Dan Nigro Quoted in WSJ on TALF Today
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From: DNigro@dynamiccredit.com
To: d.a.n.koerhuis@minfin.nl; W.F.J.Soetaert@minfin.nl; TGast@dynamiccredit.com; jkfinkel@dynamiccredit.com
Cc: kllopiz@dynamiccredit.com; daniel.nigro@comcast.net; JJJ9999@aol.com; asuh@dynamiccredit.com; CSandleitner@dynamiccredit.com; sriram@dynamiccredit.com; ssablok@dynamiccredit.com
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TALF Helps Revive Securities
Consumer Loan-Backed Sales in '09 Near $100 Billion

By ANUSHA SHRIVASTAVA

The Federal Reserve's support for securities backed by consumer loans has helped revive this market, with issuance so far this year close to $100 billion.

That is a key step for the securitization market that plays an important role in the flow of credit to the broader economy and keeps the cost of borrowing to consumers in check. This market virtually closed down in the wake of the Lehman Brothers bankruptcy, prompting the Fed to launch its TALF program, the Term Asset-Backed Securities Loan Facility, in March.

Since then, some $100 billion in new bonds backed mainly by credit-card and auto loans have been sold. Of these, about $77 billion were eligible for TALF funds.

That still is down from last year, when issuance by August stood at $122 billion, though it marks a revival from the mere $8.2 billion issued in the final three months of 2008, said Chandrajit Bhattacharya, director of fixed-income research at Credit Suisse in New York. Two years ago, issuance by this time of year stood at $296 billion.

This week alone, about $15 billion in new issues were priced, even though summer is traditionally a slow time. GMAC Inc.'s Ally Bank and Hyundai Motor Co. tapped the market for the first time this year.

"The market is open for a diverse group of issuers," said Craig Leonard, head of structured-debt syndicate at Barclays Capital. They "wanted to issue before the third quarter ended and while credit spreads are still tight."

Spreads measure the returns that issuers have to offer to attract investors. These have tightened, thanks to Fed's support for the market. Before TALF's launch, risk premiums on triple-A credit-card deals stood at 3.50 percentage points over the one-month London interbank offered rate, a benchmark for short-term borrowing. These days, the risk premiums are in the 1.25-point range over Libor.

On Wednesday, American Express Co. sold its $1.25 billion credit-card loan-backed deal at 1.25 points over Libor. In June, it sold a $1 billion credit-card loan-backed bond at 1.35 points over Libor.

In a sign of investor demand, several of this week's offerings were increased in size. Bank of America Corp.'s auto loan-backed deal was increased to $3.021 billion from the original $1.995 billion. Discover Financial Services' $1.3 billion credit card loan-backed deal was higher than the originally planned $1 billion.

"TALF has to be viewed unquestionably as a success," said Dan Nigro, an asset-backed securities' portfolio manager at Dynamic Credit Partners in New York.

The central bank included existing and newly created commercial mortgage-backed securities in the program in June and said last month that TALF, initially scheduled to expire at the end of the year, will be extended.

TALF loans against newly issued asset-backed securities and existing commercial-mortgage-backed securities will be extended through March 31, 2010. For newly issued CMBS, which take a significant amount of time to put together, the extension is until June 30, 2010.

Treasurys Post Gains On Economic Unease

Treasury prices rose as investors cast doubt on the strength of an economic turnaround amid weakness in the labor market and consumption.

Bonds extended gains in afternoon trade following the release of the Federal Reserve's minutes for last month's monetary-policy meeting. Most officials expect only a slow recovery during the second half, and all of the officials agreed the economy is still vulnerable to adverse shocks.

"The Treasury market is benefiting from the idea that the U.S. economy will have difficulty transitioning from the current cyclical bounce in the economy related to inventory restocking and fiscal stimulus," said Tony Crescenzi, portfolio manager at Pacific Investment Management Co. in Newport Beach, Calif.

The Treasury market is at least partly priced for a"W," or double-dip, scenario for the economic cycle, Mr. Crescenzi said.

Late afternoon, the benchmark 10-year note was up 22/32, or $6.875 per $1,000 face value, at 102 25/32. Its yield fell to 3.297% from 3.377% Tuesday, as yields move inversely to prices. The 30-year bond was up 1 19/32 to yield 4.105%.

—Min Zeng contributed to this article

Write to Anusha Shrivastava at anusha.shrivastava@dowjones.com

Daniel J. Nigro
ABS Portfolio Manager
Dynamic Credit Partners, LLC
1500 Broadway
Suite 1107
New York, NY 10036
Desk: (212) 319-7888
Direct: (212) 710-6605
Cell: (347) 701-1330

www.dynamiccredit.com