

**Structured Products Research**
Consumer ABS

October 30, 2006

Erin K. Walsh, Associate Analyst
erin.walsh@wachovia.com
704-715-7404**Effects of Interagency Guidance
on Home Equity ABS
Nontraditional Mortgage Lending****Overview**

Interest only (IO) originations increased from 25% in the second half of 2005 to 26% in the first half of 2006. Payment-option adjustable-rate mortgages (ARMs) increased from 8% to 13% over the same period. Growth in this market has raised concerns, regarding the risks inherent with these loans. In response, lending guidance¹ has been issued, which will likely have an effect on origination of these mortgage products. The extent to which the home equity market is affected will likely depend on the representation of these loans in the market.

- Payment-option ARMs effectively do not exist in the subprime market. IO products constitute almost 20% and, therefore, we expect the IO subprime home equity market to be affected by a shift in origination of these loans.
- The Alt-A market consists of high-quality borrowers with low LTV loans and will unlikely be affected by the guidance.
- Because lenders will likely continue to offer affordable products to borrowers, we expect to see an innovation of new affordable products.

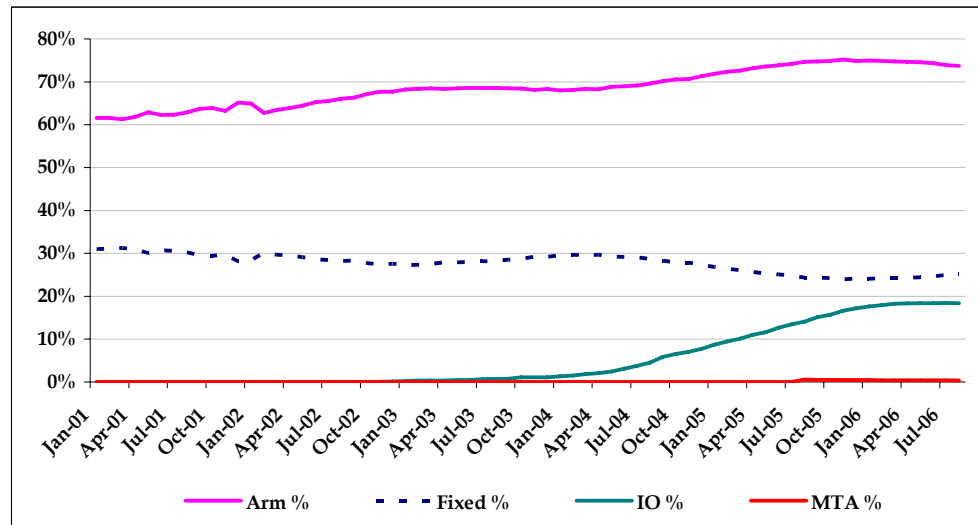
Glenn M. Schultz, CFA
Senior Analyst
glenn.schultz@wachovia.com
(704) 383-4758Bruce Miller
Analyst
bruce.miller@wachovia.com
(704) 374-6440Shane Whitworth, CFA
Associate Analyst
shane.whitworth@wachovia.com
(704) 715-7936Erin K. Walsh
Associate Analyst
erin.walsh@wachovia.com
(704) 715-7404

¹ Nontraditional Mortgage Risks, Wachovia Capital Markets, LLC, Oct. 16, 2006, Erin K. Walsh.

Subprime

Payment-option ARMs are commonly indexed to the moving Treasury average (MTA) index. These mortgages are essentially only offered to high-quality borrowers and, therefore, are virtually nonexistent in the subprime home equity market. They currently constitute only 0.35%. However, IO loans have significantly increased over the past year and a half and now make up almost 20% of the market. Exhibit 1 shows the percentage of mortgage products in the subprime home equity market.

Exhibit 1: Subprime Mortgage Products



Source: LoanPerformance, Wachovia Capital Markets, LLC

According to the guidance, a borrower's ability to repay a loan should be assessed at the fully indexed rate and not assuming that the loan will repay at the end of the initial fixed period. IO ARMs have especially high payment shocks due to the addition of an amortizing payment as well as the recast of the interest rate. Lower quality borrowers tend to have higher debt to income (DTI) ratios and, therefore, may not be able to withstand the hefty payment shocks upon reset.

Subprime IO ARMs will likely see a shift in origination volume. This shift may be toward more traditional amortizing products or may lead to the innovation of new affordable products for borrowers looking to maintain affordability and leverage. We expect the home equity market to match any shift in origination of subprime IOs.

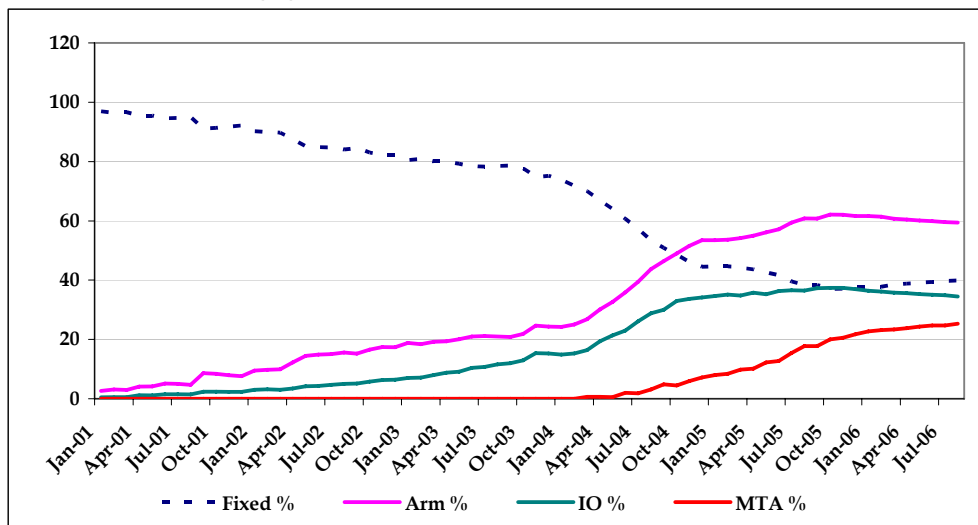
Exhibit 2: Subprime Nontraditional Mortgage Statistics

	IO ARM	MTA
Low or No Documentation	39%	65%
WAVG FICO	650	606
FICO ≤ 650	54%	89%
WAVG LTV	82%	69%
LTV > 80	30%	1%
Purchase Loans	58%	27%
Owner Occupied	97%	85%

Source: LoanPerformance, Wachovia Capital Markets, LLC

Alt-A

Exhibit 3: Alt-A Mortgage Products



Source: LoanPerformance, Wachovia Capital Markets, LLC

Fixed mortgages are decreasing in the Alt-A market, while ARMs are increasing, as shown in Exhibit 3. Moreover, growth of IOs and MTAs would suggest that these borrowers are stretching to afford more. Despite appearances, this does not seem to be the case. These borrowers continue to have low LTVs and high FICOs (Exhibit 4), which generally correspond to low DTIs. We do not expect origination of these loan types to be greatly affected, based on the fact that these borrowers' ability to pay should not be affected by the new guidance.

Exhibit 4: Alt-A Nontraditional Mortgage Statistics

	IO ARM	MTA
Low or No Documentation	68%	85%
WAVG FICO	715	711
FICO ≤ 650	6%	9%
WAVG LTV	75%	74%
LTV > 80	4%	4%
Purchase Loans	63%	37%
Owner Occupied	77%	84%

Source: LoanPerformance, Wachovia Capital Markets, LLC

Summary

The extent to which the home equity market will be affected is dependent on the effect the guidance has on origination of these loans types and the amount of these loans that make up the market.

The desire of borrowers looking for leverage and affordability is likely to spur origination of new mortgage types as lending institutions continue to compete to offer affordable products.

DISCLOSURE APPENDIX

Addition information is available on request.

About Wachovia Capital Markets

Wachovia Capital Markets, LLC ("WCM"), is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the National Association of Securities Dealers, Inc., and the Securities Investor Protection Corp. Wachovia Securities International Limited is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority.

Important Information for Non-U.S. Recipients

The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For certain non-U.S. institutional readers (including readers in the EEA), this report is distributed by Wachovia Securities International Limited. For the purposes of Section 21 of the U.K. Financial Services and Markets Act 2000, this report has been approved by Wachovia Securities International Limited. This research is not intended for, and should not be relied on by, private customers. Please consult your Financial Advisor or the Wachovia Securities office in your area for additional information. U.S. residents are directed to wachovia.com for investment and related services.

For Wachovia Securities International Limited's policy for managing conflicts of interest in connection with research, please go to: www.wachoviaresearch.com/conflicts

Important Information for Australian Recipients

WCM is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. WCM is a registered broker-dealer registered with the U.S. Securities and Exchange Commission, and a member of the New York Stock Exchange, the National Association of Securities Dealers, Inc. and the Securities Investor Protection Corp. WCM is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to you by WCM in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Important Disclosures Relating to Conflicts of Interest and Potential Conflicts of Interest

WCM may sell or buy the subject securities to/from customers on a principal basis or act as a liquidity provider in such securities.

WCM does not compensate its research analysts based on specific investment banking transactions. WCM's research analysts receive compensation that is based on and affected by the overall profitability of their respective department and the firm, which includes, but is not limited to, investment banking revenue.

WCM Fixed Income Research analysts interact with the firm's trading and sales personnel in the ordinary course of business. The firm trades or may trade as a principal in the securities or related derivatives mentioned herein. The firm's interests may conflict with the interests of investors in those instruments.

For additional disclosure information please go to: www.wachoviaresearch.com/disclosures.

Analyst's Certification

The research analyst(s) principally responsible for the report certifies to the following: all views expressed in this research report accurately reflect the analysts' personal views about any and all of the subject securities or issuers discussed; and no part of the research analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst(s) in this research report.

This report, IDs, and passwords are available at www.wachoviaresearch.com

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wachovia Capital Markets, LLC, to be reliable, but Wachovia Capital Markets, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wachovia Capital Markets, LLC, at this time, and are subject to change without notice. Wachovia Capital Markets, LLC, and its affiliates may from time to time provide advice with respect to, acquire, hold, or sell a position in, the securities or instruments named or described in this report. For the purposes of the U.K. Financial Services Authority's rules, this report constitutes impartial investment research. Each of Wachovia Capital Markets, LLC, and Wachovia Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2006 Wachovia Capital Markets, LLC.

SECURITIES: NOT FDIC-INSURED * NOT BANK-GUARANTEED * MAY LOSE VALUE

Wachovia Capital Markets, LLC

Diane Schumaker-Krieg Managing Director, Global Head of Research (704) 715-8437
(212) 214-5070 diane.schumaker@wachovia.com

Structured Products Research (704) 374-4784

Brian P. Lancaster	Managing Director	Head of Structured Products Research	(704) 715-1864	
		CMBS, CRE CDO and Real Estate Research	(212) 214-5135	brian.lancaster@wachovia.com
Glenn M. Schultz, CFA	Managing Director	Head of ABS and Non-Conforming Mortgage Research	(704) 383-4758	glenn.schultz@wachovia.com
Brian McManus	Director	Head of CDO Research	(704) 715-9522	brian.mcmanus@wachovia.com
Tony Butler, CFA	Director	CMBS and Real Estate Research	(704) 383-0189	tony.butler@wachovia.com
Bruce Miller	Vice President	Quantitative Research	(704) 374-6440	bruce.miller@wachovia.com
Gregory W. Laughton	Vice President	CMBS and Real Estate Research	(704) 715-7685	greg.laughton@wachovia.com
Steven Todd, Ph.D.	Vice President	CDO Research	(704) 715-0545	steven.todd@wachovia.com
Lad Duncan	Associate	CMBS and Real Estate Research	(704) 715-7423	lad.duncan@wachovia.com
Stephen Mayeux	Associate	CMBS and Real Estate Research	(704) 374-2298	stephen.mayeux@wachovia.com
Anik Ray	Associate	CDO Research	(704) 383-9664	anik.ray@wachovia.com
Chris van Heerden, CFA	Associate	ABS Research	(704) 715-8321	chris.vanheerden@wachovia.com
Shane Whitworth, CFA	Associate	Quantitative Research	(704) 715-7936	shane.whitworth@wachovia.com
Landon Frerich	Analyst	CMBS and Real Estate Research	(704) 715-8376	landon.frerich@wachovia.com
David Preston	Analyst	CDO Research	(704) 715-7383	david.preston@wachovia.com
Erin K. Walsh	Analyst	ABS Research	(704) 715-7404	erin.walsh@wachovia.com

Fixed Income Market Strategy

Richard Gordon	Managing Director	Fixed-Income Market Strategist	(704) 383-8758	rich.gordon@wachovia.com
Bradley R. Brown	Associate		(704) 715-1142	bradley.brown@wachovia.com
Garret M. Sloan	Associate		(704) 715-8374	garret.sloan@wachovia.com

Corporate Credit Research (800) 528-4570

Tim Patrick	Managing Director	Head of Credit Products Research	(704) 374-6198	tim.patrick@wachovia.com
Lee D. Brading	Managing Director	Associate Director of High Yield Research		
		Building Products, Homebuilding	(704) 383-6491	lee.brading@wachovia.com
Matthew H. Burnell	Managing Director	Specialty Finance, Banks, Brokers	(704) 374-7148	matt.burnell@wachovia.com
James P. Dunn Jr., CFA	Managing Director	Basic Industries, Homebuilders, Railroads	(704) 715-8377	jim.dunn1@wachovia.com
Gail Golightly	Managing Director	Insurance	(704) 383-4836	gail.golightly@wachovia.com
S. Ross Payne, CFA	Managing Director	Energy, Pipelines	(704) 383-3619	ross.payne@wachovia.com
Dan Sullivan	Managing Director	Real Estate Investment Trusts	(704) 383-6441	dan.sullivan@wachovia.com
Bishop Cheen	Director	Broadcasting & Entertainment, Publishing/Print	(704) 383-0473	bishop.cheen@wachovia.com
Andy Green	Director	Industrials, Defense & Aerospace, Information Technology	(704) 383-6606	andy.green@wachovia.com
Miles L. Highsmith, CFA	Director	Healthcare	(704) 383-6384	miles.highsmith@wachovia.com
Bryan C. Hunt, CFA	Director	Food & Beverage, Food Retailing, Restaurants	(704) 383-0728	bryan.hunt@wachovia.com
Chuck Slaybaugh	Director	Paper, Packaging, Chemicals, Metals, Mining	(704) 715-8318	charles.slaybaugh@wachovia.com
Dimitri Triantafyllides, CFA	Director	Telecommunications, Cable, Satellite	(704) 374-2307	dimitri.triantafyllides@wachovia.com
Nicole Black	Vice President	Telecommunications, Cable, Media	(704) 715-7382	nicole.black@wachovia.com
Dennis M. Farrell Jr.	Vice President	Gaming & Lodging	(704) 383-5037	dennis.farrell@wachovia.com
Robert Hauff	Vice President	Insurance	(704) 374-4176	rob.hauff1@wachovia.com
Grant Jordan	Vice President	Consumer Products, Apparel, Retail, Theaters, Leisure	(704) 715-7022	grant.jordan@wachovia.com
Neal Jordan, CFA	Vice President	Consumer, Retail, Healthcare, Technology	(704) 715-8382	neal.jordan@wachovia.com
Eric T. Kalamaras	Vice President	Energy, Refining, Midstream, Energy Services, Coal	(704) 715-8319	eric.kalamaras@wachovia.com
Cameron Newton	Vice President	Basic Industries, Homebuilders, Railroads	(704) 715-8378	cameron.newton@wachovia.com
John Patrick Walsh, CFA	Vice President	Consumer, Retail, Healthcare, Technology	(704) 715-1504	johnpatrick.walsh@wachovia.com
Gregory B. Wilcox	Vice President	Consumer Products, Apparel, Retail, Theaters, Leisure	(704) 374-4413	greg.wilcox@wachovia.com
Duncan Brown	Associate	Healthcare	(704) 715-8332	duncan.brown@wachovia.com
Kelly W. Burton	Associate	Broadcasting & Entertainment, Publishing/Print,		
		Building Products, Homebuilding	(704) 383-5599	kelly.burton2@wachovia.com
Donovan Chaney	Associate	Gaming & Lodging	(704) 383-4030	donovan.chaney@wachovia.com
Robert Crawford	Associate	Industrials, Defense & Aerospace, Information Technology	(704) 715-7340	robert.crawford@wachovia.com
Meredith Fowler	Associate	Food & Beverage, Food Retailing, Restaurants	(704) 715-7887	meredith.fowler@wachovia.com
Erica Gates	Associate	Basic Industries, Homebuilders, Railroads	(704) 374-7026	erica.gates@wachovia.com
Christopher Harris, CFA	Associate	Energy, Pipelines	(704) 715-8466	christopher.harris1@wachovia.com
Shannon H. Joseph	Associate	Specialty Finance, Banks, Brokers	(704) 715-8336	shannon.joseph@wachovia.com
Jason Jones	Associate	Real Estate Investment Trusts	(704) 715-7932	jason.jones2@wachovia.com
John D. Leak IV	Associate	Paper, Packaging, Chemicals, Metals, Mining	(704) 715-8459	john.leak@wachovia.com
Kamal Patel	Associate	Utilities	(704) 715-8195	kamal.patel@wachovia.com
John R. van Brederode	Associate	Building Products, Homebuilding	(704) 715-8311	john.vanbrederode1@wachovia.com
Banu Asik	Analyst	Telecommunications, Cable, Media	(704) 715-4126	banu.asik@wachovia.com
Rajitha Vinnakota	Analyst	Telecommunications, Cable, Satellite	(704) 383-5570	rajitha.vinnakota@wachovia.com
Napoleon Wallace	Analyst	Energy, Refining, Midstream, Energy Services, Coal	(704) 715-7409	napoleon.wallace@wachovia.com

For copies of Structured Products Research reports, please contact Bonita Carroll at (704) 374-4784.

To view reports online, access our Web site at wachoviaresearch.com



WACHOVIA