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FORMER MOODY'S EXECS START ESOTERIC FUND

ESOTERIC TANGLES
GENERAL DISTRESS
MAYHEM

Former executives from **Moody's Investors Service**, **Jay Eisbruck** and **Stephen Macy**, are reportedly starting up a fund that will buy distressed esoteric assets. While the market is replete with funds looking to invest in cheap mortgage-related assets, the fund may be unique for investing in off-the-run bonds. The funds' rating agency roots, compared with vehicles started by buysiders and former sellsiders, also

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LOAN BUYBACKS RISE WITH DEFAULT, DELINQUENCY RATES

Mortgage securitization sponsors and loan originators are being asked to buy back loans with greater frequency as defaults and delinquencies have risen over the last year or so.

Trustees generally ask market participants to buy back loans in cases where representations and warranties are breached or because of inadequate loan documentation. Reps and warranties are provisions within purchase and sale agreements between buyers and sellers of loans that detail the conditions of the purchase and sale and how breaches of the provisions can be remedied. Rating

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CLO MANAGERS SWEAT OUT OC TESTS

Collateralized loan obligation managers are keeping a close eye on overcollateralization tests as credits in a number of industries have been downgraded by one to two ratings across the board, according to sister publication *Credit Investment News*. Managers can only have so many triple-C assets before they have to start marking those assets to market. Portfolios' weighted average rating factor could also be affected and portfolio managers will need to manage around this. This could include selling downgraded credits in the secondary market.

"It's not good," said one portfolio manager of the downgrades. "You have to maintain your weighted average spread and in addition there are typical provisions in a modern CLO to haircut triple-C assets if they get to be too much of the portfolio. So for the overcollateralization test you have to mark down triple-Cs if there is too much, so ultimately it will put pressure on the book value and overcollateralization test."

Market players said portfolios with larger percentages of downgraded assets, specifically in the airline or auto space, may need to sell some assets or look to pick up some higher-rated credits. "You will definitely see people looking to manage around that," the portfolio manager said. "You can sell assets or you can buy discounted assets to try to replace overcollateralization you lose when you have

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At Press Time

Start-up Begins Raising Capital To Buy Distressed Structured Products

New York-based start-up hedge fund **Hildene Capital Management** has raised about $20 million of the $1 billion it plans to invest in distressed structured products, including subprime mortgage-backed securities, collateralized debt obligations of asset-backed securities and collateralized loan obligations.

The company was founded by former **Marathon Asset Management** managing director **Brett Jefferson** early this year and started raising money in May. It now employs several other structured products professionals, including **Anik Ray** from **Wachovia Securities** and **Michael Nichol**, formerly of **Maxim Group** and Marathon.

The fund will invest in all parts of the capital structure, from AAA to equity, without targeting any individual credits. An official at Hildene declined to comment.

More Law Firms Hop On Covered Bond Band Wagon

Hays Ellisen

Law firms **Katten Muchin Rosenman** and **Heller Ehrman** have set up covered bond teams. Katten has also put together groups focused on distressed assets and credit crisis-related litigation.

The **Treasury Department** recently issued best practices for U.S. covered bonds and the **Federal Deposit Insurance Corporation** put together a policy statement on the securities, stoking interest in the sector from mortgage loan originators, investment banks and investors (*TS*, 8/1).

At Katten, **Hays Ellisen** and **Eric Adams** will co-lead the covered bond team. U.S.-based partners **Reid Mandel**, **Robert McLaughlin** and **Jeffrey Werthan**, and **Jayne Black** and **Martin Cornish**, partners at the firm's London affiliate, are also on the team. The covered bonds team will be looking to market to clients in the U.S. and Europe. "We're specifically going to be targeting issuers, underwriters and derivatives providers," Ellisen said.

At Heller, **Lynn Loacker**, shareholder, heads the covered bond team from the law firm's New York office. The covered bond team will include lawyers from the firm's structured finance, capital markets, restructuring and insolvency, real estate and finance groups as well as the firm's securities practice.

McKee Nelson and **Baker & McKenzie** have also set up covered bonds teams (*TS*, 6/30), (*TS*, 8/5).

In addition, Katten has launched a credit crisis solutions group consisting of two teams. One will work with distressed assets while the other focuses on credit crisis related legislation. The overall group is led by Ellisen and **Anthony Paccione**, partner. Adams and **Sheri Chromow**, partner, will oversee the distressed team while partners **David Bohan** and **Christian Kemnitz** will oversee the credit crisis litigation team.

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CDOs/CLOs

Spanish Bank Taps SME CLO Program

Spain's **Caja de Ahorros y Monte de Piedad del Circulo Catolico de Obreros de Burgos** (Caja Circulo) has completed a small-to-medium enterprise collateralized loan obligation worth €130 million ($193 million). The cash-flow transaction, called AyT Colaterales Caja Circulo I, is the third issuance under a program known as AyT Colaterales Empresas.

The deal comprises a static pool of around 2,000 loans to SMEs in Spain originated by the savings bank, with a 65% concentration in Caja Circulo's home region of Castilla Leon.

Four classes of notes have been rated AAA, A, BBB- and B by **Fitch Ratings**. They are expected to mature in 2032.

The AyT Colaterales Empresas program, incorporated in December 2007, aims to issue several series of notes collateralized by SME loans by up to 37 different Spanish financial institutions. The maximum overall size of AyT Colaterales Empresas is limited to €3 billion ($4.4 billion).

Officials with Caja Circulo could not be reached for comment.

Lehman Wraps €966 Mln Icelandic CLO

Lehman Brothers has structured a €966 million ($1.4 billion) collateralized loan obligation backed mainly by Icelandic loans. The loans comprising the portfolio were originated by one of Iceland's three major commercial banks, **Glitnir Banki**, and 77% of the notes are concentrated in the country. The deal's class A tranche has a coupon of 3% over three-month EURIBOR.

HAF Funding 2008-1 is backed by 247 corporate and project finance initiative loans to 23 debtors. Only 0.5% of the loans are PFI. Industry obligors include beverage, food, tobacco, finance and cargo transport.

Outside of Iceland, a diverse group of countries are included in the deal, including the Netherlands (12%), the U.S. (5%), Spain (3%), Canada (1%), Qatar (1%), and Germany (1%).

Moody's Investors Service has rated the class A notes A1, and has not rated the subordinate class B notes, which provide a 40% first loss protection. Analysts with the agency consider the high geographical concentration in Iceland a risk to the transaction.

Deutsche Bank in London is the principal paying agent on the deal, and **Deutsche Trustee** is the security and note trustee. Glitnir Banki has been appointed the liquidation agent. Officials with Deutsche and Glitnir did not return phone calls requesting comment. Lehman officials declined to comment.

Ares Preps $500 Mln Private Placement CLO

Ares Management is preparing a $500 million cash flow collateralized loan obligation for private placement. Ares Enhanced Loan Investment Strategy is backed by cash and high-yield loans. The deal follows the Los Angeles-based asset manager's deal from last month, the Global Loan Opportunity Fund I, which was also privately placed (*TS*, 7/22).

The four classes of notes are expected to receive AAA to BBB ratings from **Standard & Poor's**. The deal is set to be priced on Sept. 4. Price talk for the class A-1s was 180 basis points over three-month LIBOR. **JPMorgan** is the underwriter. A spokesman for the bank did not return a call for comment and an Ares spokesman declined comment.

Soc Gen Nears Close On Synth Project Finance CLO

Société Générale is set to close a project finance-related synthetic collateralized loan obligation which transfers the risk of default on the debt to investors through a credit default swap. **Hubert Le Liepvre**, global deputy head of structured products in London, said the deal forms part of the firm's growing focus on developing loan products that reference a diverse range of asset classes. He declined to give further details on the deal.

Le Liepvre said he has been moving staff from the firm's arbitrage and synthetic collateralized debt obligation teams to focus on CLOs. "The reference asset is what's driving the business. Counterparties ask themselves how they feel about a particular risk and assess how a particular asset class will react," he said.

Investors are more cautious about traditional synthetic products although the market is not dead, Le Liepvre said.

Covered Bond CDO Program Issues New Notes

Spanish securitization fund manager **Ahorro y Titulización** has closed a €750 million ($1.1 billion) issuance of collateralized debt obligation notes backed by covered bonds. The new issuance comes from a €200 billion ($297 billion) program. **Fitch Ratings** has assigned AyT Cedulas Cajas Global XVIII AAA ratings.

The CDO program was launched in 2005. Up to 43 Spanish banks, including **Caixa Penedes**, **Caixa Girona** and **Caja de Ahorros de Galicia**, can be involved in any one transaction, but those involved in this series could not be determined.

The program has a maximum term of 50 years and a maximum period for subsequent issuances of 20 years after the fund's creation date. Each existing series is allowed to increase in volume, subject to certain conditions.

Officials with AYT could not be reached for comment.

OZ ECA Wraps Its First CLO

OZ Euro Credit Advisor, a subsidiary of **Och-Ziff Capital Management Group**, has closed its first collateralized loan obligation — a €1 billion ($1.5 billion) deal arranged by **Goldman Sachs International**. The managed arbitrage transaction is backed mainly by senior-secured leveraged loans and some second-lien leveraged loans, which together have a weighted-average maturity of 5.77 years.

Assets have been distributed throughout Europe, the highest percentage of which falls in the Netherlands (26%), with industry concentrations including telecommunications, health care, publishing, utilities and radio and television. The transaction has a three-year reinvestment period.

Standard & Poor's has rated the deal's senior notes AA and has not rated the subordinate tranche. The initial investment sub-manager is **Och-Ziff Management Europe**. **BNP Paribas** is the collateral administrator, custodian, bank account provider and paying agent.

Oz Euro Credit Advisor was formed in May of this year. Officials with the firm, Och-Ziff and the involved banks could not be reached for comment. The deal is set to mature in 2020.

CLO Spreads Continue To Widen

This week collateralized loan obligation AAA spreads continued their steady migration to new wides in the secondary market. Spreads on the senior bonds are now at mid 200 basis points, said one collateralized debt obligation trader.

As spreads have widened, tiering has become more pronounced, with investors increasingly focusing on the differences between deals, managers, structures and underlying collateral, the trader said.

The trader noted investors are showing more interest in the AAs and As. AAAs and BBs have been harder to place, AAAs because of their size and BBs because of their risk. As defaults rise, investors are concerned interest streams to their bonds will get cut off, the trader said.

CMBS/RMBS

TCW Distressed Mortgage Fund Fully Invested

TCW's $1.6 billion Special Mortgage Credits Fund is fully invested and is starting to build leverage, said **Jeffrey Gundlach**, chief investment officer at TCW. The fund invests almost entirely in senior-level mortgage-backed securities trading at distressed prices, staying clear of any subprime or first- or second-loss investments. "That's an area we correctly perceived to be dangerous and it will probably be the last part of the market to find a bottom," Gundlach said.

The prices of loans rated A, BBB and BBB- underlying the 2006-2, 2007-01 and 2007-2 ABX, have all been halved since March and are hovering between 4 and 10. AAAs have been much less volatile in that time. The 2007-1 and 2007-2 vintage prices are down about 13% and 17% to the mid- to high-40s. The 2006-2 vintage is right where it started, at 67, while the 2006-1 vintage is up to 89 from 85. "It used to be they all dropped at the same time," Gundlach said. "Since March of 2008 you need to differentiate between [MBS] sectors. Someone used to be able to say, broadly speaking, the [MBS] market is either up or down. That may never be the case again."

The TCW fund, which can be levered up to one time, started marketing a year ago and was only about 8% invested in January before recently becoming fully disbursed. Gundlach declined to comment on any other distressed funds the company may have in the works.

Euro Summer Trading Lull Deeper Than '07

Trading in the secondary residential mortgage-backed securities market in Europe has hit a much deeper low than last summer. "Compared to this time last year there is very little bid list activity going on and volumes are very thin," said **Emmanuel Androulidakis**, RMBS trader at the **Royal Bank of Scotland**. "Some people are still trying to move positions, but there are no massive outflows from funds, just a small number of people who have to sell a small number of positions," he said. Last summer activity levels remained relatively high as investors moved to get out of positions effected by the onset of the subprime crisis.

"U.K. prime has drifted out to the 140 mark and Spanish [RMBS] hardly trade. When it does we are surprised how wide the trades are," Androulidakis said, referring to the AAAs. U.K. prime spreads had widened out from 130 basis points over LIBOR last month. "The bid lists for Spanish RMBS in particular are very, very aggressive and there are not any reasonable offers out there," he added. Androulidakis noted Spanish paper is still at anything from 300-500 bps, depending on factors such as loan-to-value ratios.

Dutch RMBS, a benchmark in the European market due to

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IMN ~ CALL: +1 212/768-2800 ~ FAX: +1 212/768-2484 ~ EMAIL: MAIL@IMN.ORG more stable house prices and a committed domestic investor base, remains one area of calm amid the volatility. Spreads on Dutch residential mortgage paper are holding steady at 80-90 bps, Androulidakis said.

Euro RMBS Issuance Falls After June Spike

Issuance of European residential mortgage-backed securities fell sharply in July after a significant increase in June. Total European RMBS issuance for July dropped to €29 billion ($43 billion) from €79 billion ($117 billion) the previous month, according to research by **Lehman Brothers**. The July figure represents a return to similar primary market activity in April, which was €37 billion ($55 billion) and May, which was €14 billion ($21 billion).

"The high level of issuance in June relative to July can be explained in part by the fact that people were trying to get things completed before the summer quiet period," said one research analyst. "Also, there were some very large retained deals in the £10-20 billion range from U.K. institutions. The approaching end of the first half of the year may have had an impact as well," he added," explaining issuers were trying to get their balance sheets into shape for the end of the first half of the year.

Commercial mortgage-backed securities also showed a small sign of life in July, with €348 million ($520 million) in CMBS being completed. The Foundation CMBS from **Investec Bank** was the first new CMBS issued after a three-month lull.

Default Imminent On Big Multifamily Loan

A default is imminent on a $225 million loan on Riverton Apartments, a New York apartment complex. The loan is part of CD 2007-CD4, which was securitized by **Citibank** and **Deutsche Bank** last March. The loan is the sixth-largest in the pool and represents 3.4% of the pool balance. According to information from **Trepp**, the borrower stated that it will be unable to make its September payment.

The default is unusual considering its size, with market execs saying they can't remember a similar default of this magnitude. But the default is not surprising, given that the property was underwritten with $23 million in projected annual cash flows despite actual cash flows of roughly $3 million, according to one analyst who has run the numbers on the deal. "This is an unusual event, but these kind of isolated examples will happen," he said. "This is the kind of stuff that shouldn't have gone into CMBS," he added.

The plan for the property, which is owned by **RP Stellar Riverton**, a joint venture between **Rockpoint Group** and **Stellar Management**, was to convert rent-stabilized units into fair market units. But a remittance report from the deal's servicer found that the owner was unable to do this as quickly as expected. Fair market units composed 4.5% of the complex's 1,230 units at the time of origination and, as of July, that figure was only increased to 10%.

The property, located at 2156 Madison Avenue in Harlem, is 97.4% occupied. It had an appraised value of $260 million at the time of securitization. In addition to the 10-year senior mortgage, which is a partial-term interest-only loan, there is another $25 million of mezzanine debt. The loan had a $19 million interest reserve fund to cover shortfalls, which has been depleted, the analyst noted.

The analyst estimated that the pool will see losses of 1% to 1.5%. The loan is part of CMBX 3 but a default is not expected to have a significant impact.

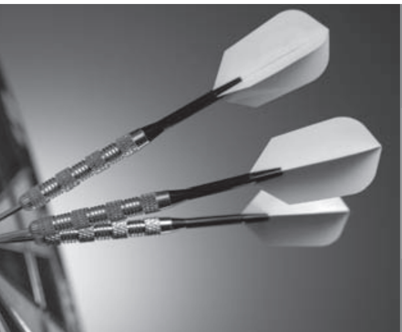
Calls to Citibank, Deustche Bank, Rockpoint and Stellar were not returned.

Bank of Scotland Churns Out £12.8 Bln RMBS

The **Bank of Scotland** has structured a £12.8 billion ($25 billion) residential mortgage-backed securitization. The vast majority of the paper will be eligible for the **Bank of England**'s special liquidity scheme, which is set to expire in October. "We are retaining the deal until further notice but it gives us additional flexibility to access funding when we need it," said **Mark Elliott**, Bank of Scotland spokesman.

The deal is a securitization of a pool of mortgages originated by the bank's **Birmingham Midshires** building society brand. The mortgage pool is composed of loans on homes across England, Wales and Scotland. The pool does not include any subprime mortgages but does have some buy-to-let and self-certified mortgages, however.

The notes are to be issued out of the Balliol Financing program. There are seven tranches: six class A tranches of £2 billion ($4 billion) each, rated AAA by **Standard & Poor's**, and a £800 million ($1.6 billion) class B tranche, which is unrated.



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ABS

Euro ABCP Spreads Near Pre-Crisis Levels

Spreads in the European asset-backed commercial paper market are just above where they were before the credit crunch set in. In some cases spreads are now just five basis points higher, which may be a sign the worst is over for the conduits, according to market participants.

Paper from six to eight ABCP programs has been circulating on traders' bid lists. Depending on investor's preferences for paper from certain vehicles, A1/P1-rated deals are trading from 10-30 bps over EURIBOR, according to one London trader. "Before the crunch hit the markets, ABCP was trading between EURIBOR flat and five bps over. Then September hit and boom, we couldn't write a one-week trade for an A1/P1 conduit for EURIBOR plus 50 bps," he said.

Spreads in ABCP conduits widened largely because of their similarities to ailing structured investment vehicles and other securitization vehicles, which made it difficult for investors to distinguish between them. But market players have maintained that ABCP is a fundamentally sound investment and now the market seems to be bottoming out. "Now that people have started to buy ABCP again, in theory there's only one way for spreads to go. They should come in over time," said the trader.

Big names like Tulip Funding and Amstel Funding from **ABN AMRO**, along with Landesbank **Baden-Württemberg**'s multiseller deal Lake Constance are three of about six to eight programs that investors are showing a preference for. Money market funds such as **Morley Fund Management** are the main investors in the deals.

People & Firms

B of A Shuffles Securitization Roles

Banc of America Securities has shuffled the responsibilities of some of the heads of its desks. **Patrick Beranek**, head of primary market asset-backed securities activities, has taken over as head of consumer ABS secondary market trading, in addition to his existing duties. The former head of that group, **Chris Connors**, has moved on to a structured products sales role. Connors' move was a personal decision to broaden out his skill set, according to an official familiar with the matter. **Anuj Baveja**, spokesman, did not return a call seeking comment.

Shariah Bank Hires Director

Shariah-compliant wholesale investment bank **Gatehouse Bank** has hired **Michael Clarke** as a director in its capital markets origination and structuring team in London. Clarke joins from **Abu Dhabi Islamic Bank,** where he spent more than seven years, most recently as an assistant v.p.

Clarke will be involved in the firm's securitization business, although the extent to which he will be could not be determined. He will report to **Anthony Saint**, the head of capital markets, who joined in May *(TS, 05/29)*. Saint oversees structured finance products including securitizations, sukuks, or Islamic bonds, and institutional wealth management offerings.

Officials with Gatehouse, including Clarke, could not be reached for comment. It could not be determined whether Clarke's former position with Abu Dhabi Islamic Bank has been filled.

SocGen ABS Analyst Departs

Christopher Greener, an asset-backed securities analyst at **Société Générale** in London, has left the bank. Greener had been with the French bank for about two years, according to **Juan Valencia**, credit analyst with the bank.

The reason for Greener's departure could not be determined and he could not be reached for comment. The analyst has not yet been replaced and it is unclear when or if a new hire would be made, Valencia said. Greener's securitization research colleague in Paris, **Jean-David Cirotteau**, remains with the bank.

S&P Senior Execs Let Go

Standard & Poor's is undergoing another round of layoffs in its structured finance group. Those let go last week include **Pat Jordan**, head of the global asset-backed and residential mortgage group; **Gale Scott**, global head of real estate finance; **Rosario Buendia**, head of global ABS and RMBS ratings and new assets; and **Peter D'Erchia**, global practice leader of structured finance surveillance.

The cuts are said to be widespread across the structured finance group, although further details could not be determined. Jordan, Scott, Buendia and D'Erchia did not return calls. **Chris Atkins**, spokesman, said the company does not comment on personnel matters.

In May, the rating agency also let go a number of analysts, including **Ellen Welsher**, head of the new assets group, and 12 RMBS analysts (*TS, 5/27*). About 30 staffers were also let go in March (*TS, 3/7*).

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U.S. Covered Bonds: A New Dawn Or Gathering Dusk

When **Henry Paulson** rose to lead off the series of statements that were part of the announcement of the launching of the U.S. covered bond market on July 28, many observers will have been wondering quite what all this was about. From an American perspective, the instrument is a quirky and historic financing instrument, dear to Europeans and the Germans in particular. Born from necessity in war-ravaged Europe in the late 18th century, the instrument has become a major liquidity tool in the late 20th century. Why would Secretary Paulson worry his head with this niche product from far away?

Not much good has come of the continuing economic turmoil and market disruption that daily seems to reap its toll. Headlines scream with anxious soundbites, pundits flood the news channels with gloomy prognoses. **Countrywide**, **IndyMac**, storms around the government sponsored enterprises — there is a lot for regulators to ponder. And yet the Paulson party on that Monday afternoon announced something both positive and imaginative. Sometimes dire circumstances allow for some creative reflection. The Secretary's statement was followed by a comprehensive series of related announcements and measures to ensure that this initiative does not just become a footnote in a historian's dry analysis of economic crisis management in the first decade of the third millennium. Nevertheless, questions will inevitably remain. Can this plan work? How will it work? What is a covered bond and what makes Hank believe that it can play any part in the U.S. capital market?

The European experience has validated the concept of the covered bond and even through these difficult times, the asset class has held much of its value. Regulators in Europe have been immensely supportive of the market and have long viewed it as a strategic source of liquidity. These facts have not escaped the attention of the Treasury team in Washington as it seeks inspiration from tried and tested ideas from elsewhere. The search has been on for concepts that provide new elements to strengthen the foundations of the infrastructure of the U.S. mortgage market.

The International Background

Section III of the "Best Practices for Residential Covered Bonds" unveiled in Washington helpfully provides a brief definition of what a covered bond is. Of course, the instrument is not wholly new to American shores. **Washington Mutual** became the first institution to bring this instrument across the Atlantic to be used as a tool for U.S. banks. The early plan was to target the deep pool of European investors. WaMu was followed by **Bank of America**, which went on to pioneer the first domestic issue in 2007. European banks had moreover sought to issue their covered bonds into the U.S., with a handful of deals getting away before the curtain came down on the market during the summer last year.

Since the market fallout, European investors have shunned the U.S. product. In addition, early attempts to position covered bonds as a quasi rates product in the U.S. were frustrated by a lack of liquidity, a narrow group of investors and poor secondary markets. The market crash did the rest.

Even in Europe the instrument has become what might be best described as a "hybrid" credit/rates product. Covered bond investors typically now look at three elements: the macro, meaning the economic conditions in the issuers' home jurisdiction, which will have a bearing on the quality of the collateral; the micro, referring to the credit worthiness of the issuer bank; and the legal risk, which is an assessment of the legal framework in the issuer's jurisdiction. These three elements are also factors for the rating agencies. Covered bonds are secured senior issues of a regulated financial institution governed in most European jurisdictions by a specific law. The security in the cover pools that provide the strong rating that the bonds typically enjoy takes the form of prime residential mortgages and public sector loans. European investors as buyers of U.S. covered bonds became concerned over the macro risk, worried by the micro (particularly following the dramatic downgrading of WaMu) and confused by the regulatory framework and lack of specific law.

Hank's Tempting Template

The question of the legal framework remains. The Treasury team has offered a template of best practice and not a covered bond law to enshrine shareholder protections and definitions of the product. From a practical perspective, the template was an easy deliverable as opposed to the extensive and time consuming work of providing primary legislation that is probably not absolutely necessary. Nevertheless, market observers will note that Congressman **Scott Garrett** has proposed a brief bill to improve certain aspects of the treatment of covered bond investors and provide for greater joint rule making amongst key

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regulatory bodies, and thereby ensuring a broader strategic approach to the development of the market and ease the control exercised predominantly by the **Federal Deposit Insurance Corp.** at present.

Accordingly, it is one of the base assumptions in cranking up U.S. covered bonds that the product will most probably be in U.S. dollars and be aimed at U.S. investors. There were a number of lessons to be learned from the original attempts to develop interest in the instruments. Among these is the need to incentivize a broad dealer community to support and trade the bonds. Therefore, it is to be hoped that any new issues will not only conform to the template of best practices but that issuers will chose a strong lead group of around four houses to provide after-market support. Investors had been strongly critical of the poor market support for the product in the past and the disparate focus that houses were providing in terms of trading, research and other aspects of the sector.

The statement that was made under the auspices of the **Securities Industry and Financial Markets Association** timed with Hank Paulson's template, provided a strong pointer to a consensus amongst trading houses, including the biggest and best-known names on the Street. Reference is made there to resources and support. Moreover, a U.S. covered bond traders council has been established to monitor the development of the sector and provide a direct communications link for investors to deal with concerns as they arise. This is a huge step forward compared to the previous piecemeal approach and draws from lessons in the European covered bond markets where the **European Covered Bond Council** established the '8-to-8' committee to deal with matters arising in the trading markets. This committee is composed of the main trading houses and a representative group of key issuers.

So Far So Good…

Getting the definition of the instrument right was always going to be tough. Generally, the reaction has been positive although somewhat cautious. Some criticism has been made of the overly conservative loan criteria, which set tough loan-to-value ratios (a maximum of 80% at the time of their inclusion in the cover pool), of the restrictive 4% of liabilities cap on issuance, and of the lack of an accommodation for public sector style assets at this stage. There remain quibbles on various other points of detail. Moreover, there remains a suspicion that the FDIC, whose policy paper was fully incorporated into the Treasury template, is at best only lukewarm on the product for understandable reasons. This does not bode well, notwithstanding the political posturing and warm words from the top of the organization. Commentators have even suggested that the implicit structural subordination that comes with pledging prime collateral to one set of bond holders comes at the expense of the FDIC's interests and ultimately exposes the US taxpayer. This represents an interesting but very narrow viewpoint that fails to take into account the vital role of this market in providing liquidity and improving underwriting standards that should contribute towards a more stable system, less likely to see spectacular bank failures. The comments also fail to focus on the carve-out for the **Federal Home Loan Bank** collateral that presents potentially a greater issue for the FDIC, although the FHLBs are deemed to have provided a strong and vital service throughout the crisis. In addition, the FDIC has considerable powers to charge what it needs for its insurance to ensure that the insurance fund does not suffer. The ultimate point made by the Treasury is that this market should in any event only be made available to 'well capitalized' financial institutions, not the ones that the FDIC should be worried about.

The biggest question marks, however, remain over the relative value and price of the instrument. The Treasury clearly hopes to set the covered bond up to provide an alternative to the Federal Home Loans system and the **Freddie Mac/Fannie Mae** duopoly. Bringing fresh investors to the table is a worthwhile strategic imperative, particularly in these straightened times. The hope is that the product will find a pricing level that also offers an attractive option besides the incremental funding capacity. Issuers and their leads will certainly have their work cut out to explain the instrument and provide investors with a compelling relative value argument. It may no longer be viable to suggest that the U.S. covered bond will price or behave as an agency surrogate. However, it should be argues that the very high quality of the collateral, tied to the requirement that the only issuers should be 'well capitalised institutions' and that the right to access this market will also require regulatory approval in each borrower's case, will ensure that investors will begin to view the product as being a high quality, premium priced instrument.

The development of this market still needs a lot of time and effort. Nevertheless, observers are generally supportive of the initiative, although realistic in terms of putting it into context. The real prize of creating a competitive and attractively priced asset class for issuers bringing deep pools of domestic liquidity to focus and support the U.S. mortgage market as it rebuilds is something worth doing properly. No one is calling for miracle results but if enough key people push the agenda forward the sun will come up on the sector.

Tim Skeet

This week's Learning Curve was written by ***Tim Skeet****, head of covered bonds at* ***Merrill***

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Award Categories & Nominees

Global Derivatives Award Categories

Equity Derivatives House of the Year
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- JPMorgan
- SG Corporate & Investment Banking

Structured Retail House of the Year
- Barclays Capital
- BNP Paribas
- Credit Suisse
- Lehman Brothers
- SG Corporate & Investment Banking

Equity Manager of the Year
- BlueMountain Capital Management
- Eton Park Capital Management
- CQS Management

Flow Credit Derivatives House of the Year
- Deutsche Bank
- Goldman Sachs
- JPMorgan
- Morgan Stanley

Credit Manager of the Year
- BlueCrest Capital Management
- BlueMountain Capital Management
- Citadel Investment Group
- Lion Global Investors

Fund-Linked House of the Year
- Barclays Capital
- Credit Suisse
- Deutsche Bank
- Lehman Brothers
- Nomura Securities

Law Firm of the Year
- Allen & Overy
- Cadwalader Wickersham & Taft
- Linklaters
- Mallesons Stephen Jaques
- Mayer Brown

Structured Credit House of the Year
- Barclays Capital
- Deutsche Bank
- Lehman Brothers
- Merrill Lynch
- Morgan Stanley

Global Derivatives House of the Year
- Barclays Capital
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- JPMorgan
- Morgan Stanley

European Securitization Award Categories

European Securitization of the Year
- Driver Five
  Underwriters: ABN AMRO and Volkswagen Financial Services
- Excalibur Funding No. 1
  Underwriter: Lehman Brothers
- Permanent Master Issuer
  Underwriter: HBOS

Law Firm of the Year
- Mayer Brown
- Orrick, Herrington & Sutcliffe
- Allen & Overy

Research Team of the Year
- Barclays Capital
- JPMorgan
- Citi

Cash CDO Manager of the Year
- Babson Capital Europe
- Highland Capital Management Europe
- Cairn Capital

Emerging Market Deal of the Year
- Ukraine Auto Loan Finance
  Underwriters: CJSC PrivatBank and UBS
- Tamweel Residential ABS
  Underwriters: Morgan Stanley and Standard Chartered
- Russian Factoring No. 1
  Underwriters: Deutsche Bank and VTB
- JSC Bank TuranAlem DPR Securitization
  Underwriters: ABN AMRO, JPMorgan, and Standard Chartered Bank

Outstanding Contribution Award
- Rick Watson, European Securitisation Forum
- Greg Medcraft, Australian Securitisation Forum
- Markit

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Event Of Default Scorecard

The following is a list of collateralized debt obligations that have recently tripped event of default triggers. For a full, more detailed listing of CDOs that have hit EOD, please go to www.totalsecuritization.com

Name	Issue Date	($ millions)	Underwriter	Trustee	Investment Manager	Swap Counterparty	Collateral Type	Collateral Location	Max Subprime %
Harp High Grade CDO I	6/26/06	1,000.00	Credit Suisse	LaSalle	Fixed Income Discount Advisory Compay (FIDAC)		RMBS	US	Unknown
Hudson Mezzanine Funding 2006-1	12/5/06	1,977.00	Goldman Sachs	BNY	N/A (Static)		ABS	US	Unknown
Libertas Preferred Funding IV CDO *	3/29/07	499.75	Merrill Lynch	BNY	Strategos		RMBS	US/UK/Canada	Large
Longshore CDO Funding 2006-1	1/27/06	750.00	Wachovia	Deutsche Bank	SAI Investment Adviser		High Grade ABS	US	Unknown
TOTAL		**$4,226.75**							

*** Accelerated**

Reg Tracker

The following is a roundup of selected current regulatory proposals, notices and directives collected from official bulletins and other sources that are deemed reliable. To notify TS of new measures call ***Olivia Thetgyi*** *at (212) 224-3273 or e-mail othetgyi@iinews.com.*

Regulator/Legislator	Date	Topic	Particulars	Status
FDIC	July 2008	Covered Bonds	The FDIC issued a final covered bond policy statement that clarified what term limits U.S. covered bonds would be allowed to have and what collateral they could be backed by. The policy statement also clarified the treatment of covered bonds in a conservatorship or receivership.	The policy statement is in effect and the FDIC said it may update it as the U.S. covered bond market matures.
Federal Reserve	May 2008	Credit Cards	Requirement that credit card companies provide consumers with advance notice of credit card account rate increases. The regulation would also prohibit other unfair practices.	Proposed by the Fed.
Financial Accounting Standards Board	April -July 2008	Qualified Special Purpose Entity Status	FASB recommended doing away with QSPE status, which would place originator's assets back onto their balance sheets.	FASB originally looked to force banks to bring some off balance sheet assets back on starting in 2009 but pushed the date back by a year following concern from market participants.
International Organization of Securities Commissions	June 2008	Rating Agencies	IOSCO provided guidelines on how rating agencies should behave when rating a deal.	Guidelines have been proposed.
SEC	July 2008	Rating Agencies	Revisions to the way that rating agencies rate structured products.	The SEC has proposed the changes.
Treasury	June, 2008	Covered Bonds	The Treasury issued best practices for covered bond structures in the U.S. Bankers, regulators and issuers recently met to discuss the direction of the emerging sector.	The Treasury remains supportive of the market. Bank of America, Citigroup, JPMorgan and Wells Fargo said in late July that would issue covered bonds.
Federal Reserve	July 2008	Fannie Mae, Freddie Mac	The Federal Reserve said it has allowed the Federal Reserve Bank of New York to lend to Fannie Mae and Freddie Mac should such lending prove necessary.	The authorization stands.
House, Senate, Treasury	July 2008	Housing, Fannie Mae, Freddie Mac	President Bush signed a massive housing bill into law that allows the Treasury to provide credit to Fannie Mae and Freddie Mac and to make an equity investment in the government sponsored entities. The law also grants a new regulator fresh authority over the GSEs' capital requirements and portfolio holdings. It also allows the regulator to share information regarding the capital, assets and liabilities, financial condition and risk management practices of the agencies with the Federal Reserve regularly. The bill also gives the FHA the authority to refinance existing mortgages if the lender writes down the loan to 90% of the property's value and pays a 3% upfront insurance premium. The bill also extends a $7,500 repayable tax credit for first-time homebuyers to July 1 of next year.	Goes into effect Oct. 1, 2008.
House	July-August 2008	Covered Bonds	The legislation would allow covered bonds to be treated as qualified financial contracts. The bill also gives covered bond regulatory rulemaking authority to the Treasury Department, the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation.	Proposed in the House.

CMBS Trading Matrix AUGUST 13, 2008

Conduit

Newly Originated Mortgage Collateral, Balloon, Call-Protected, Multiple Borrowers, Zero Delinquencies, Par, 5 yr AAA is narrow window, 10 yr AAA is senior AAA

Rating	5-yr Fixed	10-yr Fixed	5-yr Float (uncapped)
AAA	S+265	S+252	L+310
AA	NA	S+735	L+380
A	NA	S+1085	L+500
BBB	NA	S+1970	L+700
BBB-	NA	S+2430	L+900
BB	NA	T+2350	NA

Outstanding CMBS

One week and four week returns and excess returns for four classes of CMBS included in Banc of America Securities' CMBS index.

Rating	One Week Return	Excess Return	Four Week Return	Excess Return
AAA (10 yr)	-1.10%	-205.0	-3.89%	-426.5
AA	-3.23%	-412.8	-7.44%	-781.0
A	-12.92%	-1378.0	-17.23%	-1758.5
BBB	-10.21%	-1096.2	-16.82%	-1716.6

U.S. Swap Spreads

Premium to swap fixed-rate CMBS to floating-rate bonds, based on three-month LIBOR

	5 year	10 year
Current Spread	+98	+72
1-Week Change	+1	-2
4-Week Change	+5	+3
12-Month Change	+31	0

Source: **Banc of America Securities**

CLO MANAGERS

(continued from page 1)

to market something else down." Another investor added: "It does become a balancing act."

No one has seen widespread selling yet and players seem to be mixed on whether it will happen or not. "It may happen one-off, but people have to manage their portfolios according to their tests," said one investor. One player noted that since most CLOs are not heavily concentrated in the auto and airline arenas the need to sell could be minimal. *—Kristen Haunss*

LOAN BUYBACKS

(continued from page 1)

agencies require those parties to make the reps and warranties in order for the bonds to receive ratings.

"It's a reflection of the continuing housing and credit crisis," said **Hays Ellisen**, co-chair of the securitization practice at law firm **Katten Muchin Rosenman**.

JPMorgan, for example, may take losses on repurchases of recently securitized loans, according to a regulatory filing with the **Securities and Exchange Commission**. A weak housing market may exacerbate those losses, according to the 10-Q filing the firm filed this week. **Brian Marchiony**, spokesman at JPM, did not return a call seeking comment.

Michael Perry, ceo at **IndyMac Bank**, said in May that investors would be asking the bank to take back a greater number of loans. Officials at **Fannie Mae** mentioned the same month that they were issuing a greater number of loan repurchase requests.

"There's been more scrutiny of representations and warranties that have been made," said Ellisen. "Trustees, if they're looking at a deal where loans are going bad, they're checking whether reps and warranties were breached."

Market participants are working to deal with the higher number of mortgage loan repurchases. The **American Securitization Forum** has formed a trustee repurchase task force entrusted with setting up market standards as to what constitutes material and adverse breaches of representations and warranties (*TS*, 6/18). *—Leo Shvartsman*

FORMER MOODY'S

(continued from page 1)

make it stand out, one official said.

The new company will reportedly be called **Church Street Advisors**, possibly in reference to the duo's former affiliation with Moody's, whose former New York digs were located at 99 Church Street. The fund will target bonds whose assets are fundamentally sound but whose value has depreciated as a result of the monoline wraps now becoming worthless, the official said.

The fund will look at a variety of esoteric assets, which could include tobacco settlement securitizations, intellectual property deals and transactions backed by mutual fund fees, the official said. Another official said the fund may be teamed up with another larger fund, to which the two could act as advisor. Further details, including the fund's size and launch date, could not be gleaned.

Macy had been with Moody's for around 10 years and was known for his legal expertise with esoteric transactions. Eisbruck spent more than 16 years at the company and was regarded as the rating agency's repository of knowledge for the esoteric sector. "Jay would focus on the business and modeling sides and Steve would focus on the business side and the legal side. Their skills are not identical and would be complementary," commented **Dick Rudder**, global co-head of securitization at **Baker & McKenzie** and long-term player in the esoteric market.

Macy could not be reached and Eisbruck did not return phone calls. *—Olivia Thetgyi*

Quote Of The Week

"Someone used to be able to say, broadly speaking, the [MBS] market is either up or down. That may never be the case again."— **Jeff Gundlach**, *cio of* ***TCW****, on the growing need to differentiate between sectors in mortgage-backed securities (see story, page 4).*

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