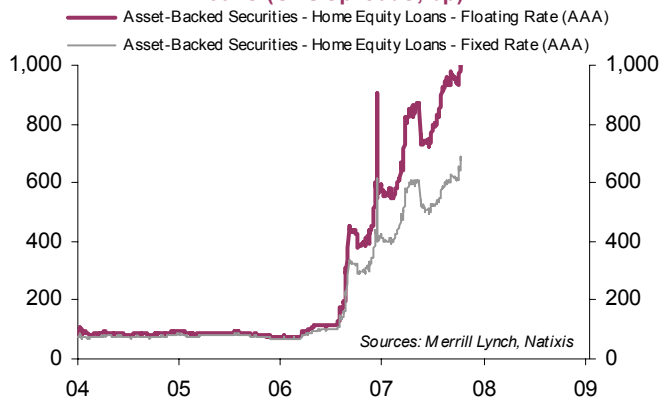


## An example of the destructive effects of the "marked to market" approach

### 1. Huge shocks on market valuations

Over the last two weeks we have seen considerable fluctuations in the market valuations of ABS (and leveraged loans) (Table 1, Charts 1 to 6).

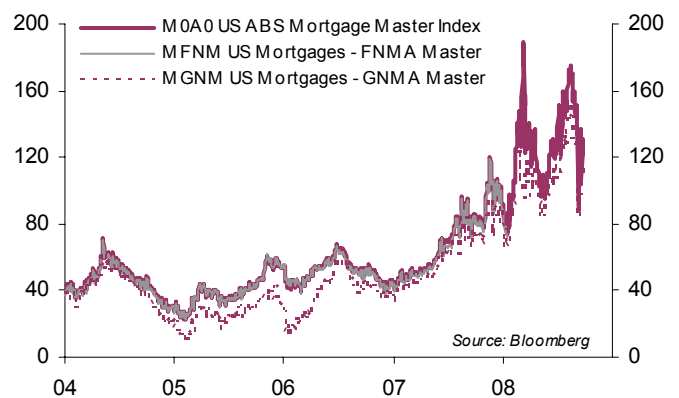
**Chart 1**  
United States: ABS indices on home equity loans (OAS spreads, bp)



**Chart 2**  
United States: CMBS spreads (OAS, bp)



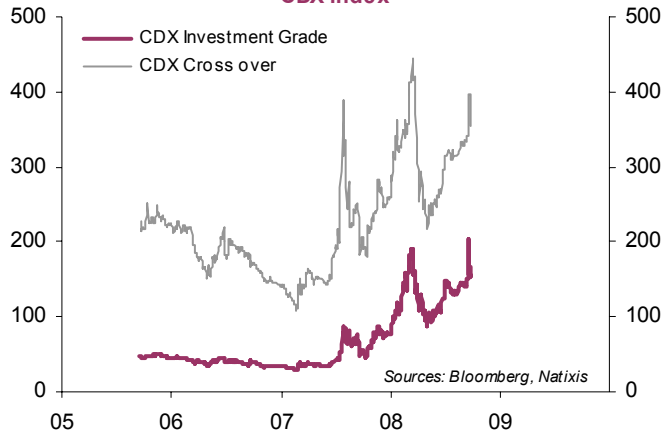
**Chart 3**  
United States: Agency MBS indices (OAS spreads, bp)



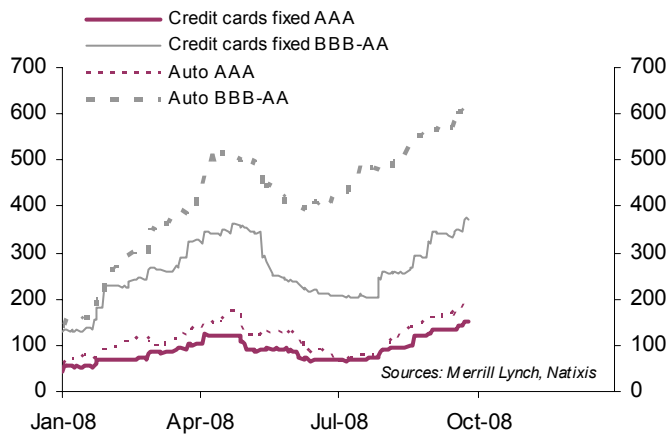
**Chart 4A**  
iTraxx indices



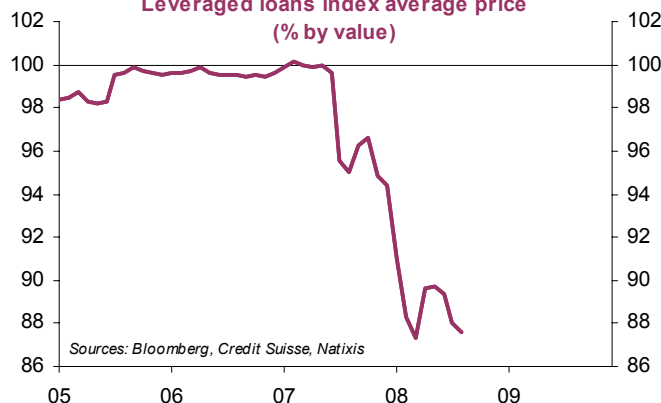
**Chart 4B**  
**CDX index**



**Chart 5**  
**Credit spreads**



**Chart 6**  
**Leveraged loans index average price**  
**(% by value)**

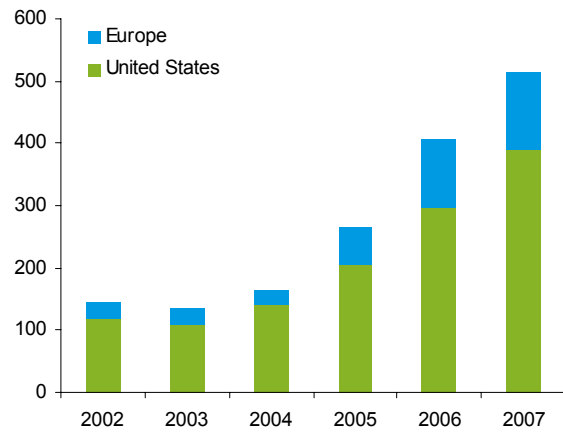


In this paper we carry out the following simulation: If there was a complete marked-to-market of the ABS positions (of banks and insurance companies), what would be the magnitude of the capital gain or loss generated by these moves in asset prices (spreads), in the whole ABS market.

**2. The outstanding amounts at stake**

**Table 2** (and **Chart 7** for leveraged loans) shows the outstanding amount of different types of ABS in the United States and the euro zone.

**Chart 7**  
**Leveraged loans distributed (EUR bn)**



US MBS constitute the greatest part of outstanding ABS. We apply the actual changes in spreads to these outstandings, while taking into account the durations of the various types of ABS (**Table 3**).

**3. Capital gains or losses generated**

We take as an example **the rise in the markets between 18 and 19 September** (announcement of the Paulson plan), which was more or less symmetrical to the decline in the markets between 15 and 18 September.

**Tables 4A and B** show the results of this simple exercise. **The capital gain generated in one day for the ABS portfolio (United States + euro zone) was USD 132 bn.**

**Table 4A**  
**United States - valuation of ABS from 18-09 to 19-09**  
**(USD bn)**

Agency MBS	+ 83
Non-agency MBS	+ 8
CDOs	+ 19
Other ABS	0
	<hr/>
	+ USD 110 bn

**Table 4B**  
**Euro zone - valuation of ABS from 18-09 to 19-09**  
**(USD bn)**

RMBS	+ 7
CMBS	+ 4
Other ABS	- 1
CDOs	+ 5
	<hr/>
	+ EUR 15 bn

**The stock of ABS breaks down** (as far as it is possible to establish) as follows:

- **banks and savings banks:** 25%
- **insurance companies:** 40%
- **pension funds:** 10%
- **mutual funds and others:** 25%

**Table 1  
Spreads**

		Monday 15 September 2008	Thursday 18 September 2008	Friday 19 September 2008	Friday 26 September 2008
<b>Agency indices (OAS spreads, bp)</b>	M0A0 US ABS Mortgage Master Index	113.0	137.0	103.0	124.0
	MFNM US Mortgages - FNMA Master	-	-	-	-
	MGNM US Mortgages - GNMA Master	109.0	127.0	98.0	111.0
<b>ABS indices on home equity loans (OAS spreads, bp)</b>	ABS Asset-Backed Securities - Home Equity Loans - Fixed Rate (AAA)	609.0	655.0	640.0	673.0
	Asset-Backed Securities - Home Equity - Loans Floating Rate (AAA)	932.0	973.0	974.0	996.0
	CMBS spreads (OAS, bp)	411.0	466.0	397.0	439.0
<b>CDX index</b>	CDX Investment Grade	149.7	191.1	157.1	165.9
	CDX Cross over	342.5	397.5	397.5	354.5
<b>iTraxx indices</b>	iTraxx Main 5 years	128.4	133.6	107.9	116.3
	iTraxx X-Over 5 years	605.6	614.5	559.2	590.7

Credit cards fixed AAA	132	136	142	151
Credit cards fixed BBB-AA	334	348	348	371
Auto AAA	167	175	183	195
Auto BBB-AA	572	593	606	638
Credit cards Floating AAA	147	160	160	175

**Table 2  
United States: Outstanding loans (USD bn)**

	Q1:2007	Q2:2007	Q3:2007	Q4:2007	Q1:2008	Q2:2008
ABS	2,238.3	2,415.5	2,477.3	2,472.3	2,480.3	2,516*
Agency MBS	5,346.7	5,537.5	5,706.5	5,889.5	6,075.2	
Non-agency MBS	1,302.0	1,322.6	1,346.8	1,320.9	1,322.0	
Total	8,886.9	9,275.5	9,530.7	9,682.7	9,877.5	

\*of which: consumer credit 44 auto credit 199 credit card 356 student loan 256 CDO 1,031

**Table 2 (continued)  
Euro zone: Outstanding loans (USD bn)**

	Q3:2007	Q4:2007	Q1:2008	Q2:2008
ABS	178.2	169.5	167	184
CDO	273.2	253.1	245.3	273
CMBS	146.8	141.3	142.7	142
RMBS	685.2	649.7	616.3	na
WBS	40.4	39.3	39.8	na
Total	1,323.8	1,252.9	1,211.1	

**Table 3  
Durations**

	CMBS	Credit Cards AAA	Credit Cards BBB-AA	Auto AAA	Auto BBB-AA	Mortgage Master Index
26/09/2008	4.203	2.851	2.158	1.007	1.165	4.001