

May 11, 2010



Nanlan Ye  
Senior Vice President  
U.S. Fixed Income

## Fixed Income Commentary Weekly ABS Update

### Primary

- The new issue market remains active with two transactions executed last week: a \$960 million auto loan deal from Hyundai and a \$900 million bankcard deal from Bank of America.
- So far this year, \$39 billion of ABS has been issued, with \$25 billion of new issuance in the auto sector. Credit card volume has been relatively light at \$4 billion.

### Secondary

- A relatively quiet week in secondary trading, with the broader market selloff due to the events in Greece and Europe. Spreads had been holding firm during the early part of the week, but on Thursday and Friday consumer ABS felt at least some of the selling pressure as the global market dropped sharply in the wake of an alleged trading glitch. Retail auto senior spreads were 5-10bps wider and subordinate spreads widened 20bps. In the credit card space, fixed and floating rate seniors widened about 15bp and 10bp, respectively. FFELP backed student loan ABS spreads were off about 5bp. Off-the-run ABS sectors, such as whole business and aircraft ABS, were 1-2pts lower from Monday's close.

### Consumer ABS BWIC 5/3/2010 to 5/7/2010 (in \$ Mil)

TYPE	Sum of Amt Coupon Type	Date					Grand Total
		5/3/2010	5/4/2010	5/5/2010	5/6/2010	5/7/2010	
ASSET	FIXED					10.00	10.00
AUTO	FIXED	66.00	11.29	132.05	61.25	15.23	285.82
	FLOATING			2.27	13.37	30.97	46.61
CARD	FIXED	63.25	81.37		23.97	142.80	311.39
	FLOATING	164.03	205.38	95.93		44.42	509.75
EQUIPMENT	FLOATING				0.47		0.47
STUDENT	FLOATING		47.95	13.07		25.88	86.90
UTILITY	FIXED				4.32		4.32
<b>Grand Total</b>		293.28	345.98	243.32	103.39	269.30	1,255.26

## Fixed Income Commentary

### Weekly ABS Update (cont'd)

- Despite the recent spread weakness, credit card ABS continued to perform well within the consumer ABS sector.

#### ABS Index Return (bp)

	MTD Total Return (May)	YTD Total Return
U.S. Aggregate	45	330
ABS	17	296
Credit Card	28	343
Auto	-6	134
Utility	3	284

Source: Barclays U.S. Aggregate Index as of 5/7/2010

#### Consumer News

- Nonfarm payrolls rose 290,000 in April, significantly above expectations. However, the unemployment rate rose to 9.9% as thousands of job seekers entered the workforce.
- April U.S. auto sales declined 4.8% to 11.2 million from March, but were up 19.9% year-over-year.
- Initial jobless claims decreased to 44,000 in the week ending May 1. This brings the four-week moving average down to 459,000.
- ADP employer services said the U.S. gained 32,000 jobs in April. The gain was driven by services and manufacturing payrolls.
- Consumer credit trends were generally unchanged as reported in the April 2010 Senior Loan Officer Survey.

#### Market News

- This Tuesday, May 11, the FDIC will hold a board meeting to continue the discussion of the securitization safe harbor. The outcome of the securitization safe harbor issue will have long-lasting implication for the consumer ABS market, particularly credit cards.
- The House of Representatives last week introduced the College Debt Swap Act, which is similar to a Senate version proposed last summer. The bill will create a temporary program to refinance eligible private credit student loans into Federal Direct Consolidation Loans. Given the eligible criteria, a limited amount of borrowers will be able to use the program. However, successful implementation of the program like this should be beneficial for senior ABS bondholders.

## Fixed Income Commentary

### Weekly ABS Update (cont'd)

- The Department of Education released draft 2-yr cohort default rates for FY 2008 for FFELP and FDLP loans. The default rate is 7.2% for FY 2008 versus 6.7% for FY 2007 and 5.2% for FY 2006. Defaults on FFELP loans tend to raise minimal credit concerns since they carry at least a 97% ultimate guarantee by ED, assuming the servicer adheres to specific standards.
- Earlier last week, three amendments to the financial regulatory reform were debated in the Senate. If incorporated, the amendments could have negative implications for credit card ABS.

### Spreads

<b>FIXED</b>	<b>Benchmark</b>	<b>Credit Cards</b>	<b>Auto Prime</b>	<b>Auto Near Prime</b>	<b>FLOATING</b>	<b>Benchmark</b>	<b>Credit Cards</b>	<b>FFELP Student Loans</b>
1-yr	EDSF		15	20	2-yr	Libor	25	
2-yr	Swaps	20	20	30	3-yr	Libor	30	30
3-yr	Swaps	25	25	50	5-yr	Libor	40	
5-yr	Swaps	35			7-yr	Libor	50	65
10-yr	Swaps	50			10-yr	Libor	60	
b-piece (5-yr)	Swaps	80	100		b-piece (5-yr)	Libor	80	
c-piece (5-yr)	Swaps	140			c-piece (5-yr)	Libor	125	

Source: JPM Research

This publication is for information purposes only. While the information and statistical data contained herein are based on sources believed to be reliable, we do not represent that it is accurate and should not be relied on as such or be the basis for an investment decision. Any opinions expressed are current only as of the time made and are subject to change without notice. TCW assumes no duty to update any such statements. Copyright TCW 2010