The ABS market \ a month in review

January 2013

European ABS Market

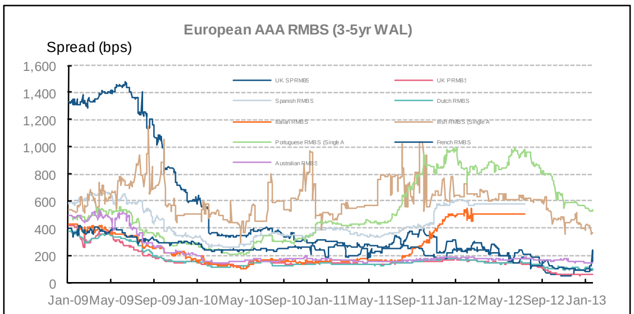
European ABS Pricing and Sectors

The year started in much the same way as 2012 ended, on a very slow note. However, since mid-January the market has picked up again in terms of activity.

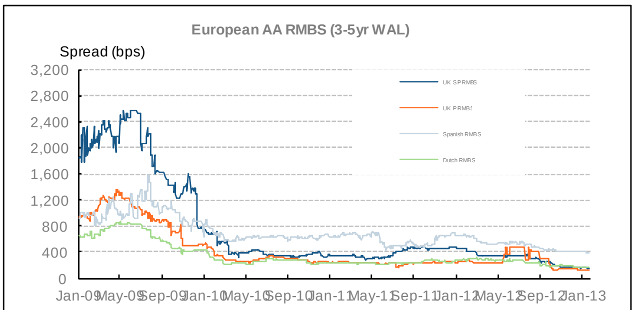
There has been some positive news flow since the Basel Committee diluted the liquidity requirement for LCR allowing high quality ABS to be part of it. We should expect a 15% to 25% hair cut to be applied, which are similar to levels used by the ECB for its current lending/repo scheme. Of course from a balance sheet perspective such announcement can only relieve pressure on many banks and will have a positive effect on ABS securities in both the US and Europe.

In terms of market trends we are still getting tighter in the triple-A area and there is still some important interest around BWICs. Again high beta securities are getting the most interest, but due to the lack of supply on UK Non-conforming RMBS and UK/German CMBS the attention is now turning to PIGS ABS and other European CLOs, which have seen important rises since the beginning of the year. These types of securities are probably the only ones - if the market remains bullish - to offer a potential double digit return, which is the kind of rate ABS investors have been used in 2012.

Granite securities, except for the senior tranche, saw an important increase since the A, B, M and C are now respectively traded at 98.87, 95.125, 92.75 and 87.75. At the end of December there were traded respectively at 98.38, 92.25, 89.5 and 82.5



Source: Markit European ABS Pricing Service



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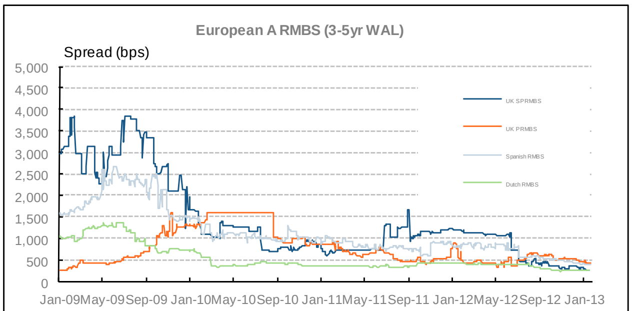

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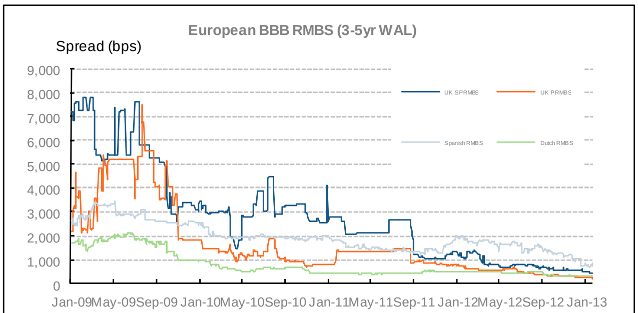

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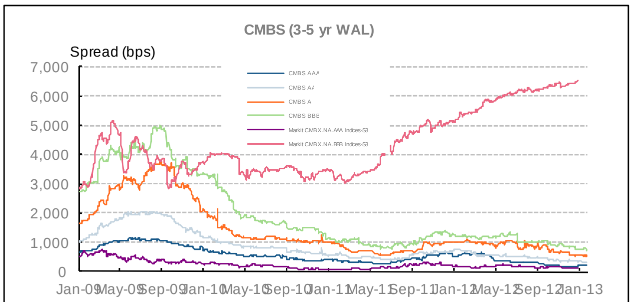

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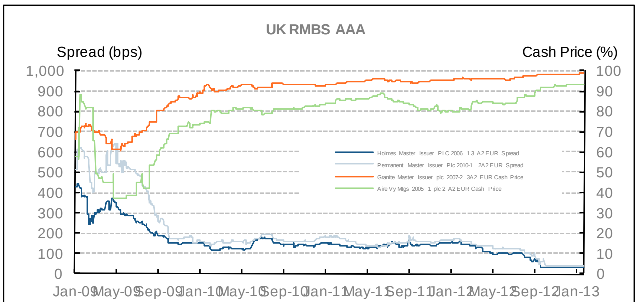

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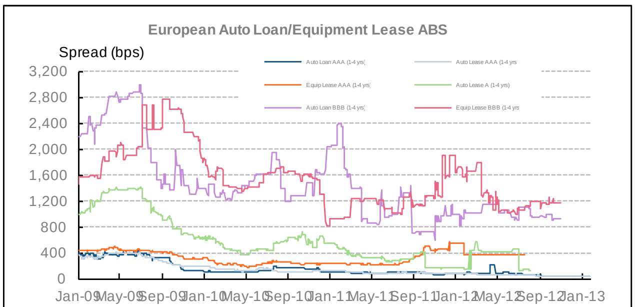

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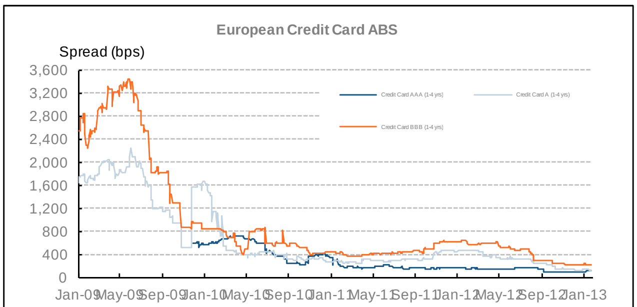


Source: Markit European ABS Pricing Service

Primary Market

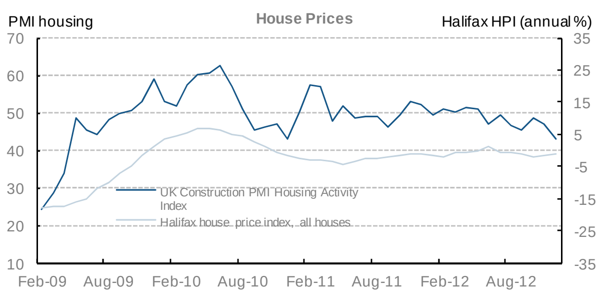
New issuances so far come from Dutch RMBS and are represented by Orange Lion 2013-8 and Strom 2013-1. Storm priced at the tighter end of the indicative range.

Primary Market (Source: Markit RCD)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Orange Lion 2013-8	Netherlands/RMBS	A	AAA	115	3000
Storm 2013-1	Netherlands/RMBS	A1	AAA	45	150
		A2	AAA	85	550

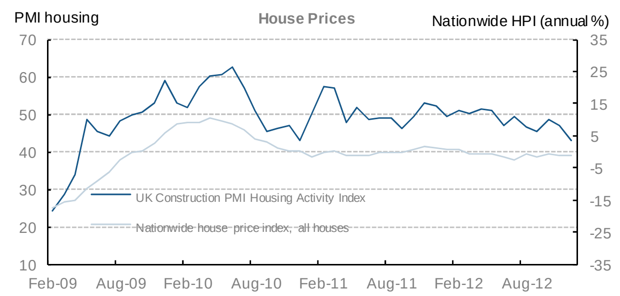
Economics Data

The Halifax and Nationwide HPI month-on-month both remained stable or increased in December by 1.3% and -0.1%. The Halifax index now shows a - 0.3% decrease year-on-year, compared to Nationwide which now reports a decrease of -1.2%. Both indexes are now showing a year-on-year decrease with Halifax at -0.3% and Nationwide at -1%.

The Markit/CIPS UK Construction PMI posted a negative 48.7 in December for UK construction activity. This decline can be attributed mainly to the housing and commercial activity which came in at 43.1 and 47.9, respectively. The housing activity is now in its seventh consecutive month of deterioration and this drop is the biggest since May 2009.

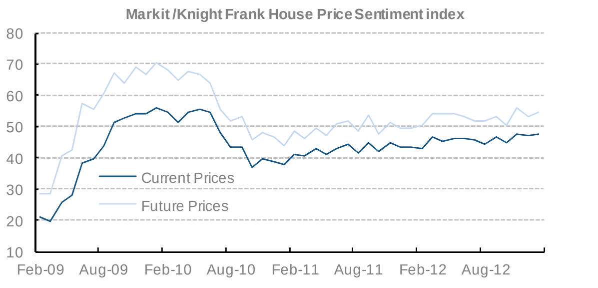


Source: Markit Economics, Halifax



Source: Markit Economics, Nationwide

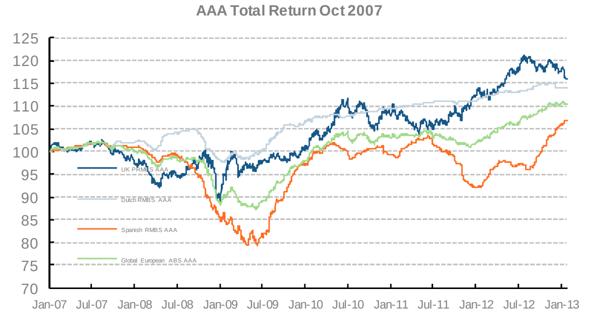
During the last quarter of 2011, Markit, in partnership with Knight Frank, launched the House Price Sentiment Index. It is an index measuring UK households' sentiment regarding both the current price of their property and its perceived value in 12 months' time.



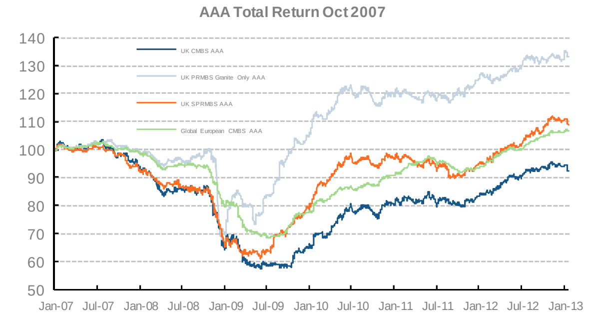
Source: Markit Economics, Knight Frank

European Total Return

Please note that the following total return graphs have been updated and are now based entirely on original ratings. The charts reflect the market improvements seen especially in the core countries, both in senior and mezzanine tranches.



Source: Markit European Total Return Analysis Service



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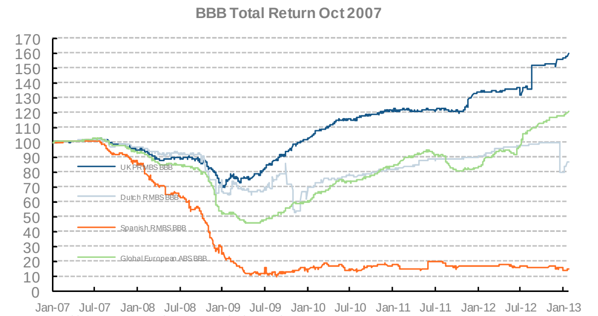
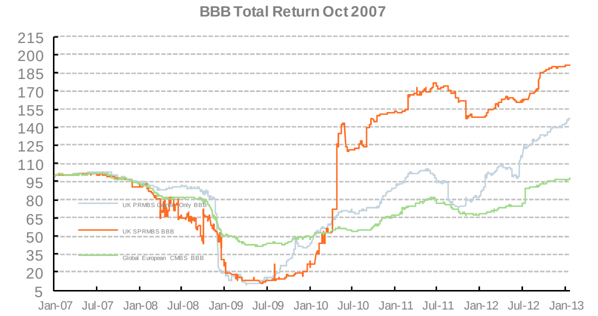
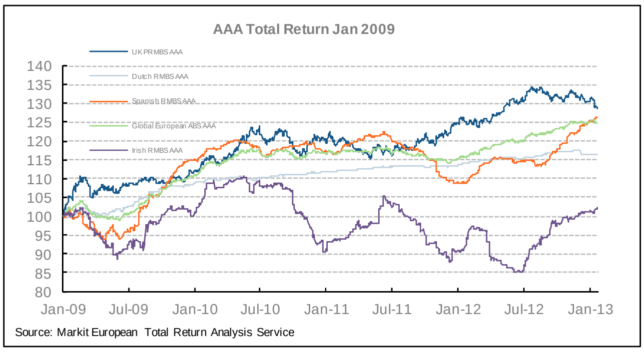


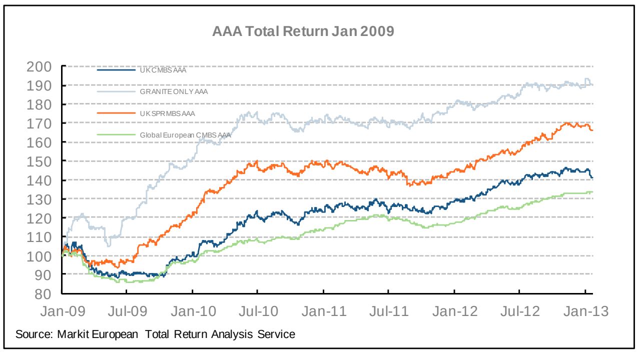
Source: Markit European Total Return Analysis Service



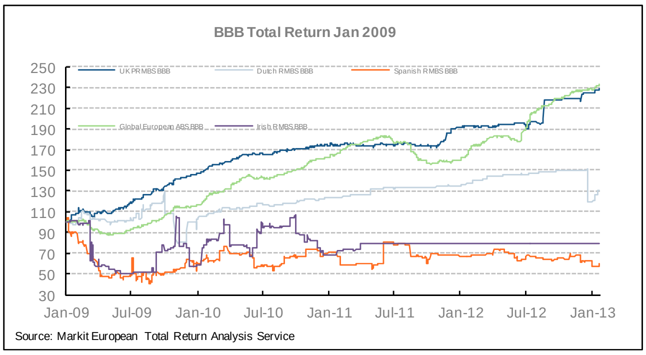
Source: Markit European Total Return Analysis Service



Source: Markit European Total Return Analysis Service



Source: Markit European Total Return Analysis Service



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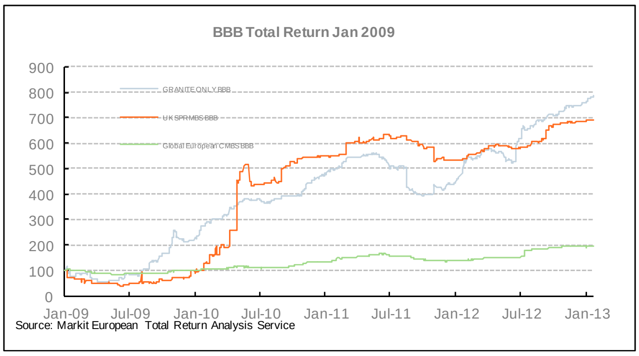

Source: Markit European Total Return Analysis Service

Ratings Actions

Rating actions are no exception to the rest of the market and saw a quiet month, due to the holiday season. 2012 was a downgrade-heavy year and we are entering 2013 in the same mood. 159 tranches were downgraded vs 20 tranches upgraded.

In December 2012, S&P revised its European CMBS rating methodology, which resulted in 240 tranches across 77 deals being placed on negative CreditWatch. The rating agency has downgraded 43 European CMBS across 12 deals over the past month.

Deals Affected by Rating Actions (Source: Markit European ABS)		
Deal	Country/Sector	Action
AMAREN II	France/RMBS	Upgrade
Annington Fin No 4	UK/CMBS	Downgrade
Artesian Fin II Plc	UK/Whole Business Securitisati	Downgrade
Asset-Backed European Securitisation Transaction Five S.A.	Germany/Auto Loan	Upgrade
Autolink Concessionaires (M6) Plc	UK/Whole Business Securitisati	Downgrade
AyT Andalucia FTEmpresa Cajamar, Fondo de Titulizacion de Activos	Spain/Small Business Loan	Downgrade
AyT Caixa Sabadell Hipotecario I FTA	Spain/RMBS	Downgrade
AyT Colateral Global Hipotecario Caixa Laietana I, Fondo de Titulizacion de Activos	Spain/RMBS	Downgrade
Ayt Hipo Mixto V Fondo Titul Activos	Spain/RMBS	Downgrade
AyT Kutxa Hipotecario IV, Fondo de Titulizacion de Activos	Spain/RMBS	Downgrade
AyT Unicaja Financiacion I, Fondo de Titulizacion de Activos	Spain/Other Consumer Loan	Downgrade
Bbva Autos 1 & 2 Fondo de Titul de Activos	Spain/Auto Loan	Upgrade
BBVA Consumo 1 & 2	Spain/Other Consumer Loan	Downgrade
BBVA Consumo 2 Fondo Titul Activos	Spain/Other Consumer Loan	Upgrade
BMORE Fin No 4 plc	Portugal/Auto Loan	Downgrade
Broadgate Fing PLC	UK/CMBS	Downgrade
CHANNEL LINK ENTERPRISES Fin PLC	UK/Whole Business Securitisati	Downgrade
DECO 10 Pan Europe 4 plc	Europe/CMBS	Downgrade
DECO Ser 2005 UK Conduit 1, DECO 8 UK Conduit 2 & DECO 11 UK Conduit 3	UK/CMBS	Downgrade
DECO Ser 2005 Pan Europe 1 & DECO 10 Pan Europe 4	Europe/CMBS	Downgrade
Diversity Funding No. 1 Limited	UK/CMBS	Downgrade
Draco ECLIPSE 2005 4 plc	UK/CMBS	Downgrade
EMAC DE 2007I BV	Netherlands/RMBS	Downgrade
EMAC PROGRAM II BV COMPARTMENT NL 2007IV	Netherlands/RMBS	Downgrade
EMF NL 2008-1 & 2008-2	Netherlands/RMBS	Downgrade
EuroProp EMC VI SA	Europe/CMBS	Downgrade
EUROSAILNL 2007-1 & 2007-2	Netherlands/RMBS	Downgrade
Fondo de Titulizacion de Activos Santander Empresas 4	Spain/Small Business Loan	Downgrade
FTGENVAL Bancaja 1, FTA	Spain/RMBS	Downgrade
Gat Ftgencat 2005 Fondo Titul Activos	Spain/Small Business Loan	Downgrade
GEMINI ECLIPSE 2006 3 plc	UK/CMBS	Downgrade
German Residential Asset Nt Distributor plc	Germany/CMBS	Downgrade
Hipocat 7, 8, 9, 10, 11, 16 & 20	Spain/RMBS	Downgrade
Hipototta No 4 plc	Portugal/RMBS	Downgrade
IM Banco Popular MBS 2, Fondo de Titulizacion de Activos	Spain/RMBS	Downgrade
IM Caja Laboral 2, Fondo de Titulizacion de Activos	Spain/RMBS	Downgrade
IM CAJAMAR 5 & 6 FONDO DE TITULIZACION DE ACTIVOS	Spain/RMBS	Downgrade
IM Cajastur MBS 1 Fondo De Titulizacion De Activos	Spain/RMBS	Downgrade
IM Terrassa MBS 1 Fondo de Titul de Activos	Spain/RMBS	Downgrade
Integrated Accommodation Services plc	UK/Whole Business Securitisati	Downgrade
MBS Bancaja 7 Fondo de Titulizacion de Activos	Spain/RMBS	Downgrade
North Brit Hsg Assn	UK/CMBS	Downgrade
Northern Counties Housing Association Ltd	UK/RMBS	Downgrade
OCTAGON HEALTHCARE Fdg PLC	UK/Whole Business Securitisati	Downgrade
PORTFOLIO GREEN GERMAN CMBS GMBH	Germany/CMBS	Downgrade
Silenus European Ln Conduit No25 Ltd	Europe/CMBS	Downgrade
Southern Gas Network plc	UK/Whole Business Securitisati	Downgrade
Southern Water Services (Finance) Limited (Series 4)	0/Whole Business Securitisation	Downgrade
Stichting Memphis 2006 I	Netherlands/RMBS	Downgrade
Stichting Memphis 2006 I	Netherlands/RMBS	Upgrade
Talisman 4 & 5 Fin plc	Germany/CMBS	Downgrade
Taurus CMBS UK 2006 2 PLC	UK/CMBS	Downgrade
Theatre Hosps No 1 & 2 PLC	UK/CMBS	Downgrade
TruckLease S.A. Compartment No.1	Germany/Auto Lease	Upgrade
Vanwall Fin PLC	UK/CMBS	Downgrade
Windermere VIII CMBS plc	UK/CMBS	Downgrade
Yorkshire Water Services Finance Plc	UK/Whole Business Securitisati	Downgrade

US ABS Market

Month over month, major equity indices are up over 3%, fueled by positive economic indicators and Washington’s year-end “fiscal cliff” resolution. Most participants are aware there are going to be other hurdles in the future, but for the time being, this agreement put any immediate fears to rest.

Globally, the renewed confidence in Europe (general spreads are tight to US) and the BOJ announcement around monetary easing have also played part in this equity movement. Most structured products are sharing in this rally, especially Non-Agency RMBS and US CLO’s, as both have shown substantial tightening since the beginning of the year.

Lastly, as further testament to the positive tone, US Non-Agency RMBS issuance is on track to clear $1 billion, versus $460 billion January 2012.

CMBS

Activity in the Commercial Real Estate market has remained strong as we move towards the end of January. There was a brief slow down during the CMSA conference mid-month, but since then, flows have picked up where they left off. Spreads at the top of the capital structure have held firm to slightly wider month over month, while appetite for risk lower in the stack has been evident.

Newly issued paper remains well bid despite how tight spreads are as more cross-over investors are entering the space scooping up supply. Over the next two weeks there are some deals scheduled to come to market, so investors will be watching them carefully to see if the rally witnessed in the lower part of capital structure can hold. Given the search for yield and the demand for new issuance, there is a possibility for some more outside the box new issue deals, where spreads could be a bit more attractive than the traditional types of deals that have been done, especially down in the capital structure.

Generic Markets (Spread to Swaps)		
Vintage	Senior	AM
2005 (CD1)	55 (A4)	115
2006 (CD3)	70 (A5)	340
2007 (GG10)	131 (A4)	560
2011 (LC1)	85 (A3)	
2012 (LC3)	72 (A4)	

Non Agency RMBS

Throughout 2012, most if not all, sectors within the Non-Agency RMBS experienced significant price appreciation, attributable to both fundamental and technical forces. On the technical side, the dearth of new issuance and dwindling supply of seasoned paper led to the observed spread compression. Working in conjunction with the supply concerns, improving fundamentals on the underlying loans within the pools and across the broader housing market (recent Case-Schiller data shows a 9% gain since the 10-year low of March 2012), helped ease the minds of market participants, resulting in increased demand for this paper. On a macro level, aside from concerns around the housing market, there is also the looming debt ceiling and how managers plan to position themselves, regarding safer assets, as the timeline shortens.

Thus far in 2013, interest in Non-Agency RMBS has remained strong throughout all parts of the capital structure and investors continue to look for story bonds and nuances where they can squeeze out a few more BPS. Fund managers looking for higher returns are moving down in the capital.

One area of focus has been seasoned non-senior subprime bonds, where participants are softening their back end loss severity assumptions. The primary factors driving these assumption changes are higher home price expectations and more short sale liquidations, which currently represent slightly more than half of all liquidations.

As a result of these changes, prices have moved higher by 1 to 3 points since the beginning of the year. In other sectors, such as POA SSNRs, low priced Alt-A, and season Alt-A paper, there has been steady demand, which is similar to the trend over the last few months of 2012.

On the loan servicing sided, Bank of America continues to look for ways to reduce its exposure to the mortgage servicing business. On January 7th, Nationstar agreed to acquire $215 billion (47% GSE / 53% private-label) in residential mortgage servicing rights from Bank of America. The private-label loans are almost all the loans that Bank of America services, excluding the 530 trusts involved in the $8.5bn Countrywide settlement previously announced in 2011.

Digging further in to this, investors should be cognizant that Nationstar traditionally liquidates delinquent loans slower than Bank of America with fewer loans in the delinquency pipeline, while their modification rates and stop advance rates are similar. This is in comparison to servicers such as Ocwen, where it would be expected that any loans transferred would have a much higher risk around P&I advancing.

New issuance deals:

Sequoia Mortgage Trust 2013-1 – One of the first private label (non Re-Remic) issuances of 2013, priced last week. This $397mln deal comprised of a 79/21 split between FRM and ARM loans respectively, has a weighted average FICO of 769. 42.9% of loans are California based and the CLTV is 67.7%.

Sequoia Mortgage Trust 2013-2 – This deal was recently announced by Redwood Trust and is expected to price within the next week and close at the end of the month. The approximate $650mln deal is comprised of over 750 fixed rate loans which have similar characteristics to those in the 2013-1.

Looking ahead, it is expected by some street analysts that private label new issuance (excluding re-Remics) could climb to more than $10 billion in 2013. This would be much higher than the lows we have experienced over the last few years, but still paltry when compared to the boom years of 2005/2006/2007, where annual issuance saw prints north of $1 trillion.

Non-Agency RMBS Sector Yield Analysis

Prime

30 Year Fixed 06/07	Yield	2005	Yield
SS		**SS**	
<10	2.899	>0 < 05	2.998
>10 <20	3.683	>05 <13	3.597
>20	3.876	>13	3.875
SUP		**SUP**	
<10	4.667	>0 < 05	4.500
>10 <20	4.863	>05 <13	5.662
>20	6.290	>13	5.389
PT		**PT**	
<10	3.579	>0 < 05	3.257
>10 <20	3.971	>05 <13	4.116
>20	4.156	>13	4.493
Float		**Float**	
<10	3.000	>0 < 05	3.250
>10 <20	3.852	>05 <13	4.030
>20	4.684	>13	4.163
NAS/PAC			
>0 <10	3.500		

Hybrid Prime 06/07	Yield	2005	Yield
SEN		**SEN**	
<10	4.632	<08	3.562
>10 <20	5.158	>08 <15	4.127
>20	6.274	>15	6.073
SUP		**SUP**	
<10	7.449	<08	5.591
>10 <20	7.700	>08 <15	4.665
>20	9.780	>15	10.497

15 Year Fixed 06/07	Yield	04/05	Yield
Fixed		Fixed	
<05	4.240	<03	3.306
>05	4.008	>03	4.037
Float		Float	
<05	4.000	<03	3.500
>05	5.500	>03	3.906

Alt-A

Fixed 06/07	Yield	2005	Yield
Fixed		**Fixed**	
<20	4.472	<10	4.491
>20 - 30	4.700	>10-20	4.739
>30 - 40	3.841	>20	3.936
>40	3.694		
Float		**Float**	
<20	7.166	<10	5.861
>20 - 30	4.865	>10-20	4.256
>30 - 40	4.915	>20	4.165
>40	3.838		

Hybrids 06/07	Yield	2005	Yield
SS		**SS**	
>0 <30	4.329	<20	3.443
>30 <40	4.775	>20 - 30	4.019
>40 <50	4.955	>30 - 40	3.857
>50	6.702	>40	6.690
SUP		**SUP**	
>0 <30	8.395	<20	5.907
>30 <40	9.955	>20 - 30	7.676
>40 <50	10.000	>30 - 40	7.585
>50	11.500	>40	9.469
PT			
>0 <30	4.781		
>30 <40	4.939		
>40 <50	5.064		
>50	6.741		

Monolines

Insurer	Pts (ex. ABK, FSA)	Insurer	LsAdj %
Ambac	70/82 (SUR)	Ambac	6.283
MBIA (AAA)	45.25/47.25	MBIA	6.804
Assured	0.5/1.5	Assured	6.669
FSA	340/365 (bps)	FSA	6.077

Legend

Collateral Types:	Fixed (FRM)	
	Floating (ARM)	
Structure:	SS	Super Senior
	SUP	Support
	NAS	Non Accel Snr
	PAC	Planned Amort Class
	LCF	Last Cash Flow
	1/2/3rd	Original Pmt Priority
	FLT	Floater
	PT	Pass Through
60+ DQ	All structures are broken out by collateral performance as defined by 60+ Delinquency	
	Ex:	<10
		>10 <20
		>20

Option ARM

06/07	Yield	2005	Yield
SS		**SS**	
20% Orig CE		**20% Orig CE**	
<50	4.590	<50	4.612
>50	5.984	>50	6.250
40% Orig CE		**40% Orig CE**	
<50	3.952	<50	3.218
>50	4.395	>50	4.180

Subprime

06/07	Yield	2005	Yield
Pro-Rata		**Pro-Rata**	
1st Pay	3.000	1st Pay	4.154
2nd/3rd Pay	3.250	2nd/3rd Pay	5.520
LCF	4.250	LCF	4.000
Sequential		**Sequential**	
1st Pay	2.000	1st Pay	4.440
2nd/3rd Pay	3.500	2nd/3rd Pay	4.416
LCF	4.250		

Consumer ABS

Spreads in the secondary consumer ABS market initially rallied at the start of the 2013, after the fiscal cliff resolution, and have since held firm. According to our generic spread database, Auto loan seniors are anywhere from 0.5-1bp tighter relative to last month, while 3-year auto subordinates are 5bps tighter. Credit card seniors were flat to 1bp tighter for most weighted-average life buckets, while FFELP and private student loan seniors were on average 1.5 and 3bps tighter, respectively.

Market consensus is forecasting that current spreads will hold firm for the near term due to strong technical performance for the sector. Please see our generic spreads by sector below for a breakdown by asset class:

Generic Spreads by Sector

Prime Auto Loan		WAL	Spread	Subprime Auto Loan		WAL	Spread
Class A	FIX	0-1	4.5	Class A	FIX	0-1	12
		1-2	7.0			1-2	18
		2-3	12			2-3	24
		3-5	14			3-5	29
Class B	FIX	3	40	Class B	FIX	3	85
Class C	FIX	3	70	Class C	FIX	3	120
Class D	FIX	3	145	Class D	FIX	3	225

Credit Card				Credit Card			
Class A	FIX	0-1	2.5	Class B	FIX	0-1	18
		1-3	9.5			1-3	36
		3-5	18	Class B	FLT	0-1	17
		5+	30			1-3	31
Class A	FLT	0-1	2.0	Class C	FIX	5+	113
		1-3	7				
		3-5	23				

FFELP Student Loan				Private Student Loan			
Class A	FLT	0-2	14.5	Class A	FLT	0-2	79
		2-5	29			2-5	132
		5-10	73			5-10	260
Class B	FLT	10	350				

US consumer ABS saw 11 deals come to market in 2013 totaling about $10.5 billion: 8 autos (loans and leases), 2 floorplans and 1 FFELP student loan. New issue is expected to be for the rest of the month but volume is expected to be robust following ASF conference in Las Vegas. See below for a breakdown of new issue across asset classes:

US New Issue ABS*

Asset Class	Amount (mm)
Auto	8,117.00
Card	-
Equipment	-
Floorplan	1,824.00
Student Loan (FFELP)	541.00
Student Loan (Private)	-
Total	10,482.00

*January 1 - January 18

BWIC volume for the consumer ABS sector was dominated once again by auto-related collateral which account for approximately 50% of all volume thus far in 2013. Please see below for our breakdown across sectors:

ABS Approximate BWIC Volume*		
Asset Class	Original Face	Current Face
Auto Lease	89.00	88.00
Auto Loan	553.00	468.00
Credit Card	312.00	312.00
Equipment	36.00	32.00
Floorplan	76.00	70.00
Motorcycle	2.00	2.00
Receivables	16.00	15.00
Student Loan	410.00	336.00
Total	1,494.00	1,323.00

*January 1 - January 18

Agency

CMOs continue to receive steady investor interest, as several investors have been purchasing paper across the curve now that the volatility in the rates markets has been subdued. There has been very limited BWIC activity over the past few weeks, so investors have been focusing their purchases on dealer inventories.

Depositories have recently been buying more paper on the front-end, while insurers and some money managers have been deploying more capital out the curve. There has been an uptick in demand for shorter paper with minimal extension risk, with VADMs seeing especially strong investor demand. The January new issue volume was slightly over $4.5bn, which was in line with last year's average monthly pace.

Spec Pool trading was expectedly slow over the holidays, with some profit taking on call protection payup stories. The hawkish tone of January 3rd's FOMC minutes drove TBA prices lower across the board, with 2.5 coupon 30 year pools faring worst. Payups softened in low coupon spec pools, and have since stabilised. In higher coupons, investors remain wary of refinance risk associated with seasoned premium pools and show a commensurate preference for post-harp 100% refi collateral. Prepayment speeds continued their fast trend. The ARM market was a bright spot with active trading and tightening spreads in both the new WALA and post-reset Hybrid-ARM spaces.

CLO

The CLO market continued its trend of healthy momentum, both in issuance and attractiveness as we came to the end of 2012 and entered 2013. Multiple deals closed in December bringing overall new issuance in 2012 to over $50 billion, compared with $12 billion in 2011. The wave of new issue has stayed strong in January, with a few deals closing and more in the pipeline as non-traditional CLO investors are now interested in participating in this market.

Spreads on new issue deals are still wider than seasoned paper, however this basis is starting to narrow as demand for new issuance is growing. Tranches lower in the capital structure are also being well bid, with spreads on seasoned BBB's and BB's now hovering around 500bps and 700bps, respectively.

Generic Markets (DM)		
Vintage	**1.0**	**2.0**
AAA	110-140	135-145
AA	150-200	200-225
A	225-275	300-325
BBB	350-425	450-500
BB	500-600	600-700

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