administrator will promptly notify the Participants and publicly disseminate (through its website or as otherwise agreed between MARKIT and the Administrator) such fixed rates. The final annex for each sub-index for each new Index will be publicly disseminated by the Administrator on its website (or as otherwise agreed between MARKIT and the Administrator) after 5:00 p.m. on the Fixed Rate Determination Date but not later than 8:00 a.m. on the next Business Day.

## IV. Index Daily Fixing Process and Calculation Rules (the “Pricing Rules”)

For each sub-index for the current Index and for each of the most recent Prior Sub-Indexes, the Administrator will solicit closing mid-market prices for transactions under the Transactions Standard Terms Supplement quoted as a positive or negative percentage to two decimal places (excluding any accrued fixed amount) from all Participants. In the case of the Index determined as of the most recent Roll Date, these prices will be submitted either by spreadsheet (or any other electronic delivery format designated as acceptable by the Administrator) or, later, via the Administrator’s automated mechanism between 3:00 p.m. and 4:00 p.m. (or such other times as may be specified by the Administrator) each day other than a Holiday; provided that on any day that the Bond Market Association recommends closing the fixed income markets early, prices will be submitted within thirty (30) minutes after the time set by the Bond Market Association for the closing of the fixed income markets. In the case of any other Prior Sub-Index, prices will be submitted for the close of business on the last Business Day of each calendar month in the manner provided above no later than the close of business on the first Business Day following such day.

The Administrator will employ a filtering process which entails taking the received quotes, discarding the top and bottom quartiles and taking the arithmetic mean of what remains. The quoted fixing value will be a percentage reported to two decimal places. The number of points  $q$  in each discarded quartile will be given by  $q=\text{int}(N_c/4)$  where  $N_c$  is the total number of contributors. Examples are shown in the table below:

Number of Contributors	Upper Quartile Discards	Lower Quartile Discards	Number of Quotes used in Fixing
1	0	0	No fixing calculated
3	0	0	3
4	1	1	2
5	1	1	3
7	1	1	5
8	2	2	4
11	2	2	7
12	3	3	6
15	3	3	9
16	4	4	8



19	4	4	11
20	5	5	0

In order to calculate the official fixing value for a particular sub-index, the Administrator must receive closing mid prices from a minimum of three Participants. If, on any date, the Administrator receives fewer closing mid prices for a sub-index than the Minimum Fixing Number, the Administrator will not publish a fixing value for such sub-index on such date. The formula for determining the Minimum Fixing Number, the methodology for calculating an official fixing value and the list of sub-indexes for which an official fixing value will be determined will be subject to change by a vote of a Member Majority

## V. Issuance of Sub-Indexes for Prior Roll Dates

MARKIT and/or the Administrator may publish sub-indexes corresponding to prior Roll Dates on which other Prior Sub-indexes were published and otherwise in accordance with these Index Rules; provided that (i) in no event will existing Prior Sub-indexes be re-published or amended without approval of seventy-five percent (75%) of the related Participants and (ii) for purposes of determining compliance with the criteria set forth in Section 3.2, the applicable Review Date shall be the tenth Business Day prior to the relevant prior Roll Date on which such other Prior Sub-indexes were published.

### Disclaimer

The Administrator does not undertake any duty of care and will not be liable to any party to a transaction referencing a Markit PRIMEX.FRM or PRIMEX.ARM Index, or related Sub-Index, for any form of damages, whether direct, indirect, special, consequential or otherwise, that might arise in connection with the Administrator's performance of its duties under the Rules, except in the case of the Administrator's gross negligence, fraud or wilful misconduct.