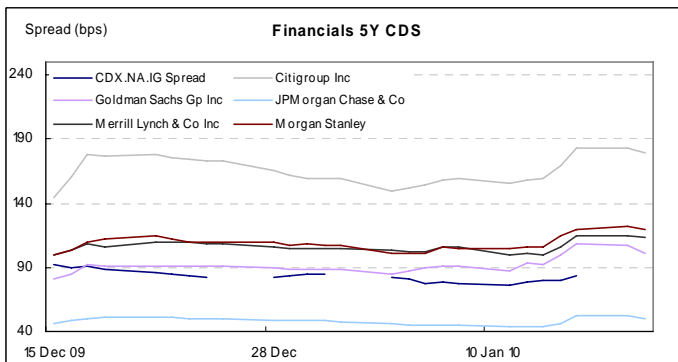


US ABS Market Review

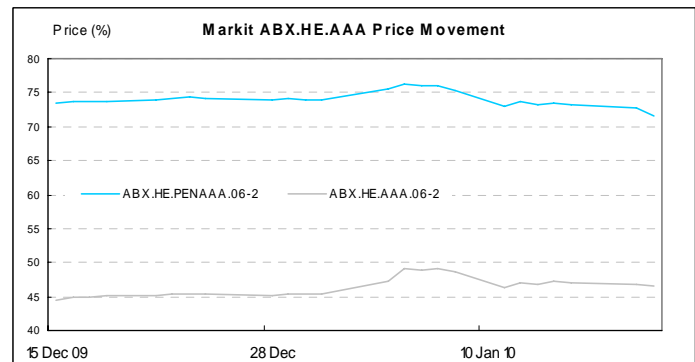
Mid Month Review: 15 December – 20 January 2010

As the holidays and year-end approached, Markit ABX.HE prices remained fairly stable across the entire series. The lone exceptions were in the ABX.HE.AAA and PENAAA. The Markit CMBX indices showed significant improvement. However, the trend in the CMBX has reversed since the beginning of 2010. The more noteworthy story so far in early 2010 seems to be the renewed appetite for RMBS securities by both investors and dealers. Large volumes of bonds traded off of bidlists, with prices rallying by as much as 4-5 points on Prime and Sub-prime '06-07 paper. All of this price action happened in the first week of Jan, with momentum stalling in the second week a bit under the weight of additional secondary supply.

In addition, there appears to be a renewed push to reopen the private label RMBS market, with reports of dealers shopping potential new issuance to investors and ratings agencies for feedback. If those efforts succeed, the prospects for a rebound in the US housing market should improve substantially.



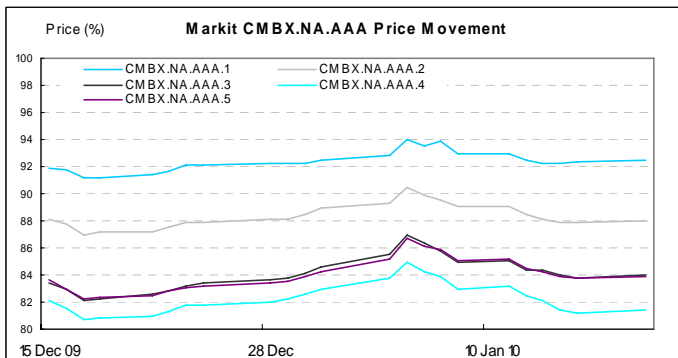
Source: Markit CDS



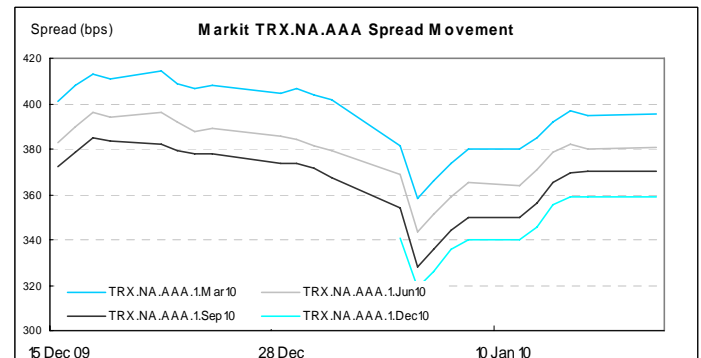
Source: Markit SF Indices

Current US Structured Finance Indices

So far the Markit CMBX and Markit TRX.NA indices have been the bigger movers this year, giving up most of their year-end 2009 gains with news of rising commercial real estate delinquencies. Additionally, Markit started off the year by launching a new maturity of the TRX.NA index, the TRX.NA.AAA.Dec10, which has since widened nearly 20 basis points.



Source: Markit SF Indices



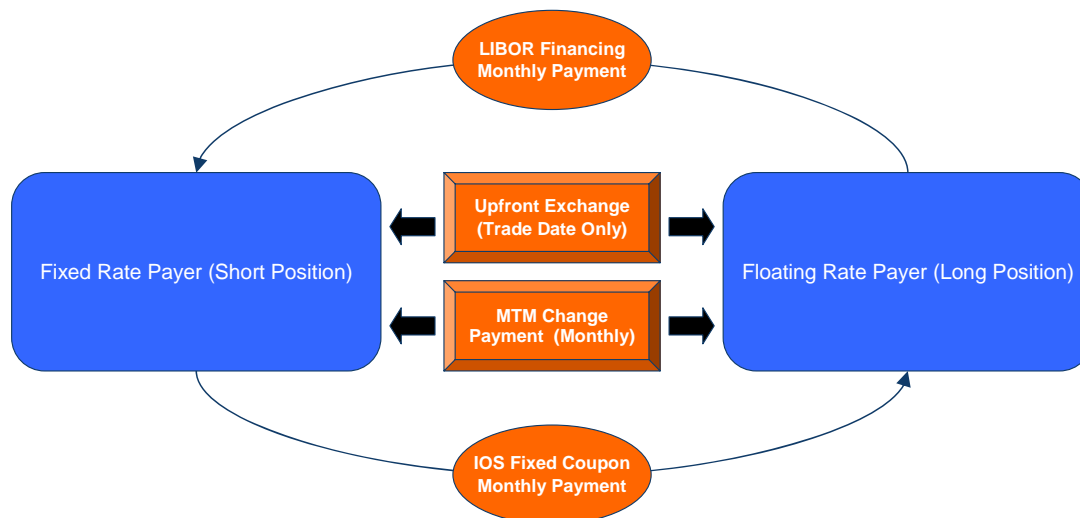
Finally, there were a number of reported interest shortfalls on the Markit CMBX indices this month, a sign of numerous commercial loan interest payment failures which have filtered down to the CMBX constituent bonds.

New US Structured Finance Indices

Last month, Markit announced plans to launch both the PrimeX and the IOS indices in the first quarter of 2010. PrimeX is designed to give synthetic exposure to a basket of non-agency prime RMBS, while the IOS is also a synthetic index built around agency RMBS interest-only (“IO”) cashflows (more on IOS below). The working groups for both indices have been looking to finalize both index projects, and have made significant progress towards the target launch dates, which are February 24th 2010 for the IOS and March 24th, 2010 for the PrimeX. Markit will be providing additional information on both the IOS and PrimeX indices at the upcoming ASF conference (1/31/10 – 2/3/10).

Markit IOS

- Synthetic Total Return Swap Index referencing the interest component of 4%, 4.5% and 5% coupon, 30-year, fixed-rate Fannie Agency pools
 - Index references *only* the interest component of reference pools
 - Index cashflows, prices, and valuation are independent of principal component
 - Initial plans focus Fannie pools only, with an eventual expansion to additional coupons and GSEs (eg., Freddie and Ginnie)
 - First Markit IOS indices reference “FNCL” pools issued in 2009
- Three sub indices, one for each coupon
 - IOS.FN30.400.09
 - IOS.FN30.450.09
 - IOS.FN30.500.09
- Exposure to agency pool coupon cashflows via synthetic TRS contracts
 - Net cashflow exchanges are a function of the change in market value of reference pool interest components along with standard monthly exchanges of coupon and financing cost



Full presentation available at:

<http://www.markit.com/en/products/data/indices/structured-finance-indices/ios/ios.page>

Markit PrimeX

The working group for PrimeX is still in discussions regarding specific trading conventions and index construction algorithms and will maintain the target launch date of March 24th, 2010. More information will be provided as it becomes available.

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