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## Fixed Income Commentary

# Recent Consumer ABS Strength Should Continue

Spreads on auto and credit card asset-backed securities tightened through the first quarter of 2010, generally to 30-40 basis points above swaps. While consumer ABS spreads have softened in the latest Eurozone-led contagion, improving U.S. economic fundamentals continue to suggest tightening through the rest of the year.

Credit card charge-offs dropped from 11.21% in March to 10.91% in April. While charge-offs displayed on the chart below are higher than in years past, this drop is still significant because it reaffirms the outlook most industry participants had for the post first-quarter period, in particular, that charge-offs would subside and a healthier, better-performing consumer would emerge. Similarly, the delinquency, principal payment rate, yield and excess spread stats all continue to improve dramatically, which is a definite positive for the sector.

As Moody's stated in their April report, overall delinquencies have fallen for six straight months and now sit at their lowest monthly rate since November 2008. Early-stage delinquencies, representing accounts 30-59 days delinquent, are also at their lowest levels since summer 2008.

### Credit Card Charge-Offs Move Lower in April

Monthly Index

CREDIT INDICES (IN %)	APR 2010	APR 2009	% CHANGE	YTD 2010	YTD 2009	% CHANGE
Charge-Off Rate*	10.91	9.97	9.37	11.07	8.96	23.56
Delinquency Rate	5.54	6.34	<b>-12.54</b>	5.81	6.20	<b>-6.43</b>
Early-stage Delinquency	1.35	1.62	<b>-16.63</b>	1.43	1.70	<b>-15.94</b>
Mid-stage Delinquency	1.21	1.42	<b>-14.53</b>	1.19	1.38	<b>-13.24</b>
Late-stage Delinquency	2.98	3.30	-9.67	3.19	3.13	1.80
Principal Payment Rate	18.23	16.18	<b>12.68</b>	17.71	16.05	<b>10.34</b>
Aggregate Yield*	22.39	17.54	<b>27.71</b>	22.38	17.46	<b>28.16</b>
One-month Excess Spread*	8.72	4.45	<b>96.01</b>	8.53	5.43	<b>57.25</b>

Source: Moody's

\*Annualized percentage rate.

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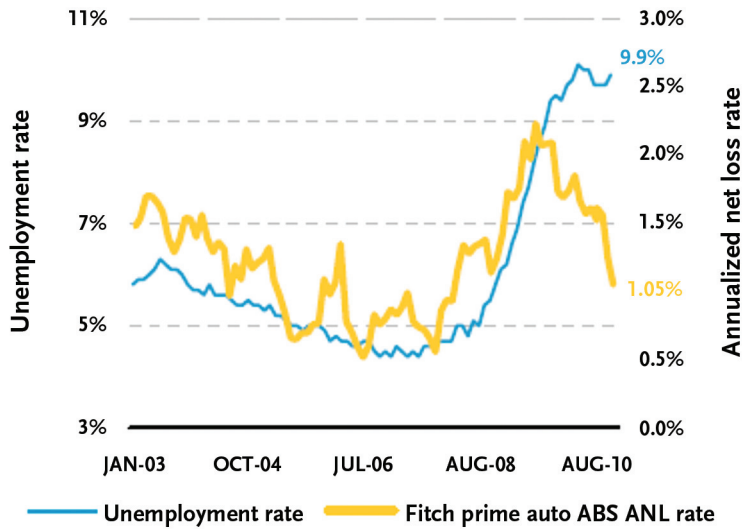
## Recent Consumer ABS Strength Should Continue (cont'd)

The tailwind from robust new vehicle sales has supported Auto ABS new issue volume and net loss improvements. Auto ABS accounted for about half of total ABS new issue volume through the first four months of 2010. The net loss rate for Fitch's prime auto ABS index, meanwhile, improved for the fourth month in a row in April. During the month, the metric improved 19 bps to 1.05%, its lowest level since November 2007. The net loss for Fitch's subprime index also improved 56 bps to 2.86%, the best showing since April 2008. Continued strong recovery rates have also supported auto ABS with the Manheim Used Vehicle Index rising to 120.7 in April from 119.9 a month earlier. The index is 13.2% higher than a year ago.

In April, serious delinquency rates of 60+ days maintained an improving trend across vintages. 2007 vintage loans improved an average of 17 bps while 2008 and 2009 vintage loans saw month-over-month improvements of 6 and 4 bps, respectively.

An improving U.S. employment picture and better personal balance sheets have aided credit performance thus far in 2010. Nevertheless, fallout from the European debt crisis could tighten lending standards as U.S. banks seek to reduce risk. One-month LIBOR, for instance, hit a 12-month high of 0.354% on May 26.

### Unemployment versus Fitch prime auto ABS annualized net loss rate



Source: FitchRatings, Bureau of Labor Statistics

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