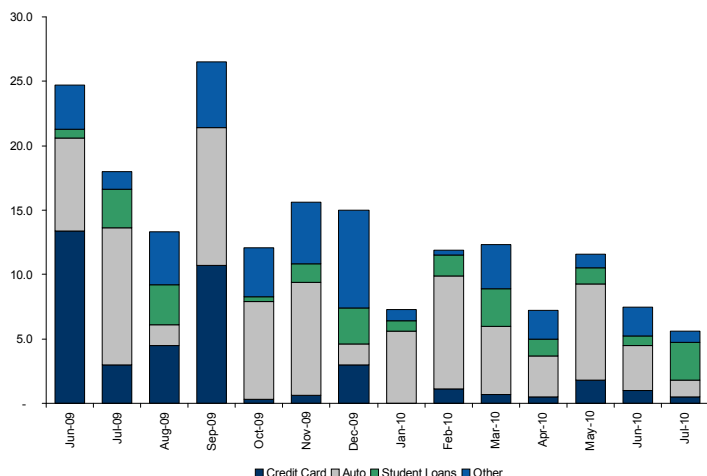


## ABS

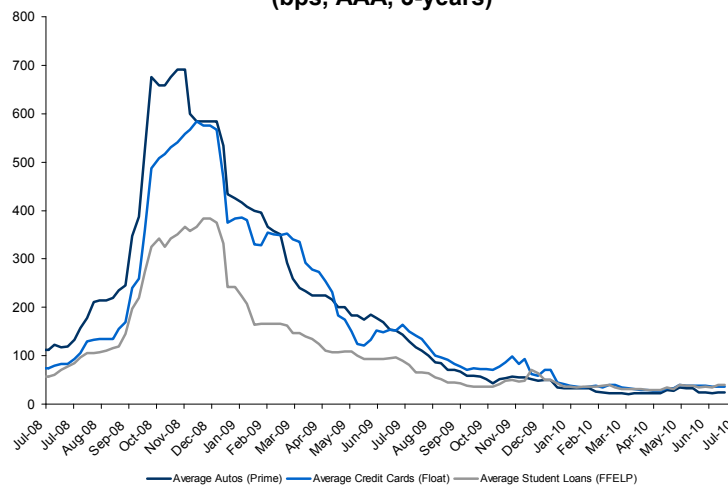
ABS market spreads have remained stable over the past month and relatively unchanged. For the most part, investors remained content with buying top-tier, benchmark names/bonds, while requiring a premium for everything else. As consumers refuse to take on too much debt, ABS outstandings continue to contract as amortization of receivables outpaces new securitization. This is evident in the Credit Card ABS sector, where recent declines in ABS master trust balances closely mirrored the decrease in underlying revolving debt. Through Independence Day, the consumer ABS market measured \$58.3 billion of new issuance volume. Compared to the same time last year, when the TALF program was running, issuance is down about only 6.4%. A flurry of ABS issuances occurred right before the July 4<sup>th</sup> holiday as banks tried to clear their books ahead of quarter's end. More than \$5.3 billion of deals closed before the holiday weekend – deals in many loan sectors, including autos, credit cards and student loans. CarMax, the used car retailer, came to market with a \$650 million issuance. The largest AAA class of \$249 million priced at 20bps over the benchmark. Also, SMAT 2010-1US, a \$500 million auto issuance backed by Australian auto leases and loans originated by Macquarie leasing, is Macquarie's first U.S. issue. The deal points to improving confidence of offshore investors in Australian securitized transactions. In early July, TAL International Group, a global lessor of intermodal freight containers, announced that its indirect wholly owned subsidiary, TAL Advantage IV LLC, has completed its offering of \$197 million Series 2010-1 fixed-rate secured notes. The Series 2010-1 Notes are rated A by S&P and this transaction represents the first intermodal container ABS term financing since 2007. Finally, the student loan sector was busy with the issuance of both private and FFELP student loan deals. Sallie Mae's most recent issuance was for \$869 million and Bank of America's FFELP deal was issued for \$1.23 billion.

ABS Issuance Volume by Month (\$bn)



Source: Bloomberg

Auto, Credit Card and Student Loan Spreads (bps, AAA, 3-years)



Source: BMOCM

## New ABS Deals and Pricing, bps

### Equivalent Spreads over Libor/Swaps

Deal	Deal	\$MM	Equivalent Spreads over Libor/Swaps					Subsector	
			AAA - 1y	AAA - 2y	AAA - 3y+	AA	A		≤BBB
<b>Autos</b>									
7/16	HERTZ 2010-1 (Hertz)	750			130 - 225			375 - 400	Auto Rentals
7/14	TAOT 2010-B (Toyota)	1,750	13	18	22				Retail Loan - Prime
7/9	SMAT 2010-1US (Australian Auto)	500	90	110	150				Retail Loan - Prime
7/2	WLAKE 2010-1 (Westlake)	120	115				410	525	Retail Loan - Subprime
6/30	CARMX 2010-2 (CarMax)	650	20	35	45		225	350	Retail Loan - Prime
	<b>Total</b>	<b>3,770</b>							
<b>Credit Cards</b>									
6/17	WFNMT 2010-A (World Financial)	450			195	320	489		
	<b>Total</b>	<b>450</b>							
<b>Other</b>									
7/16	SRFC 2010-2 (Sierra/Wyndham)	350					275	425	Timeshares
7/15	LCDA 2010-ELL (Louisiana Utilities)	469		25	50 - 85				Restoration Bonds
7/15	LCDA 2010-EGSL (Louisiana Utilities)	244			30 - 95				Restoration Bonds
7/6	SBAP 2010-20G (SBA)	270			75				SBA Loans
7/6	SBAP 2010-10D (SBA)	23			100				SBA Loans
6/28	TAL Advantage 2010-1 (TAL International)	197					334		Equipment
6/22	GMACM 2010-1 (GMAC)	166						364	RMBS
	<b>Total</b>	<b>1,719</b>							
<b>Student Loans</b>									
7/13	SLMA 2010-B (Sallie Mae)	869	192						Private Loans
7/2	BASLT 2010-1 (Bank of America)	1,230			80				FFELP Loans
7/1	SLCLT 2010-1 (Student Loan Corp.)	855			87.5				FFELP Loans
6/30	SLMA 2010-C (Sallie Mae)	1,701	165	265					Private Loans
	<b>Total</b>	<b>4,655</b>							

Source: IFR Markets

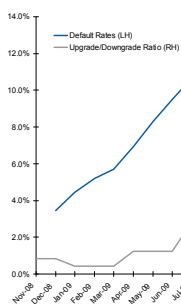
## Conduit Deals\*

No new deals reported publicly.

\*Only select deals that have been publicly announced by borrowers.

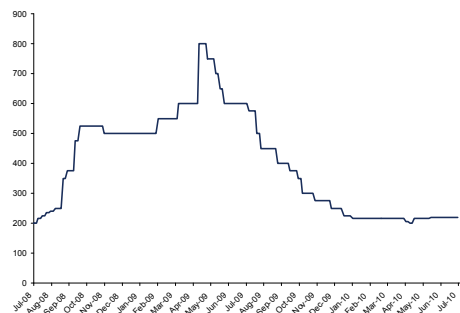
## Leveraged Finance

### Speculative Grade Default Rate and Upgrade/Downgrade Ratios



Source: Bloomberg

### CLO AAA Spread to Libor, bps

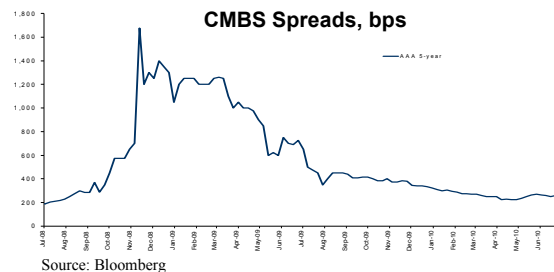


Source: BMOCM

The likely scenario of modest economic growth and low inflation is positive for CLO credit. In the first half of 2010, key CLO metrics and credit ratios recorded significant improvement, and OC cushions, CCC and default ratios, weighted average portfolio prices, and forward looking loss projections all improved relative to the second half of 2009. The performance reflects better liquidity conditions and prices in the leveraged credit market, robust corporate earnings and fundamentals, and a powerful economic upswing from the recession. On July 16th, Golub Capital BDC, Inc. announced that it had completed a \$300 million term debt securitization. It is the largest CLO backed primarily middle market loans issued in 2010. The proceeds, net of expenses, will be used to refinance the company's existing credit facility. The transaction was executed through a private offering of approximately \$174 million of Aaa/AAA notes, \$10 million of Aa2/AA notes, \$116 million of subordinated notes. The AAA notes priced at three month LIBOR plus 240bps. Also, GSO Capital Partners, the credit business of The Blackstone Group, announced the final closing of the Blackstone / GSO Capital Solutions Fund with total commitments of over \$3.25 billion, well exceeding the \$2 billion target, after 18 months in the market.

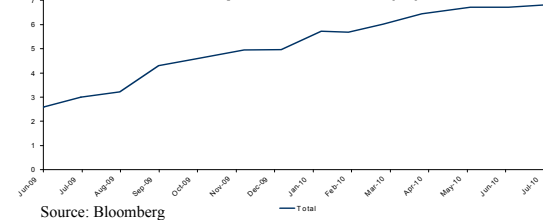
## CMBS

### CMBS Spreads, bps



Source: Bloomberg

### Commercial Mortgage Delinquencies - 60D+ (%)



Source: Bloomberg

After a weak May performance, the CMBS index performed well in June to cap a strong second quarter where it once again led the return basis versus competing sectors. Looking ahead to the rest of 2010, commercial real estate prices are expected to come close to or bottom out, collateral deterioration will slow and CMBS credit problems will continue. One Bryant Park's \$650 million large loan CMBS transaction priced at 150bps over the benchmark. The collateral is comprised of office properties and the deal has a debt service coverage ratio and loan-to-value of 4.00x and 29.5%, respectively.

## Thought of the Month

The CLO market has picked up traction over the past six months as spreads have continued to tighten. CLO activity is expected to continue to be active for the rest of the year. CLO metrics should continue to improve as existing underlying assets refinance, default ratios decline, corporate ratings selectively improve, new deals come to market and pricing remains stable to improving. This should help improve leverage options available to existing and prospective commercial loan companies and managers.

## BMO Recent Deals

<p><b>Commercial Finance Company</b></p> <p><b>\$100 million</b></p> <p>Agent June 2010</p>	<p><b>Commercial Equipment Manufacturer</b></p> <p><b>\$66 million</b></p> <p>Lead Arranger June 2010</p>	<p><b>Consumer Finance Company</b></p> <p><b>\$5 million</b></p> <p>Lead Arranger June 2010</p>	<p><b>MOHELA 2010-2 FFELP Student Loans</b></p> <p><b>\$823 million</b></p> <p>Co-Manager May 2010</p>
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