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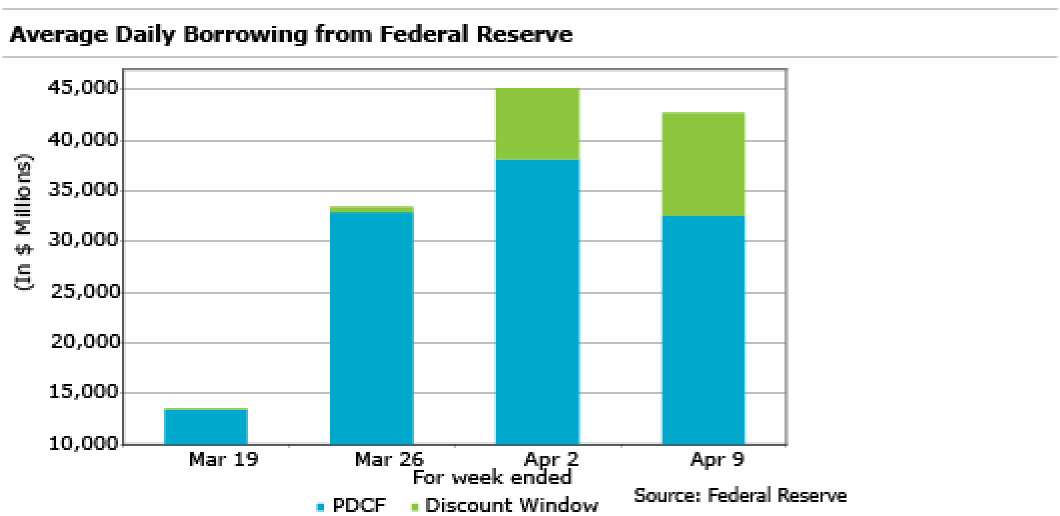
THE CREDIT JUMP-START (PART 2)

As the securitized credit markets remain virtually frozen in a liquidity crisis, there have been several efforts initiated by the U.S. government to restore liquidity. As covered in our December 24, 2007 U.S. Structured Finance Newsletter, the Federal Reserve (the Fed) introduced a Term Auction Facility (TAF). In continuing its efforts to restore liquidity, the Fed recently added two new programs aimed at primary dealers[1]: the Term Security Lending Facility (TSLF) and the Primary Dealer Credit Facility (PDCF). While both programs are primarily aimed at easing liquidity pressures for dealers, an increase in new issuance of private-label paper may be a second-order effect.

The TSLF announced on March 11, 2008, is a 28-day facility or collateral exchange program that offers up to $200 billion of treasury securities to primary dealers in exchange for AAA-rated private-label RMBS and CMBS, other U.S. treasuries and agency securities. The TSLF features weekly auctions where dealers competitively bid for the same Stop-out Rate[2] or lending fee. Results from the April 10, 2008, auction that covered Schedule 2 collateral[3] had a Stop-out Rate of 0.25 and a bid-to-cover ratio of 0.68, which indicates less demand from the prior auction.

The PDCF announced on March 16, 2008, is an overnight loan facility that provides funding to primary dealers in exchange for a wide range of eligible collateral. The pledged collateral can include, among other investment grade securities, RMBS, CMBS and ABS. Pledged collateral is valued by dealer clearing banks that determine haircuts for market value risk. The rate charged to participating dealers is the Primary Credit Rate[4], which currently is 2.50% and is equivalent to 25 basis points above the federal funds target rate. An additional frequency-based fee is assessed to dealers that exceed 30 days of use within the first 120 business days of the PDCF. The PDCF is expected to facilitate reduced funding costs for dealer inventories, which remain illiquid.

While private label MBS issuance remains mired in a standstill, DBRS believes the non-agency market may briefly resume securitization activity in the short term. In particular, the PDCF may incentivize dealers to pursue securitization for optimal financing of performing loans while it remains on balance sheet. In contrast to the PDCF, the discount window may accept whole loans as collateral, though it is open only to depositary institutions with Fed oversight. DBRS will continue to monitor any new proposals aimed at relieving strains in the credit markets.



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1 The list of Fed-recognized primary dealers is available at www.newyorkfed.org/markets/pridealers_current.html
2 The Stop-out Rate is the lowest rate for accepted bids representing the spread between the pledged collateral rate and the Treasury collateral financing rate.
3 www.ny.frb.org/markets/tslf_faq.html
4 www.newyorkfed.org/banking/discountwindow.html