

Research



The Asset-Backed Market in 1998 and the Outlook for 1999

February 1999

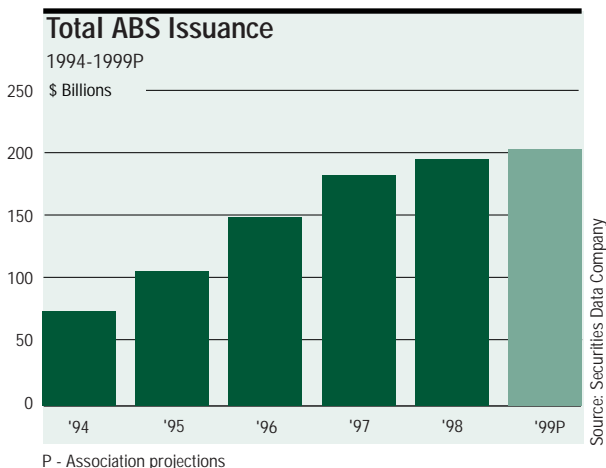
The asset-backed securities (ABS) market grew modestly in 1998, with issuance reaching \$197.6 billion in the period, a 7.1% increase over the \$184.5 billion issued in 1997. ABS issuance still managed to record gains for the year, despite the turbulent third quarter, which resulted in the postponement of numerous transactions. Third-quarter issuance levels fell sharply, totaling \$47.7 billion in the period, a 16.4% decline from the second quarter's \$57.0 billion total.

growth is expected in 1999, the market is not expected to grow as sharply as it did in previous years, with the new issue supply totaling an estimated \$205.6 billion for the year, a 4.1% increase over the 1998 total. The home equity, credit card and auto loan sectors are expected to continue as the mainstays of the market, with projected issuance of \$74.5 billion, \$40.1 billion and \$37.2 billion this year, respectively. However, although domestic growth is expected to be somewhat modest in 1999, the rate of growth in the international sector is expected to be higher.

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P - Association projections

Even though home equity-backed issuance was the driving force behind growth in total volume, renewed issuance in the auto loan, equipment lease and manufactured housing sectors all helped contribute to gains in total issuance. Home equity transactions accounted for 41.9% of all issuance in 1998, representing \$82.8 billion in issuance. Volume in the auto loan and manufactured housing sectors totaled \$35.1 billion and \$11.4 billion, respectively, while ABS collateralized by equipment leases totaled \$9.2 billion.

The ABS market has become a liquid sector of the capital markets and continues to grow both domestically and internationally. Strong investor demand and the diversity of securities available have helped to fuel the growth in the ABS market. While additional

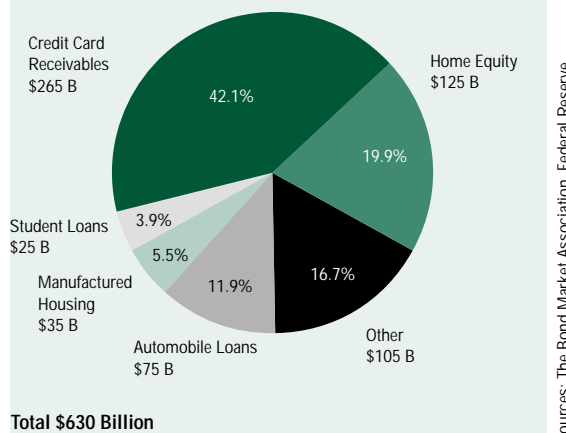
Outstanding Supply Exceeds \$600 Billion

The level of outstanding ABS has grown sharply over the past several years as issuance has reached record levels. Outstanding supply totaled an estimated \$630.0 billion at year-end 1998, a 22.5% increase over the estimated \$513.6 billion outstanding at the end of 1997. The outstanding level of ABS has jumped more than threefold since 1993 when supply totaled just \$178.1 billion.

Outstanding credit card-backed debt accounted for the largest proportion of the ABS market at the end of 1998, with supply

Continued on Page 4

ABS Outstanding by Major Types of Credit 1998*



* The Bond Market Association estimates

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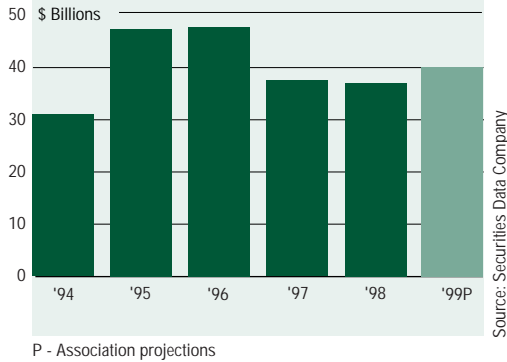
Credit Card Issuance Remains Stable

Issuance in the credit card sector was relatively flat in 1998, with issuance totaling

\$37.1 billion, essentially unchanged from 1997's \$37.5 billion. Credit card-backed issuance had posted a 31.7% gain in the first half, but third-quarter volume stalled as a result of adverse market conditions. First half growth was primarily a result of debt issued to replace roll-offs of credit card portfolios issued over the past several years and the easing of consumer credit concerns. However, volatile global market conditions in the second half of the year resulted in a large number of postponed offerings. The credit card sector is expected to post modest issuance gains this year, with volume projected to total \$40.1 billion.

Credit Card Receivable ABS Issuance

1994-1999P



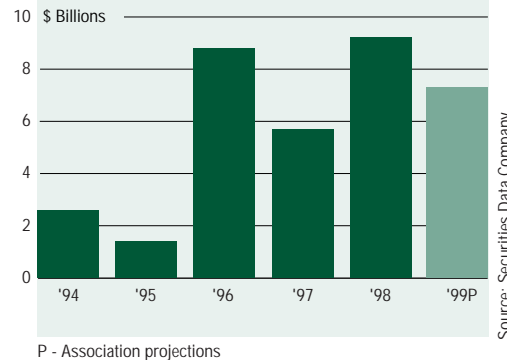
Equipment Lease Sector Sets Record

Equipment lease ABS issuance surged to \$9.2 billion in 1998, edging out the pre-

vious \$8.8 billion record reported in 1996 and representing a 73.7% jump over the \$5.3 billion issued in 1997. Helping contribute to the sector's gains was the GPA Group, an Irish aircraft leasing company, which refinanced more than half of a \$4.0 billion issue originally sold in 1996. Other issuers adding to the total included Newcourt Equipment and Case Equipment, both having brought billion-dollar transactions to the marketplace. Equipment lease issuance is expected to decline marginally in 1999, totaling a projected \$7.3 billion.

Equipment Lease ABS Issuance

1994-1999P



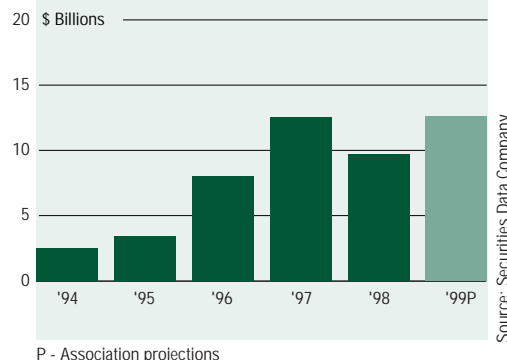
Student Loan Volume Declines 23%

Issuance in the student loan sector dropped by 23.0% in 1998, totaling \$9.7

billion, as compared to the \$12.5 billion issued in 1997. Adverse market conditions in the later part of 1998 influenced issuers to postpone offerings. In fact, not a single transaction was brought to market in the third quarter. Sallie Mae, the most active issuer in the student loan ABS market, pulled all its transactions for the entire second half of 1998, and attributed its absence to market conditions. Student loan ABS issuance, however, is expected to bounce back in 1999, with volume totaling \$12.6 billion, a 30.0% increase over 1998's total.

Student Loan ABS Issuance

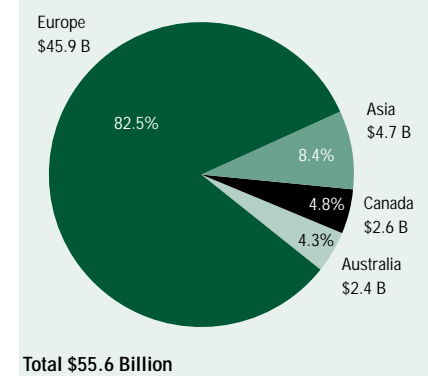
1994-1999P



International ABS Issuance Tops \$55 Billion

International ABS Issuance

1998



The international ABS market continued to grow in 1998, with issuance increasing by 11.7% over year-earlier levels, totaling \$55.6 billion, as compared to the \$49.8 billion reported in 1997, according to preliminary figures provided by Asset-Backed Alert. It should be noted, however, that while the underlying collateral of an international issue may originate outside the home country, Asset-Backed Alert attributes issuance to the region where the issue is predominantly sold.

European ABS issuance represented the greatest proportion of total international volume, accounting for an 82.5% market share. ABS issuance in Europe totaled \$45.9 billion in 1998, up 17.3% from the \$39.2 billion issued in 1997. Meanwhile, ABS issuance in Asia jumped by 52.9%, with volume reaching \$4.7 billion in 1998, as compared to the \$3.0 billion reported in 1997. Issuance in Canada surged 37.2%, totaling \$2.6 billion in 1998, as compared to the \$1.9 billion seen in 1997. In contrast, issuance in Australia dropped to \$2.4 billion in 1998, a 55.9% decline from the \$5.5 billion issued in 1997.

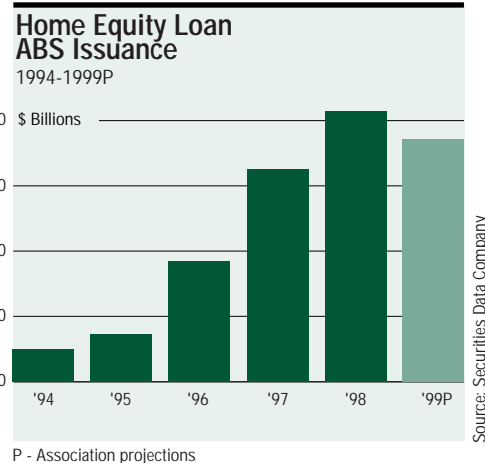
Home Equity Sector Remains Dominant Force

The home equity sector proved its ascent to become the top asset class in 1997 was not an anomaly. The home equity sector maintained its dominance in the new issue market in 1998, with volume representing over 41.0% of total issuance in the period. Issuance in the sector totaled \$82.8 billion in 1998, a 28.7% increase over the \$64.4 billion sold in 1997. The low-interest-rate environment and attractive terms available for homeowners to consolidate debt continued to drive the growth in the market in 1998.

However, the same factors that have caused issuance to surge in recent years — competition and consolidation — may cause issuance to

decline this year. The increased pressure on spreads, particularly in the third quarter of last year, and a lack of available funding have prompted some mainstays in the sector to either scale back their activity or, in some cases, exit the business entirely. For example, two major issuers, Aames and Amresco, both announced that they would cease their securitization efforts entirely, while ContiFinancial plans to significantly reduce its issuance levels.

The sector should regain stability, as credit-related issues are resolved and industry consolidation pressures achieve equilibrium. However, issuance is expected to come under



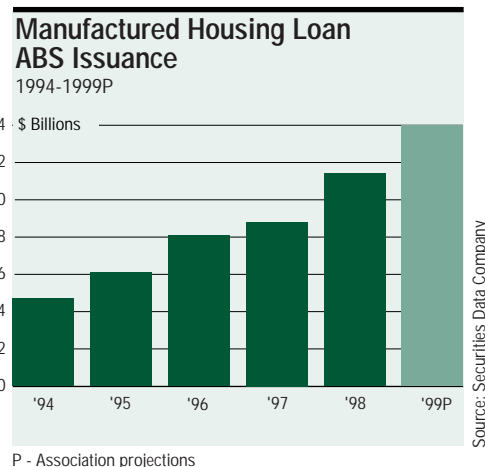
some pressure going forward into 1999, with volume projected to total \$74.5 billion for the year, a 10.0% decline from 1998's total.

Manufactured Housing Volume Soars

The manufactured housing sector continued to exhibit strength in 1998, with issuance totaling \$11.4 billion, a 28.1% increase over the \$8.9 billion sold in 1997. Gains were reported in the sector despite the shake-up among the two largest issuers in the industry, with Green Tree being acquired by Conseqco and BankAmerica's sale of its manufactured housing lending business.

Manufactured homes, which are prefabricated single-family homes, have become more popular in recent years as a result of several factors,

including quality improvements in the construction of the homes, greater availability of desirable site locations, flexible financing terms and affordability for a wide segment of the population. The growing demand for these manufactured units is illustrated by the fact that prefabricated homes currently account for nearly one-third of all new single-family homes sold. Manufactured housing ABS issuance is expected to remain healthy, totaling a projected \$14.0 billion in 1999, a 23.2% increase over 1998's level.

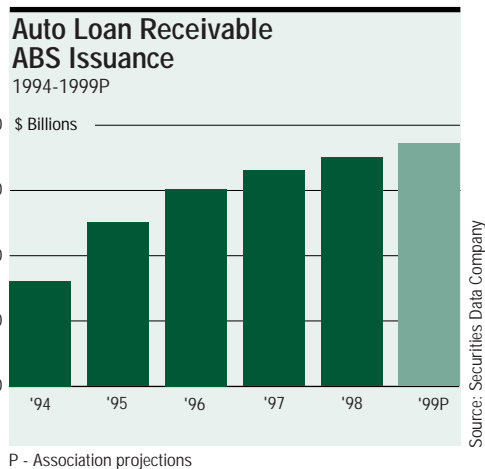


Auto Loan Issuance Jumps 6%

Auto loan ABS issuance rose by 6.0% in 1998, totaling \$35.1 billion, as compared to the \$33.1 billion sold in 1997. Although continued credit concerns in the sub-prime auto sector mitigated issuance somewhat, attractive funding rates influenced the three most active auto issuers to access the market with billion-dollar transactions last year.

Ford, Chrysler and Chase each came to market with several billion-

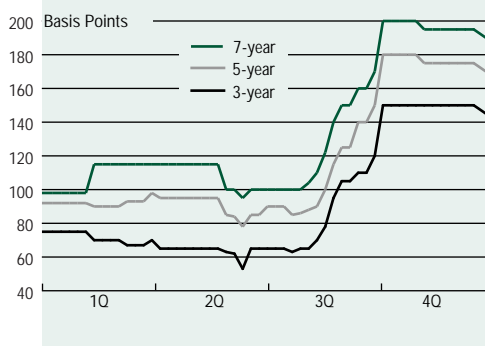
dollar deals throughout the year. In addition, Daimler-Benz also issued a billion-dollar transaction in December of last year. Issuance should increase marginally in 1999 as a result of continued activity by the top three issuers and General Motors' return to the market. Auto loan ABS issuance is expected to increase 6.0% in 1999, totaling an estimated \$37.2 billion.



Adverse Global Market Conditions Cause Spreads to Widen in the Third Quarter of 1998

Home Equity Loan ABS Spreads

1998



Source: Chase Securities Inc.

Manufactured Housing Loan ABS Spreads

1998



Source: Chase Securities Inc.

ABS-to-Treasury spreads were relatively stable throughout the first half of 1998; however, the third-quarter financial turmoil caused spreads to widen considerably in the latter part of last year. The financial crisis severely impacted the ABS market, as investors flocked to the U.S. Treasury market in search of quality and liquidity. The most dramatic widening occurred in the home equity and manufactured housing sectors, with spreads on 7-year home equity loan and 7-year manufactured housing loan transactions topping out at 200 basis points and 175 basis points, respectively, in the first week of October. Similarly, auto pass-through spreads also increased to 115 basis points over U.S. Treasuries during the last week of October. However, spreads have begun to narrow considerably in the beginning of 1999, with declines of 10 to 20 basis points across most sectors.

Auto Loan ABS Spreads

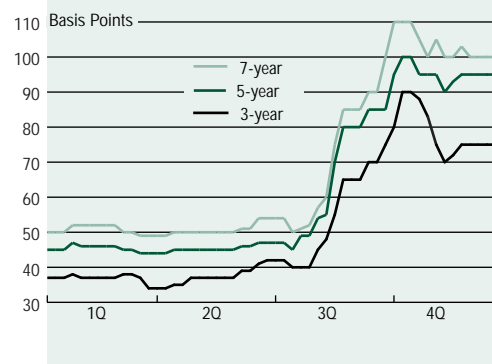
1998



Source: Chase Securities Inc.

Fixed Rate Credit Card ABS Spreads

1998



Source: Chase Securities Inc.

Stranded Costs Take a Back Seat

The emerging asset class of securities backed by stranded costs failed to materialize in 1998, as volume totaled only \$3.4 billion, a 43.5% decrease from the \$6.0 billion issued in 1997. Only one utility receivable ABS transaction came to market in 1998, as Unicom, a Chicago electric utility company, issued \$3.4 billion under its

Commonwealth Edison Trust holding company in December. Market participants had expected issuance to total between \$10.0 billion and \$20.0 billion in 1998; however, many states that had been anticipated to approve legislation aimed at deregulating the electric utility markets failed to complete their efforts. Stranded cost

issuance for the coming year remains a wild card, as many states' legislative plans remain unclear. States that are expected to come to market this year with securities backed by utility receivables include California, Pennsylvania and Massachusetts. Stranded cost issuance is projected to total \$10.2 billion in 1999.

Outstanding Supply

continued from page 1

totaling an estimated \$265.0 billion at year-end, up 19.6% from the \$221.5 billion year-earlier level. Although credit card debt accounts for most outstanding supply, its dominance has diminished in recent years, as other sectors such as home equity and auto loans have flourished. At the end of 1995, the credit card sector accounted

for 50.7% of outstanding supply, but by year-end 1998 the sector's proportion had fallen to only 42.1%. In contrast, outstanding home equity-backed debt has risen sharply, and at year-end 1998 accounted for \$125.0 billion in supply, or 19.9% of the total, a 36.2% increase over the \$91.8 billion level at year-end 1997. The outstanding level of

automobile loan ABS totaled an estimated \$75.0 billion at the end of 1998, a 15.4% jump over 1997's year-end level of \$65.0 billion. Manufactured housing debt accounted for an estimated \$34.5 billion of total supply at the end of 1998, a 24.1% increase from the \$27.8 billion level reported at the end of 1997.