Asset-Backed Securities and CDOs

Market Update

(1) European Market
(2) U.S. Market

ESF Securitisation Data Report

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European Securitisation Issuance[1] Drops in the Third Quarter to €89.5 Billion on Weakened Global Credit Market Conditions; Market Outstanding Volume[2] Remains Flat at €1.32 Trillion as of 30 September 2007

Highlights

- For the first time, the European Securitisation Forum (ESF) is publishing the outstanding volume by rating for the European securitisation market. Ratings data provide an up-to-date measure of the rating diversification provided by securitisation and represents the amount of risk that is transferred via various asset classes[3].
- As of 30 September 2007, the European securitisation market outstanding stood at €1.32 trillion.
- European securitisation issuance dropped in the third quarter to €89.5 billion compared to €164.8 last quarter and €113.5 billion a year ago. Securitised issuance includes both issues retained by a bank and issues sold to external investors. Based on the strength of a record first half, year-to-date issuance totaled €393.2 billion, a 36.2 percent increase over the first three quarters of 2006. The global credit market repricing and lower market liquidity which commenced in earnest in the third quarter is likely to result in a year-over-year decline in origination activity for the first time since 2000.
- Issuance of residential mortgage-backed securities (RMBS) accounted for the largest sector as volume totaled 54.0 percent of total issuance year-to-date. Third quarter issuance dropped to €52.6 billion compared to €77.8 billion last quarter and €58.0 billion a year ago.
- Collateral debt obligation (CDO) issuance was the second ranking product sector. Third quarter issuance fell to €16.1 billion, down from €21.2 billion a year ago and €40.9 billion in the second quarter, reflecting the onset of weakened global credit market conditions, new challenges for issuers to access the capital markets and de-leveraging in the structured finance investor base.
- Commercial mortgage-backed issuance rose to €42.9 billion year-to-date, up from €40.3 billion a year ago, but totaled only €6.0 billion in the third quarter. Combined, mortgage-related markets, including RMBS and commercial mortgage-backed securities (CMBS), accounted for 64.9 percent of total securitised issuance.

[1] Securitisation issuance includes both public and private issues. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after prior cut-off dates.

[2] Outstanding volume is calculated by the principal balance outstanding on all structured product transactions, including public, private, rated, unrated, listed and unlisted securities, with European assets or liabilities as reported by Bloomberg. Current outstanding volume is calculated using either the current or original pool factor, as adjusted for the expected weighted average life at the time of transaction pricing for each tranche. Consistent with securitisation issuance calculations and presentation, outstanding volume is detailed by currency, country of collateral and asset class. The criteria includes all sectors, except CDOs, if the collateral originates from a European country regardless of currency. For the CDO sector, only Euro-denominated issuance is included regardless of the country of collateral. Outstanding volume does not include retained transactions or tranches.

[3] The estimates for current rating are based on the current rating of the tranche/s of each transaction or on the lowest rating if there are two or more ratings per tranche provided by the agencies.

Economic and Market Environment

Economic Conditions

- Despite market turmoil, economic growth remains sustained, but is showing signs of moderating as we enter the fourth quarter and as the cycle matures. The outlook will be affected by the appreciating Euro, higher oil prices and the effect of global credit market conditions on the broader economy.
- The moderating pace of growth, along with the appreciating Euro, should ease European inflationary pressures. Although "headline" inflation suggested subdued inflation, and the most recent reading is below the target of 2 percent, central bank policies are sensitive to inflationary pressures from approaching capacity levels and labour price pressures. The Euro currency appreciation to record levels relative to the U.S. dollar serves to ease inflationary pressures.
- In view of global financial market conditions, the European Central Bank (ECB) in September maintained short-term interest rates at 4.0 percent, which is still considered accommodative, after eight consecutive quarter rate increases. During the quarter, the ECB, along with other central banks, added liquidity to ease credit market conditions.
- In response to the current liquidity crisis, the securitisation industry and the ESF are actively working on a number of initiatives to address the current market environment. These initiatives include continue improving transparency in structured finance markets; developing guidelines for consistent disclosure of methodologies to value portfolio holdings and regular reporting of post-issuance information; and clarification of subprime and non-conforming definitions.

Market Conditions

- Reduced investor risk tolerance after a period of high levels of liquidity is at the root of the changed market conditions in the third quarter. The market is going through a period of investor de-leveraging and retrenchment. Affected investors include structured investment vehicles (SIVs) and conduits.
- LIBOR, EURIBOR and overnight bank rates reached historic highs in the quarter. Money market rates started to ease in September following central bank actions.
- A combination of U.S. subprime contagion, global credit repricing, increased volatility and low liquidity in some products reduced investor demand, leading to the lower issuance. Issuance volumes are likely to remain subdued for the balance of the year as funding costs have risen. One effect is the slowing of the bank disintermediation trend which had been supported if not driven by the growth in the securitisation market. Some issuers have recently retained securitised assets perhaps for repo financing during the current period of significantly higher long-term securitisation costs. Other issuers are waiting for tightening of spreads before issuing new securities while simultaneously considering other sources of funding.
- Another implication is the likely trend towards higher quality collateral in lower leveraged and less complex transaction structures.
- The changed market conditions have led to a "flight to liquidity" and much higher credit spreads across rating and product sectors to levels not seen in a number of years and, in some cases, without precedent in the secondary market. The wider spreads were an important factor in the reduced issuance volumes in the quarter. For example, during the quarter: 5-year AAA UK prime RMBS widened by 45 basis points to 55 basis points; and AAA 5-year UK non-conforming widened by 85 basis points to 105 basis points. In continental Europe, the AAA 5-year Dutch prime AAA RMBS spread widened by 30 basis points to 40 basis points, while Italian paper widened by 42 basis points to 55 basis points as a clear indication of generally weaker credit market conditions and divergent investor views on the mortgage markets across Europe. Even within certain sectors, the differentiation among deals has become greater and there is increasing focus on collateral and loan level information for securitised assets. In the CDO sector, AAA CLO spreads widened by 30 basis points to 55 basis points and BBB CLO spreads widened by 200 basis points to 375 basis points. CMBS spreads also widened in the quarter, with Eurozone AAA spreads moving out by about 75 basis points during the quarter to 140 basis points at quarter-end, and BBB spreads widened by over 100 basis points in the quarter to 195 basis points.
- The market has clearly repriced. The spreads appear to be driven more by liquidity than fundamental credit quality considerations. While the current liquidity levels make it difficult to assess secondary market pricing trends, at quarter-end, there were some signs of recovery in terms of secondary market transaction flows and spreads in the safest and highest quality products including prime AAA UK and Dutch RMBS issues where spreads came in by 10-15

basis points between the second half of September and the first week of October. Spreads across many market sectors appear to be stabilising toward the end of the quarter.

- Headline risk is likely to remain for some time. Once market conditions stabilise, clearing prices will take into account credit quality measures and higher volatility. Longer term buy-and-hold investors will be relatively advantaged, and due diligence, transparency, timely availability and access of transaction data as well as credit quality distinctions will continue to be significant themes.

Collateral Sectors

- RMBS continued to be the leading issuance sector with €212.2 billion and 54.0 percent of overall volume through the third quarter. Third quarter issuance declined to €52.6 billion from €77.8 billion in the second quarter and €58.0 billion a year ago.
- CDO issuance increased nearly 60 percent to €93.1 billion in the first three quarters of the year compared to €59.3 billion in the first three quarters of 2006. CDO volume slowed in the third quarter to €16.1 billion, down from €40.9 billion in the second quarter, the result of reduced liquidity and the de-leveraging trend.
- CMBS was the third largest sector with €42.9 billion, slightly more than the €40.3 billion issued in the first nine months of 2006. Third quarter volume fell to €6.0 billion from €25.0 billion in the second quarter and €22.0 billion a year ago.
- Auto loan backed ABS issuance totaled €10.9 billion year-to-date, significantly higher than the €5.0 billion for the first nine months of 2006, based on a strong second quarter. Third quarter issuance dropped to €2.7 billion from €6.0 billion in the second quarter and compared to €3.2 billion a year ago.

Country of Collateral (excluding CDO)[4]

- Securitisation issuance backed by collateral originated in the UK reached €154.8 billion and accounted for 51.6 percent of overall volume in the first nine months of the year, 35.0 percent higher than the €114.7 billion issued at the same time last year. Third quarter issuance totaled €30.2 billion, less than half the €62.1 billion volume in the second quarter of this year and 35.7 percent lower than the €47.0 billion issued in the third quarter a year ago. UK RMBS totaled €116.2 in the first nine months and accounted for 54.8 percent share of the overall RMBS sector, compared to 53.6 percent at the same time in 2006. The CMBS sector was also dominated by UK collateral with €25.5 billion, or 59.4 percent of total CMBS issuance. Outstanding securitisation volume with collateral originating in the UK was €492.6 billion, more than 37.2 percent of the entire European securitisation market.
- Issuance of securities with collateral based in Spain was €45.4 billion compared to €23.9 billion in the first nine months of 2006. Third quarter volume of €14.5 billion was only marginally higher than volume last quarter which totaled €14.4 billion. Spanish volume in the first nine months of the year was largely driven by strong RMBS issuance during the first half of the year. RMBS issuance totaled €36.1 billion through the third quarter, up from €21.0 billion during the same period last year. During the third quarter, there has been an increase in the number of issuers retaining RMBS transactions and using the senior AAA tranches as collateral for repo transactions. Outstanding volume in Spain, one of the largest growing regions, grew more than 20.5 percent to €173.1 billion due to the strong increase of RMBS issuance in the first half of the year.
- Italian issuance grew to €23.9 billion in the first three quarters of 2007, 21.3 percent higher than the €19.7 billion issued in 2006 with much of that growth coming from RMBS transactions. Italian RMBS issuance totaled €15.2 billion, nearly two-thirds of total Italian securitised issuance year-to-date. Third quarter volume dropped sharply to €3.1 billion compared to €14.1 billion last quarter and €4.2 billion in the third quarter a year ago.
- Issuance backed by collateral originated in the Netherlands totaled €27.9 billion, 70.1 percent higher than the first three quarters of 2006. Dutch RMBS volume totaled €22.4 billion through the first nine months of this year. CMBS was the second largest Dutch collateral product sector at an issuance volume of €4.8 billion. The Dutch issuance volume increased in the third quarter to €11.5 billion from €10.6 billion last quarter and €3.6 billion a year ago.

[4] CDO issuance in 2006 totaled €103.6 billion and €93.1 billion through 2007:Q3. Only CDOs issued in Euros are included. Covered bond issuance data is available at the European Covered Bond Council's website, http://ecbc.hypo.org/Content/Default.asp

- German issuance volume was €13.5 billion in the first three quarters of the year, with most of that volume coming from the CMBS sector which totaled €7.5 billion. German issuance fell dramatically in the quarter to €1.8 billion from €8.2 billion last quarter and €18.4 billion a year ago.
- Other significant sources of collateral for new issuance were Ireland (€8.4 billion year-to-date), Portugal (€7.9 billion), Belgium (€4.1 billion with most of the issuance occurring in the third quarter) and France (€3.1 billion).
- Issuance supported by multinational collateral is becoming more prominent in the marketplace. Despite a decline between the second and third quarter, multinational collateral backed issuance totaled €5.1 billion, more than all of the volume in 2006.

European Securitisation Issuance
€ Billions

Historical Issuance

	Q1	Q2	Q3	Q4	Total[1]
2000	14.1	16.4	21.4	26.3	78.2
2001	20.5	43.2	22.7	66.2	152.6
2002	24.3	42.6	35.7	55.1	157.7
2003	43.3	51.9	39.7	82.4	217.3
2004	55.8	59.0	53.2	75.5	243.5
2005	47.8	94.4	41.5	143.3	327.0
2006	68.3	106.9	113.5	185.8	474.5
2007	138.9	164.8	89.5		393.2

Issuance by Collateral

	2007:Q1	2007:Q2	2007:Q3	2007:Q4	2007 TOTAL	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL
Auto Loans	2.2	6.0	2.7		10.9	0.8	1.0	3.2	6.8	11.8
C. Cards Rec	0.1	0.4	0.2		0.7	1.6	1.0	0.2	0.6	3.4
CDO[2]	36.1	40.9	16.1		93.1	13.7	24.4	21.2	44.3	103.6
CMBS	11.9	25.0	6.0		42.9	8.0	10.3	22.0	21.0	61.3
Leases[3]	1.7	2.5	-		4.2	0.4	1.0	0.3	4.2	5.9
Loans[4]	5.1	8.2	7.2		20.5	1.0	5.3	2.9	6.0	15.2
Receivables[5]	-	2.9	2.5		5.4	0.5	1.5	3.6	0.4	6.0
RMBS	81.8	77.8	52.6		212.2	37.6	49.3	58.0	99.7	244.6
Other	-	1.1	2.2		3.3	4.8	13.1	2.1	2.8	22.8
TOTAL[1]	138.9	164.8	89.5		393.2	68.4	106.9	113.5	185.8	474.6

Issuance by Country of Collateral (Excluding CDO [2])

	2007:Q1	2007:Q2	2007:Q3	2007:Q4	2007 TOTAL	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL
Austria	-	-	-		-	-	-	-	0.6	0.6
Belgium	-	0.2	3.9		4.1	-	-	-	2.3	2.3
Denmark	0.1	0.4	-		0.5	-	-	-	-	-
France	1.3	1.8	-		3.1	0.6	0.7	4.1	2.3	7.7
Germany	3.5	8.2	1.8		13.5	0.9	11.2	18.4	7.2	37.7
Greece	-	1.5	1.3		2.8	-	2.0	1.0	0.6	3.6
Ireland	2.9	3.2	2.3		8.4	0.4	2.5	3.3	4.5	10.7
Italy	6.7	14.1	3.1		23.9	3.0	12.5	4.2	10.5	30.2
Kazakhstan	0.1	0.4	-		0.5	-	-	-	0.2	0.2
Luxembourg	-	-	0.1		0.1	-	-	-	-	-
Netherlands	5.8	10.6	11.5		27.9	6.9	6.0	3.6	12.1	28.6
Portugal	2.9	2.4	2.6		7.9	-	-	4.9	0.9	5.8
Russia	-	1.1	0.1		1.2	1.0	-	0.1	0.6	1.7
Spain	16.5	14.4	14.5		45.4	5.7	13.2	4.9	20.2	44.0
Sweden	-	-	-		-	-	0.2	-	-	0.2
Switzerland	0.4	0.3	-		0.7	-	-	-	-	-
Turkey	-	-	-		-	-	0.7	-	1.2	1.9
UK	62.5	62.1	30.2		154.8	36.1	31.7	47.0	77.4	192.2
Ukraine	0.1	-	-		0.1	-	-	-	-	-
Multinational	-	3.2	1.9		5.1	-	1.8	0.8	0.9	3.5
TOTAL[1]	102.8	123.9	73.3		300.0	54.6	82.5	92.3	141.5	370.9

[1] Numbers may not add due to rounding. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after the prior period cut-off dates.

[2] CDO securities issued in Euros. CDO issuance in 2006 totaled €103.6 billion and €93.1 billion through 2007:Q3. Only CDO issued in Euros are included. Historical CDO issuance totals have been revised due to periodic updates of the sector. A substantial percentage of CDOs are backed by multi-jurisdictional collateral.

[3] Includes equiptment and other leases.

[4] Includes leveraged, commercial, consumer, corporate and other loans.

[5] Includes account, health care, insurance, oil, utility and other receivables.

Sources: Thomson Financial, JP Morgan, Merrill Lynch, Bloomberg

European Securitisation Issuance
€ Billions

Collateral Type by Country of Collateral (Excluding CDO[1])

2006:Q3 YTD

	Auto Loans	C. Card Rec	CMBS	Leases[2]	Loans[3]	Receivables[4]	RMBS	Other	TOTAL
Belgium	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	-	-	-	-	-
France	1.3	-	1.1	-	2.2	-	0.3	0.5	5.4
Germany	2.5	-	14.1	0.3	-	-	6.2	7.5	30.6
Greece	-	-	-	-	-	-	3.0	-	3.0
Ireland	-	-	0.4	-	-	-	5.9	-	6.3
Italy	-	-	1.3	1.0	1.9	2.2	11.5	1.8	19.7
Kazakhstan	-	-	-	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-	-	-	-
Netherlands	-	-	1.0	-	0.5	-	14.9	-	16.4
Portugal	0.5	-	-	-	-	-	4.4	-	4.9
Russia	-	-	-	0.4	0.3	0.3	0.1	-	1.1
Spain	-	-	-	-	2.9	-	21.0	-	23.9
Sweden	-	-	-	-	0.2	-	-	-	0.2
Switzerland	-	-	-	-	-	-	-	-	-
Turkey	-	-	-	-	-	-	-	0.7	0.7
UK	0.7	2.8	20.2	-	1.2	3.1	77.6	9.1	114.7
Ukraine	-	-	-	-	-	-	-	-	-
Multinational	-	-	2.2	-	-	-	-	0.3	2.5
TOTAL[5]	5.0	2.8	40.3	1.7	9.2	5.6	144.9	19.9	229.4

Collateral Type by Country of Collateral (Excluding CDO [1])

2007:Q3 YTD

	Auto Loans	C. Card Rec	CMBS	Leases[2]	Loans[3]	Receivables[4]	RMBS	Other	TOTAL
Belgium	-	-	-	-	-	-	3.9	0.2	4.1
Denmark	-	-	-	-	0.4	-	0.1	-	0.5
France	1.3	-	-	-	-	-	1.4	0.4	3.1
Germany	4.8	-	7.5	-	1.2	-	-	-	13.5
Greece	-	-	-	-	-	-	2.8	-	2.8
Ireland	-	-	1.5	-	-	-	4.9	2.0	8.4
Italy	1.7	-	-	1.7	2.6	2.6	15.2	0.1	23.9
Kazakhstan	-	-	-	-	-	-	0.1	0.4	0.5
Luxembourg	-	-	-	-	-	-	0.1	-	0.1
Netherlands	-	-	4.8	-	0.7	-	22.4	-	27.9
Portugal	-	-	-	-	-	-	7.9	-	7.9
Russia	0.3	-	-	-	-	0.3	0.6	-	1.2
Spain	2.8	-	-	-	6.5	-	36.1	-	45.4
Sweden	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	0.4	0.3	-	-	0.7
Turkey	-	-	-	-	-	-	-	-	-
UK	-	0.7	25.5	2.5	8.3	1.4	116.2	0.2	154.8
Ukraine	-	-	-	-	-	-	0.1	-	0.1
Multinational	-	-	3.6	-	0.4	0.8	0.3	-	5.1
TOTAL[5]	10.9	0.7	42.9	4.2	20.5	5.4	212.2	3.3	300.0

[1] CDO securities issued in Euros. CDO issuance in 2006 totaled €103.6 billion and €93.1 billion through 2007:Q3. Only CDO issued in Euros are included. Historical CDO issuance totals have been revised due to periodic updates of the sector. A substantial percentage of CDOs are backed by multi-jurisdictional collateral.
[2] Includes equiptment and other leases.
[3] Includes leveraged, commercial, consumer, corporate, small business and other loans.
[4] Includes account, oil, health care, insurance, utility and other receivables.

[5] Numbers may not add due to rounding. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after the prior period cut-off dates.

Sources: Thomson Financial, JP Morgan, Merrill Lynch, Bloomberg

European Securitisation Issuance
€ Billions

Collateral Type by Country of Collateral (Excluding CDO[1])

2006:Q3 YTD

	Auto Loans	C. Card Rec	CMBS	Leases[2]	Loans[3]	Receivables[4]	RMBS	Other
Belgium	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	-	-	-	-
France	1.3	-	1.1	-	2.2	-	0.3	0.5
Germany	2.5	-	14.1	0.3	-	-	6.2	7.5
Greece	-	-	-	-	-	-	3.0	-
Ireland	-	-	0.4	-	-	-	5.9	-
Italy	-	-	1.3	1.0	1.9	2.2	11.5	1.8
Kazakhstan	-	-	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-	-	-
Netherlands	-	-	1.0	-	0.5	-	14.9	-
Portugal	0.5	-	-	-	-	-	4.4	-
Russia	-	-	-	0.4	0.3	0.3	0.1	-
Spain	-	-	-	-	2.9	-	21.0	-
Sweden	-	-	-	-	0.2	-	-	-
Switzerland	-	-	-	-	-	-	-	-
Turkey	-	-	-	-	-	-	-	0.7
UK	0.7	2.8	20.2	-	1.2	3.1	77.6	9.1
Ukraine	-	-	-	-	-	-	-	-
Multinational	-	-	2.2	-	-	-	-	0.3
TOTAL[5]	5.0	2.8	40.3	1.7	9.2	5.6	144.9	19.9

Collateral Type by Country of Collateral (Excluding CDO[1])

2007:Q3 YTD

	Auto Loans	C. Card Rec	CMBS	Leases[2]	Loans[3]	Receivables[4]	RMBS	Other
Belgium	-	-	-	-	-	-	3.9	0.2
Denmark	-	-	-	-	0.4	-	0.1	-
France	1.3	-	-	-	-	-	1.4	0.4
Germany	4.8	-	7.5	-	1.2	-	-	-
Greece	-	-	-	-	-	-	2.8	-
Ireland	-	-	1.5	-	-	-	4.9	2.0
Italy	1.7	-	-	1.7	2.6	2.6	15.2	0.1
Kazakhstan	-	-	-	-	-	-	0.1	0.4
Luxembourg	-	-	-	-	-	-	0.1	-
Netherlands	-	-	4.8	-	0.7	-	22.4	-
Portugal	-	-	-	-	-	-	7.9	-
Russia	0.3	-	-	-	-	0.3	0.6	-
Spain	2.8	-	-	-	6.5	-	36.1	-
Sweden	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	0.4	0.3	-	-
Turkey	-	-	-	-	-	-	-	-
UK	-	0.7	25.5	2.5	8.3	1.4	116.2	0.2
Ukraine	-	-	-	-	-	-	0.1	-
Multinational	-	-	3.6	-	0.4	0.8	0.3	-
TOTAL[5]	10.9	0.7	42.9	4.2	20.5	5.4	212.2	3.3

Agency MBS Issuance Holds, Private-Label Volume Falls

Issuance of mortgage-related securities, including agency and non-agency pass-throughs and collateralized mortgage obligations (CMO), totaled \$1.63 trillion in the first three quarters of 2007, compared to the \$1.49 trillion issued in the same period last year. Third quarter mortgage-related securities issuance volume fell to \$476.6 billion, lower than the \$617.1 billion issued in the previous quarter and the \$495.8 billion issued in the third quarter of 2006. The lower volumes are attributable to continuing housing market sector weakness and depressed non-agency market conditions, especially in the subprime segment. New and existing home sales continued to fall through the third quarter, with new home sales down 2.5 percent and existing single-family home sales lower by 8.0 percent in September, compared to August. Tightening non-agency underwriting standards and lower housing prices are reducing mortgage origination volumes. The Mortgage Bankers Association expects new home sales to trend lower over the next year. The housing recovery must wait until the substantial inventory of homes on the market has been reduced. Lower benchmark yields may provide some support for conforming issuance in the form of lower conforming rates. Despite some improvement since August, the nonconforming MBS market continues to be beset by reduced liquidity and historically wide spreads to the agency market.

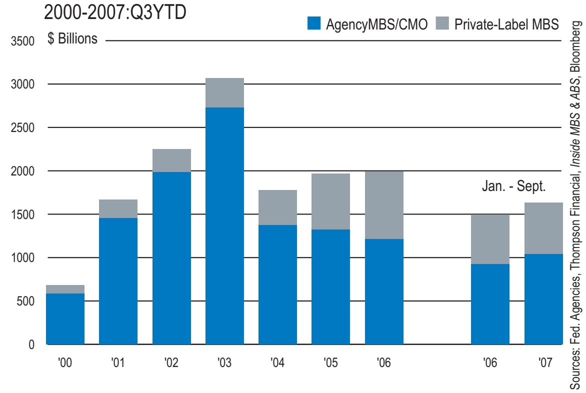
Downward credit quality pressure remains unabated as the 2006 mortgage vintage looks to be one of the weakest ever. Standard & Poor's has downgraded \$16.0 billion in residential mortgage-backed securities (RMBS) in the third quarter and a total of \$20.3 billion year-to-date. According to a recent Deutsche Bank report, cash losses in the subprime MBS market are estimated to be at least \$150.0 billion, 12 percent of the \$1.2 trillion market, but a much smaller percentage of the broader mortgage-related securities market. The large volume of adjustable rate mortgage (ARM) resets in October added to the mortgage sector exposure. The reset volume will decline after October until March of next year, according to Moody's Economy.com. According to *Inside Mortgage Finance*, the issuance of subprime mortgage-backed securities dropped in the third quarter to \$26.2 billion, down over 60 percent from the \$74.7 billion in the second quarter.

Issuance of agency mortgage-backed pass-throughs totaled \$849.0 billion in the first nine months, an increase of 24.8 percent above the \$680.2 billion issued in the first three quarters of 2006. The wide differential between agency and non-agency pricing has driven the migration of market share to agency MBS issuance. Agency collateralized mortgage obligations (CMO) issuance decreased to \$193.0 billion in the period ended September 30, 21.3 percent below the \$245.1 billion issued in the comparable period of 2006.

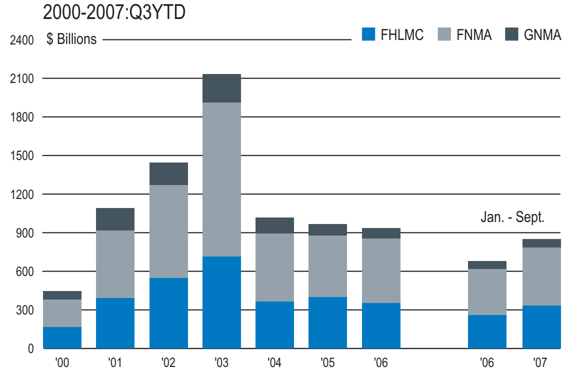
Aided by a still vibrant commercial mortgage-backed securities (CMBS) market through the third quarter, total non-agency MBS issuance, including jumbo and higher-quality residential and CMBS, increased to \$603.4 billion in the first nine months, boosted by the record-setting first quarter. Third-quarter volume decreased on a linked-quarter basis, and September's \$26.7 billion issuance of total non-agency MBS was well below the average volume in July and August and the monthly average during the first half of the year.

Private-label residential MBS issuance includes both jumbo mortgages that exceed conforming loan size limits and higher-credit-quality mortgages with a FICO score of 675 and above that do not meet agency underwriting guidelines. RMBS new-issue volume decreased to \$419.6 billion in the first nine months, down from \$448.9 billion in the same period last year. Third-quarter issuance was \$140.7 billion compared to \$115.4 billion in the second quarter and \$147.2 billion in the third quarter a year ago.

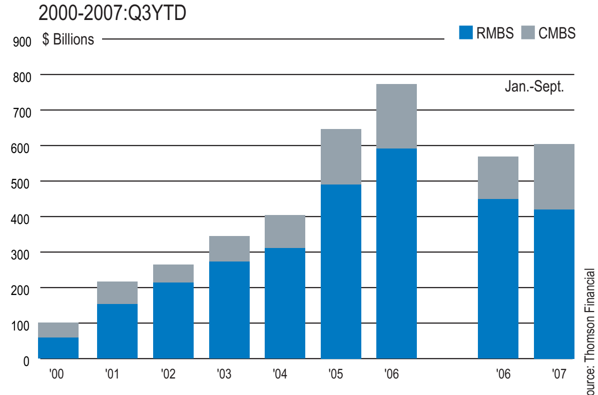
Issuance of Mortgage-Related Securities
2000-2007:Q3YTD



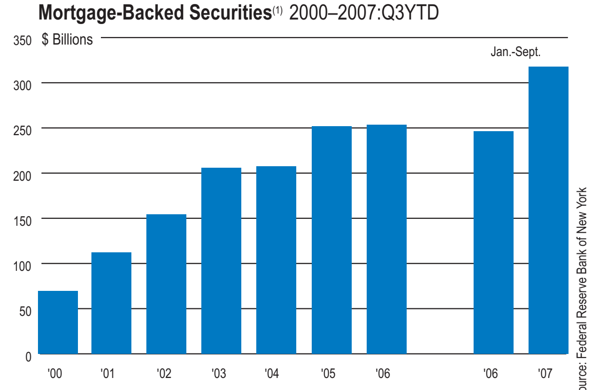
Issuance of Agency Mortgage-Backed Securities
2000-2007:Q3YTD



Issuance of Mortgage-Related Securities
2000-2007:Q3YTD



Average Daily Trading Volume of Agency Mortgage-Backed Securities[1] 2000–2007:Q3YTD



[1] Primary dealer activity

ABS Issuance Falls in the Third Quarter on Mortgage Market Weakness

Asset-backed securities (ABS) issuance totaled $759.6 billion through the first nine months of the year, a decline of 17.2 percent compared to the same period a year earlier. The third quarter ABS issuance of $127.5 represented a 60.0 percent decline compared to the second quarter, and 59.1 percent lower than the same period a year ago. The reduced volume is directly attributable to conditions in the subprime mortgage and home equity sectors. The consensus view is that the housing sector and the mortgage market downturn will continue at least into next year which will keep mortgage ABS and home equity (HEL) volumes depressed. The continuing stream of subprime mortgage rating downgrades, along with the significant credit spread widening, provides confirmation of the subprime credit quality deterioration. Non-housing finance related ABS sector spreads also widened during the quarter. Auto and credit card spreads did begin to rally and issuance began to pick up late in the quarter.

Leading ABS Sectors

HEL ABS volume decreased by almost half to $202.2 billion through the first nine months compared to $377.0 billion during the same period in 2006. Issuance at $14.2 billion was also dramatically lower for the third quarter, by 83.7 percent and 87.1 percent from the second quarter of 2007 and the third quarter of 2006, respectively. Despite the lower HEL volume this year, HEL still remains the largest ABS sector, accounting for 26.6 percent of total ABS issuance.

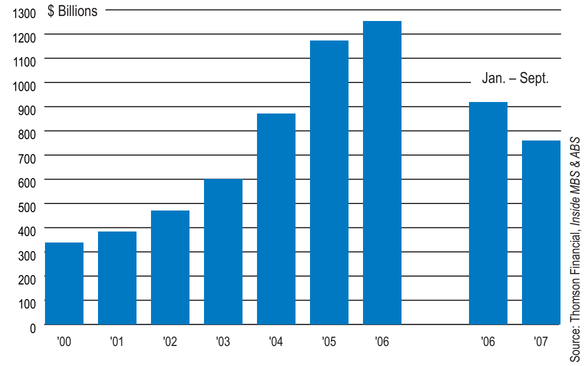
Mortgage ABS, including non-jumbo transactions comprising first-lien mortgage loans with weighted average FICO credit scores of less than 674 and subprime mortgages, volume was $85.7 billion in the first nine months of 2007, lower by 6.7 percent compared to the same period a year ago. Reflecting origination trends in credit exposed mortgage products, the primary market was virtually closed in the third quarter with issuance of $4.3 billion, compared to $40.0 billion in the third quarter of 2006, and $35.6 billion issued in the second quarter of 2007. (Subprime issuance was $26.2 billion in the third quarter, a 64.9 percent decline from the second quarter, and $189.3 year-to-date, a decline of 44.6 percent from the same period last year, according to Inside Mortgage Finance.)

Credit card ABS issuance totaled $70.3 billion at the third quarter, 28.5 percent higher than the first nine months of 2006. Third quarter volume was $22.7 billion, a modest decline of 0.4 percent from the second quarter but 25.4 percent ahead of the third quarter last year. The year-over-year growth can be attributed in part to the substitution of credit cards for HEL as the potential available mortgage equity withdrawal (MEW) volume growth has slowed in the reduced home price environment.

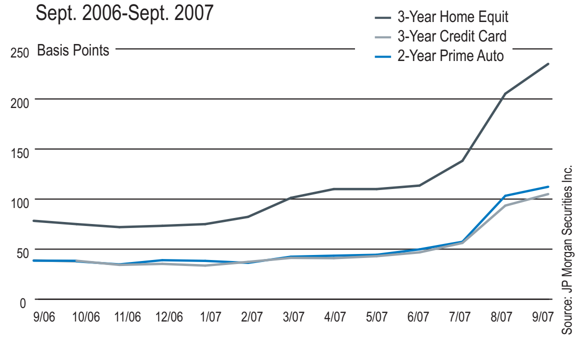
Auto loan ABS issuance of $48.2 billion through the first nine months of the year represented a 15.0 percent decline compared to a year ago. Lower auto sales contributed to the year-to-date issuance decline. Third quarter volume of $14.2 billion was 36.6 percent less than the strong second quarter, when issuance was boosted by Chrysler's ABS issuance to support its LBO. Weaker third quarter ABS pricing and diminished investor demand as a result of the effect of the subprime market deterioration also contributed to the lower issuance.

Student loan ABS issuance totaled $12.9 billion, a 22.9 percent rise on a linked-quarter basis but 9.8 percent lower than the third quarter of 2006. Year-to-date, issuance was $50.1 billion, 4.0 percent lower than the same period a year ago.

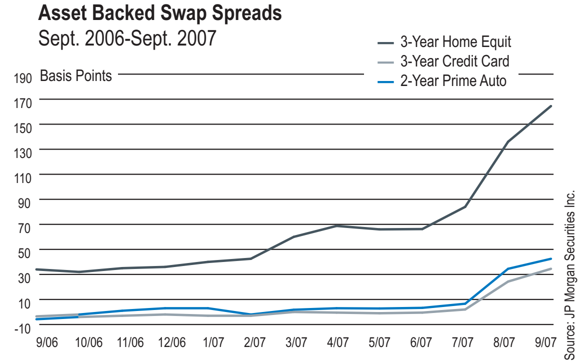
Issuance of Asset-Backed Securities
2000-2007:Q3YTD



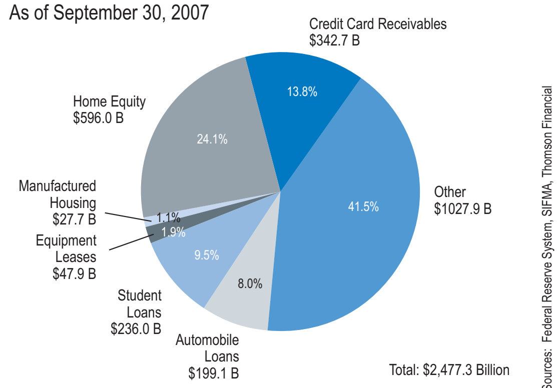
Asset Backed Spreads to U.S. Treasury
Sept. 2006-Sept. 2007



Asset Backed Swap Spreads
Sept. 2006-Sept. 2007



ABS Outstanding by Major Types of Credit
As of September 30, 2007



Subprime Weakness Leads to Lower CDO Issuance in Third Quarter, but Volume Still Ahead Year-to-Date

Global issuance of collateralized debt obligations (CDO) was higher through the first three quarters of the year compared to last year despite the second consecutive quarterly decline. Global credit risk repricing, subprime mortgage market deterioration and reduced liquidity contributed to the third-quarter issuance decline. Global issuance of funded CDOs reached $412.3 billion during the first nine months of the year, up 9.8 percent from the same period a year earlier. Third-quarter volume dropped to $63.0 billion, 54.6 percent lower than the third quarter a year ago and 64.0 percent less than the second quarter. Cash-flow and hybrid CDOs continued to be the dominant structures, accounting for $314.9 billion in the first three quarters of 2007, up 10.1 percent from the same period a year ago, with the synthetic funded CDO volume at $38.0 billion and the market value CDO issuance at $59.4 billion. The third-quarter cash-flow and hybrid volume was $50.4 billion, off 62.9 percent from the second quarter. The synthetic funded and market value sectors accounted for $3.1 billion and $9.5 billion, respectively, in the third quarter. Based on the CDO purpose segmentation, arbitrage CDOs represented 90.7 percent and balance-sheet CDOs 9.3 percent of global volume year-to-date. Arbitrage CDO volume was $356.8 billion in the first nine months, up 7.5 percent from last year, while third-quarter issuance was $57.2 billion, down 60.9 percent from the second quarter.

Collateral and Currency Sectors

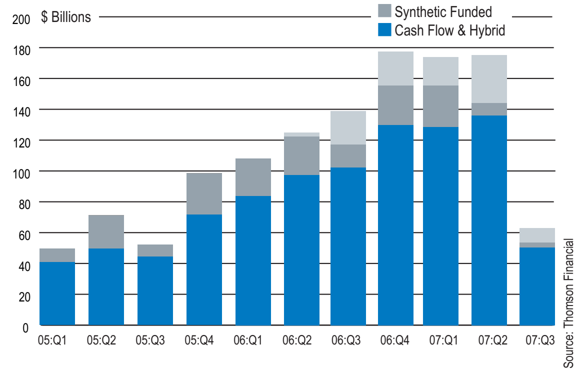
Although the structured finance (SF) collateral group encompasses a wide range of collateral types, the group is dominated by mortgage-related and home equity collateral. With the subprime market turmoil acceleration, third-quarter volume fell to $23.5 billion, down 74.9 percent from the second quarter. Collateralized loan obligations (CLO) replaced SF CDO as the largest collateral class at $30.6 billion in the third quarter, despite a linked-quarter volume decline. Investment-grade bond CDO issuance totaled $8.1 billion in the third quarter, compared to a revised $22.9 billion issued in the second quarter, and there were no CDOs backed primarily by high-yield bonds in the third quarter. Despite continued solid corporate credit quality, corporate bond- and, especially, loan-backed CDO volumes diminished as a result of the trend of increased investor risk sensitivity, subprime contagion, de-leveraging and decline in leveraged buyout (LBO) deal flow. The SF CDO and CLO sectors are diverging. The continued stream of CDO rating downgrades are concentrated in CDOs with subprime collateral. Although the SF CDO volume is likely to remain depressed at least through the end of the year, CLO issuance could increase from third-quarter levels as the leveraged loan market is beginning to regain liquidity, and issuance volumes are showing signs of recovery.

The dollar-denominated segment accounted for a 73.2 percent share of the global CDO issuance market at the end of the third quarter at $302 billion, 2.2 percent higher than in the same period in 2006. Third-quarter volume was 64.1 percent lower than in the second quarter. Euro-denominated CDO volume ranked second, with $16.2 billion, down 23.3 percent from the third quarter of 2006, but 36.3 percent higher year-to-date based on a very strong first half.

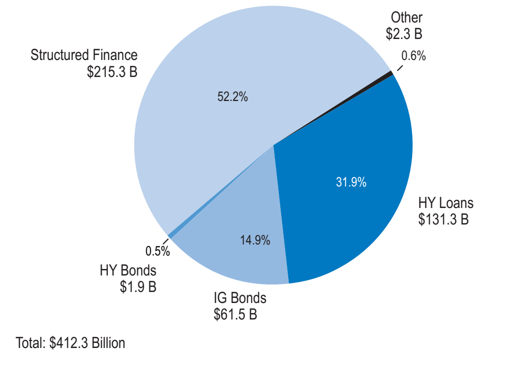
Credit Spreads Wider, More Pronounced in Credit Exposed Tranches

Based on Merrill Lynch data, AAA-rated cash CDO spreads widened in the third quarter. Spreads in the lower-rated and more credit-exposed sectors experienced even more pronounced spread widening. AA-rated CLO tranches widened by 68 basis points to 110 basis points, and spreads on BBB-rated tranches increased by 150 basis points to 350 basis points. Structured finance AA-rated CDO tranches widened by 115 basis points to 225 basis points, and BBB spreads increased by 200 basis points to 800 basis points.

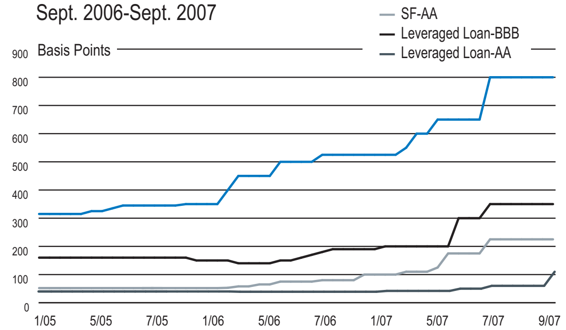
Global CDO Issuance by Transaction Structure
2005:Q1-2007:Q3



Global CDO Issuance by Underlying Collateral
2007:Q3YTD



Asset Backed Swap Spreads
Sept. 2006-Sept. 2007



Global CDO Issuance by Currency
2007:Q3YTD