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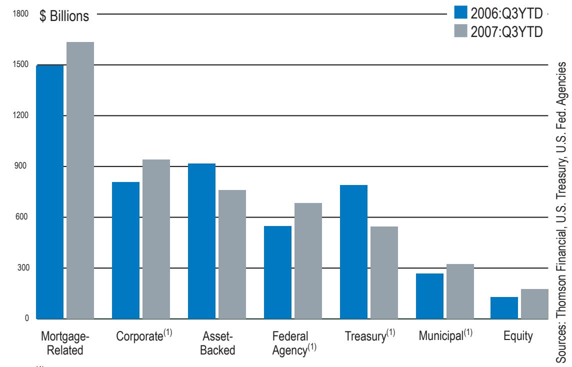
Securities Issuance Rises to $5.06 Trillion Year-to-Date; Credit Market Conditions Reduce Third-Quarter Volume

Securities issuance rose to $5.06 trillion through the first three quarters of 2007, 7.7 percent higher than the same period of 2006. Third-quarter volume of $1.33 trillion was 31 percent lower than the $1.92 billion in the second quarter and 12 percent lower than the $1.51 trillion a year ago. Municipal issuance continues at a record pace, boosted by refunding activity. Corporate bond issuance year-to-date remains ahead of last year and on a record pace despite a sharp drop in high-yield issuance in the quarter on reduced market liquidity. Agency and higher-quality mortgage-backed securities volumes were up year-to-date but lower for the quarter, reflecting housing sector weakness. Asset-backed securities and global CDO issuance fell in the quarter on subprime mortgage market deterioration. Treasury issuance declined on a reduced federal budget deficit. Equity underwriting increased year-to-date, with market indexes reaching record levels during the quarter.

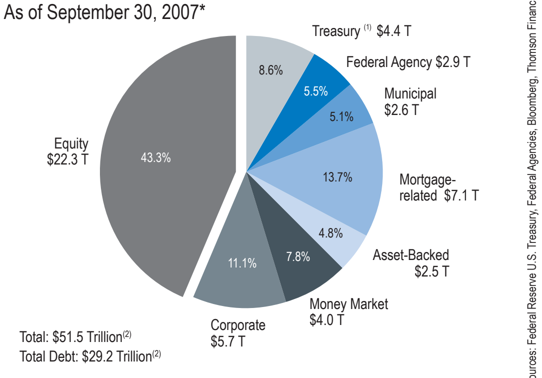
Subject to consumer spending vulnerabilities, the consensus outlook is for economic growth to continue at a below-trend rate. Global consumption, employment and income gains are compensating for some of the housing-related weakness, which is expected to extend well into next year. Central bank actions commencing in August and culminating in the Federal Reserve's November meeting have resulted in Fed Funds rate reduction totaling 75 basis points. While not discounting the subdued economic outlook and still-fragile credit market conditions, investors are, in some cases, making distinctions between mortgage assets where credit has deteriorated substantially and other asset classes that continue to exhibit stronger underlying fundamentals. However, liquidity conditions across the board are reduced substantially from one year ago.

Issuance in the U.S. Capital Markets
2006:Q3YTD vs 2007:Q3YTD



(1) Includes long-term issuance only

U.S. Capital Markets Outstanding
As of September 30, 2007*



(1) Includes marketable public debt
(2) Figures may not add due to rounding
*SIFMA estimates

Highlights

- Long-term municipal bond issuance totaled $324.4 billion year-to-date, compared to $265.8 billion year-to-date 2006.
- Treasury gross coupon issuance totaled $544.0 billion year-to-date, compared to $591.8 billion year-to-date 2006.
- Federal agencies' long-term issuance totaled $685.0 billion year-to-date, compared to $547.3 billion year-to-date 2006.
- Mortgage-related issuance totaled $1.63 trillion year-to-date, compared to $1.49 trillion year-to-date 2006.
- Asset-backed issuance totaled $759.6 billion year-to-date, compared to $648.2 billion year-to-date 2006.
- Global CDO-funded issuance totaled $412.3 billion year-to-date, compared to $375.5 billion year-to-date 2006.
- Outstanding money market volume totaled $4.03 trillion as of the end of the third quarter.
- Corporate bond issuance totaled $881.1 billion year-to-date, compared to $767.0 billion year-to-date 2006.
- Total equity underwriting totaled $175.2 billion year-to-date, compared to $128.1 billion year-to-date 2006.

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Municipal Bond Volume on Record Pace

Short- and long-term municipal securities issuance totaled $361.4 billion in the first three quarters of 2007, 20.8 percent higher than the $299.2 billion issued in the same period of 2006 and ahead of the record pace set in 2005. A substantial issuance calendar, lower rates and solid credit quality of state and local governments helped to buoy issuance. Historically low yields through much of the year encouraged issuers to refund outstanding debt, with refunding volume contributing 38.3 percent of the overall primary market activity in the first nine months compared to 31.7 percent in the same period of 2006. The current environment suggests that refunding activity may moderate over the balance of the calendar year. Despite the taxable credit market turmoil in the third quarter, credit quality conditions in the municipal market remained relatively stable. Local and state government revenue streams, however, are likely to be adversely affected by the continued housing and construction industry weakness and the trend of lower housing prices. In addition, questions about the standing of certain monoline bond insurers could affect liquidity and valuations.

A strong third quarter continued the record pace of issuance as $324.4 billion was sold in the first nine months compared to the $265.8 billion issued in the same period of 2006. Long-term municipal volume was $93.2 billion, lower than the $123.8 billion issued in the second quarter, affected by the quarter's credit market volatility. The Bond Buyer 30-Day Visible Supply stood at $15.2 billion as of November 16, demonstrating the continued strength in new issue activity.

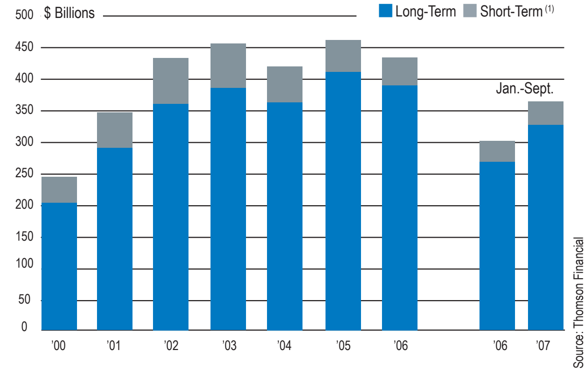
Municipal Prices Affected by Credit Market Weakness Early in the Quarter, Recover at Quarter-End

The lower third quarter volume was the result of investor risk aversion and a "flight to quality" through early September, which drove municipal yields to historically high levels relative to Treasury yields, derailing some deals that were expected to come to market. The ratio of the 10-year AAA-rated general obligation municipal yield to yields of Treasury securities of similar maturity approached 100 percent in August before a municipal bond rally in September brought the ratio more in line with long term averages. The ratio was 84 percent at quarter-end, rising to about 92 percent in mid-November 16. The yield on 2-year AAA-rated general obligation yields ended the quarter at 3.85 percent, down from 4.14 percent at the end of the second quarter. The yield on longer-maturity 10-year municipal securities followed a similar pattern, ending the quarter at 4.59 percent, having declined from 5.02 percent at the end of June. Early in the fourth quarter, the municipal curve steepened as 2-year and 10-year AAA-rated general obligation yields fell further, dropping to 3.35 and 3.96 percent, respectively, as of November 13. With renewed credit market weakness, Treasury prices rallied more than municipals in October as the municipal market became more volatile, Concerns about bond insurers have been an additional contributing factor in the relative municipal price weakness over the last month. The result is likely to be a transition to less reliance on bond insurance and could offer a buying opportunity as conditions stabilize.

Strong Refunding Activity Boosts Issuance; Education Tops Sectors

New money issuance in the first three quarters totaled $200.4 billion, 10.4 percent higher than the $181.5 billion issued in the same period in 2006. Refunding volume reached $124.0 billion, well above the $84.3 billion issued over the same period last year. Total long-term issuance of education-related debt totaled $84.0 billion in the first three quarters, 11.9 percent higher than in the same period of 2006. New capital and refunding issuance of education-related bonds totaled $51.4 billion and $32.3 billion, respectively. Total long-term issuance in the general government sector followed at $82.9 billion, with $53.2 billion in new money volume and $29.7 billion to refund outstanding debt.

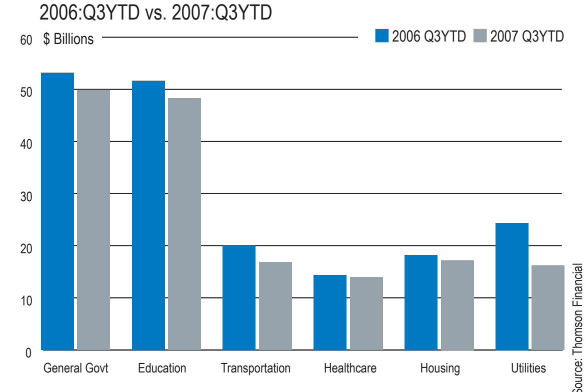
Short- and Long-Term Municipal Issuance
2000–2007:Q3YTD



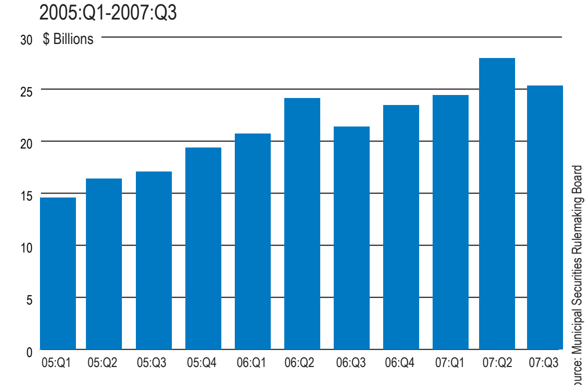
(1) Includes maturities of 13 months or less

Municipal GO AAA and 10-Yr Treasury Ratio
Jan. 2001-Sept. 2007

Municipal New Capital: Use of Proceeds
2006:Q3YTD vs. 2007:Q3YTD



Average Daily Trading Volume of Municipal Securities*
2005:Q1-2007:Q3



* Includes both dealer-to-dealer and customer-to-dealer transactions

Reduced Budget Deficit Contributes to Lower Treasury Issuance in FY 07; Investor "Flight to Quality" Leads to Treasury Securities Price Rally

Total net issuance of U.S. Treasury securities, including bills and coupons, was $92.3 billion in the first three quarters of the 2007 calendar year, compared to a net issuance of $110.9 billion during the comparable period of 2006. Net coupon issuance declined to $85.4 billion in the calendar year-to-date from $163.2 billion in the same period last year. The net volumes reflect the reduced budget deficit for fiscal year 2007, which lowered federal government funding requirements. Treasury expects to issue $68 billion of net marketable debt in the fourth calendar quarter which is also the first quarter of fiscal year (FY) 2008.

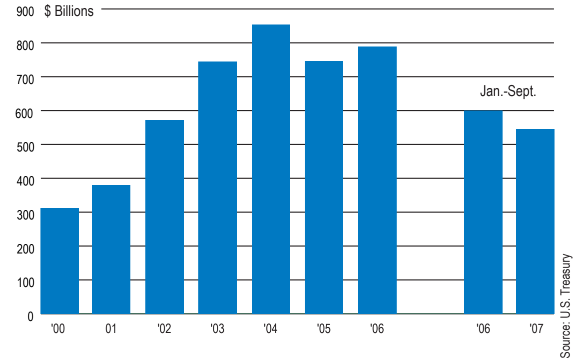
The White House Office of Management and Budget announced a budget deficit of $163 billion for the fiscal year that ended September 30, the lowest full-year deficit in five years including the $248.2 billion in FY 06. Sustained economic growth has led to higher tax receipts and has driven the budget deficit lower in recent years. For FY 07, federal government revenues grew by 6.7 percent while expenditures increased by 2.8 percent. SIFMA's recent Treasury market forecast survey projects a somewhat higher budget deficit of $200 billion in FY 08 in anticipation of below-trend economic growth over the next year.

Gross bill issuance was $2.78 trillion year-to-date, slightly above the $2.72 trillion issued in the first three quarters of 2006. Gross coupon volume declined 9.0 percent in the period to $544.0 billion. In the third quarter, gross coupon issuance totaled $178.1 billion, slightly below the $184.4 billion issued in the second quarter, but ahead of the $163.6 billion issued in the third quarter of 2006. Gross issuance volumes are affected by refundings of maturing and callable debt as well as Treasury's new-cash needs.

Total marketable Treasury debt outstanding reached $4.43 trillion as of September 30, 2007, a 2.5 percent increase from the end of the second quarter. Daily trading volume of Treasury securities by primary dealers averaged $621.9 billion in the third quarter and $563.8 billion year-to-date. The outstanding volume of Treasury Inflation-Protected Securities rose to $456.8 billion in the third quarter, an increase from the $427.7 billion in the second quarter, with daily trading by primary dealers averaging $8.5 billion. With the credit markets in turmoil for much of the third quarter, investors sought the safety and stability of the Treasury market, which contributed to the increased trading activity in the quarter. Year-to-date total non-U.S. investor purchases of Treasury securities reached $128.6 billion as of the end of August. Although on a net basis non-U.S. investors liquidated $2.6 billion dollars in notes and bills in August, as global investors sought to diversify their portfolios, non-U.S. net investment flows in the Treasury market were still positive year-to-date.

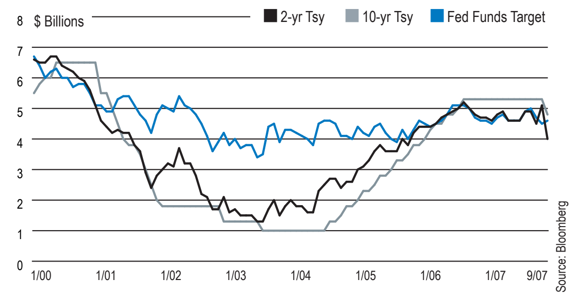
Treasury yields were lower and the yield curve steeper during the quarter. The 2-year Treasury yield ended the third quarter at 3.98 percent compared to 4.86 percent at the end of June, and had declined to 3.08 percent as of November 22. The 10-year yield stood at 4.59 percent at the end of the third quarter, compared to 5.02 percent at the end of June, declining to 4.00 percent as of November 22. The 2-year to 10-year yield spread steepened from 16 basis points to 61 basis points during the quarter. With inflation currently trending lower, the subprime mortgage market continuing to deteriorate and the economy projected to grow at below-trend levels, the Federal Open Market Committee cut the target Fed funds rate by a total of 75 basis points during its September and October meetings, lowering short Treasury yields.

Issuance of the U.S. Treasury Securities*
2000-2007:Q3YTD

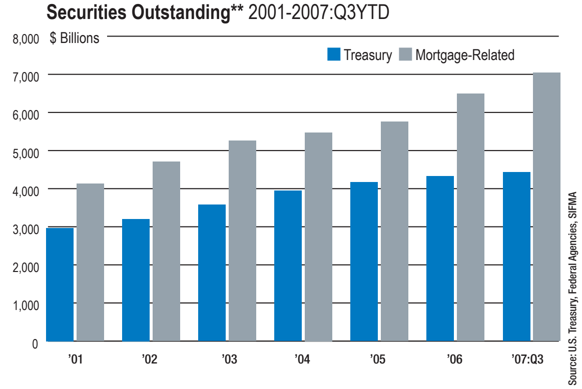


*Includes only marketable coupon securities

Treasury Yields and Fed Fund Rate
Jan. 2000–Sept. 2007

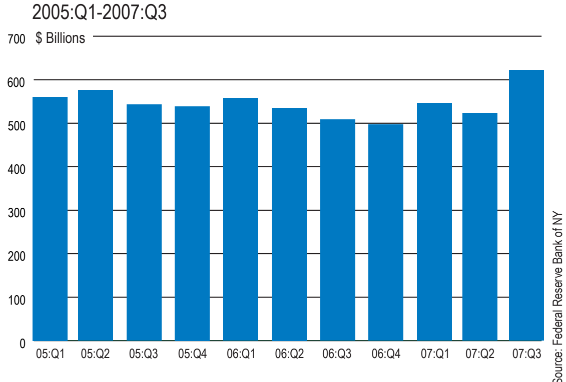


U.S. Treasury Securities Outstanding* vs. Mortgage-Related Securities Outstanding** 2001-2007:Q3YTD



* Includes Marketable Public Debt
** Includes Agency MBS, Agency CMO and Private-Label MBS

Average Daily Trading Volume of Treasury Securities*
2005:Q1-2007:Q3



* Primary dealer activity

Agency Issuance Increases Through Third Quarter

Issuance of federal agency long-term debt totaled $685.0 billion in the first three quarters of 2007, 25.2 percent higher than the $547.3 billion volume in the same period of 2006, boosted by year-to-date growth in conforming mortgage originations. The Federal Home Loan Banks (FHLB) became a more important source of liquidity, especially during the period of short-term funding stress, which reached a peak in August. Strong thrift and bank demand for FHLB funding led to $342.6 billion in issuance, over 50 percent higher than during the first nine months of 2006. Freddie Mac's debt increased slightly to $154.8 billion in the first three quarters, compared to $147.4 billion in the same period of last year. Fannie Mae's issuance for the first nine months totaled $147.8 billion, compared to $140.3 billion in the same period last year. Long-term issuance by Farm Credit System increased to $38.7 billion in the first three quarters, up from $32.4 billion in the same period of 2006. The Tennessee Valley Authority's issuance decreased from $1.08 billion to $1.03 billion in the first nine months of the year. On a linked-quarter basis, third-quarter issuance of $185.1 billion was lower by more than 20 percent as a result of a reduced mortgage origination volume in the quarter. SIFMA's recent quarterly rates market survey forecasts a slight decline in agency issuance by 2 to 3 percent in the fourth quarter, reflecting an expectation that FHLB borrowing will moderate.

Callable debt remains an integral part of the housing government-sponsored enterprises (GSE) hedging and balance sheet management strategies. Callable issuance reached $376.5 billion compared to $263.5 billion in the same period of 2006, accounting for 55.0 percent of total GSE issuance in the first three quarters compared to 69.7 percent in the same period last year. The FHLB accounted for 46.4 percent of callable debt issuance, followed by Fannie Mae and Freddie Mac, with 29.0 percent and 24.6 percent, respectively.

Long-Term Federal Agency Debt Issuance

$ Billions	2006	2006:Q3	2007:Q3	% Change	$ Change
FHLB¹	322.5	129.0	235.4	82.5%	106.4
Freddie Mac	192.9	126.8	123.5	-2.6%	(3.3)
Fannie Mae	184.6	100.4	112.6	12.2%	12.2
FCS²	46.2	20.6	25.6	24.3%	5.0
TVA³	1.1	1.1	0.0	-98.1%	(1.0)
Totals	747.3	377.9	497.1	31.6%	119.3

Federal Agency Debt Outstanding

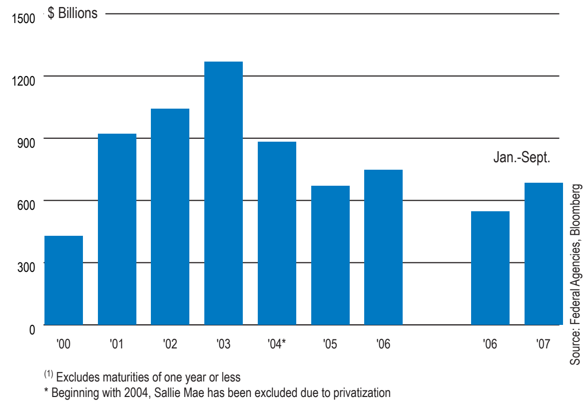
$ Billions	12/31/2006	6/30/2007	9/30/2007	% Change*	$ Change*
FHLB¹	951.7	951.4	970.7	2.0%	19.3
Freddie Mac	776.9	790.3	792.4	0.3%	2.1
Fannie Mae	774.4	772.2	789.5	2.2%	17.3
FCS²	134.1	138.0	141.0	2.2%	3.0
TVA³	23.0	22.8	22.7	-0.4%	(0.1)
Totals	2,660.1	2,674.7	2,716.3	1.6%	41.6

*Percent and amount change between 3/31/07 and 6/30/07

Source: Bloomberg and Federal Agencies

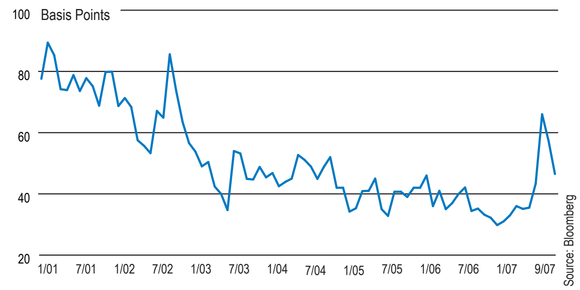
[1] Federal Home Loan Bank System
[2] Farm Credit System
[3] Tennessee Valley Authority

Long-Term Federal Agency Debt Issuance[1]
2000-2007:Q3YTD

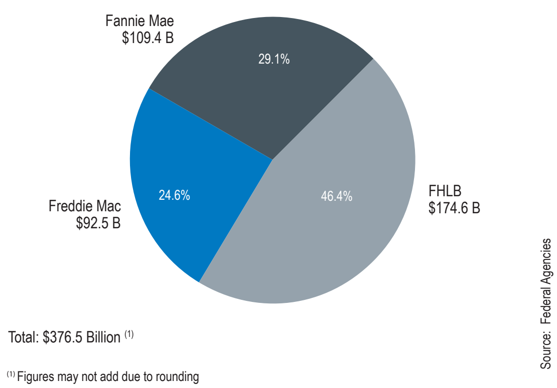


[1] Excludes maturities of one year or less
* Beginning with 2004, Sallie Mae has been excluded due to privatization

U.S. Agency Spreads to U.S. Treasury
2000–2007:Q3YTD



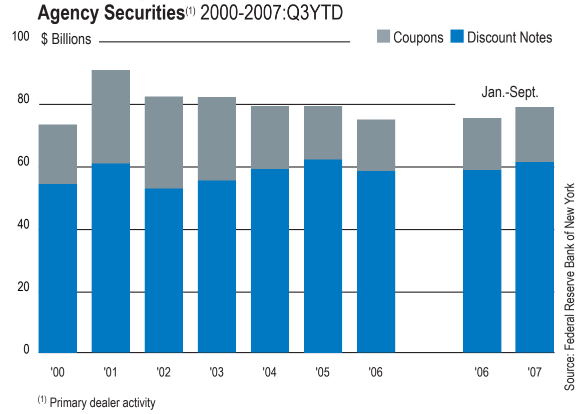
Housing Federal Agency Callable Debt Issuance
2007:Q3YTD



Total: $376.5 Billion [1]

[1] Figures may not add due to rounding

Average Daily Trading Volume of Federal Agency Securities[1] 2000-2007:Q3YTD



[1] Primary dealer activity

Agency MBS Issuance Holds, Private-Label Volume Falls

Issuance of mortgage-related securities, including agency and non-agency pass-throughs and collateralized mortgage obligations (CMO), totaled $1.63 trillion in the first three quarters of 2007, compared to the $1.49 trillion issued in the same period last year. Third quarter mortgage-related securities issuance volume fell to $476.6 billion, lower than the $617.1 billion issued in the previous quarter and the $495.8 billion issued in the third quarter of 2006. The lower volumes are attributable to continuing housing market sector weakness and depressed non-agency market conditions, especially in the subprime segment. New and existing home sales continued to fall through the third quarter, with new home sales down 2.5 percent and existing single-family home sales lower by 8.0 percent in September, compared to August. Tightening non-agency underwriting standards and lower housing prices are reducing mortgage origination volumes. The Mortgage Bankers Association expects new home sales to trend lower over the next year. The housing recovery must wait until the substantial inventory of homes on the market has been reduced. Lower benchmark yields may provide some support for conforming issuance in the form of lower conforming rates. Despite some improvement since August, the nonconforming MBS market continues to be beset by reduced liquidity and historically wide spreads to the agency market.

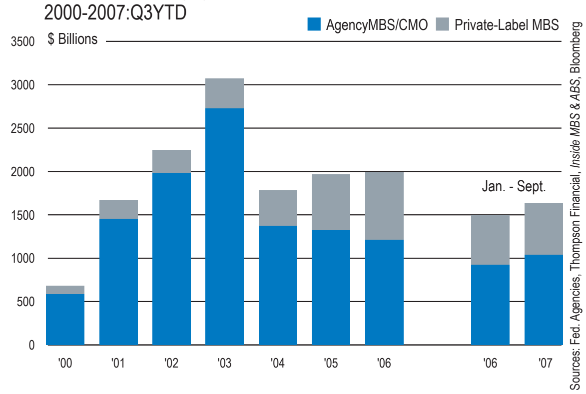
Downward credit quality pressure remains unabated as the 2006 mortgage vintage looks to be one of the weakest ever. Standard & Poor's has downgraded $16.0 billion in residential mortgage-backed securities (RMBS) in the third quarter and a total of $20.3 billion year-to-date. According to a recent Deutsche Bank report, cash losses in the subprime MBS market are estimated to be at least $150.0 billion, 12 percent of the $1.2 trillion market, but a much smaller percentage of the broader mortgage-related securities market. The large volume of adjustable rate mortgage (ARM) resets in October added to the mortgage sector exposure. The reset volume will decline after October until March of next year, according to Moody's Economy.com. According to *Inside Mortgage Finance*, the issuance of subprime mortgage-backed securities dropped in the third quarter to $26.2 billion, down over 60 percent from the $74.7 billion in the second quarter.

Issuance of agency mortgage-backed pass-throughs totaled $849.0 billion in the first nine months, an increase of 24.8 percent above the $680.2 billion issued in the first three quarters of 2006. The wide differential between agency and non-agency pricing has driven the migration of market share to agency MBS issuance. Agency collateralized mortgage obligations (CMO) issuance decreased to $193.0 billion in the period ended September 30, 21.3 percent below the $245.1 billion issued in the comparable period of 2006.

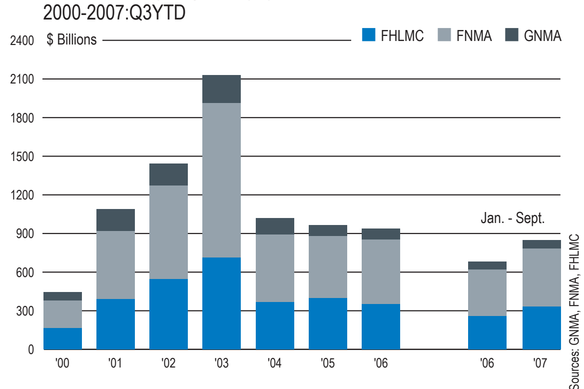
Aided by a still vibrant commercial mortgage-backed securities (CMBS) market through the third quarter, total non-agency MBS issuance, including jumbo and higher-quality residential and CMBS, increased to $603.4 billion in the first nine months, boosted by the record-setting first quarter. Third-quarter volume decreased on a linked-quarter basis, and September's $26.7 billion issuance of total non-agency MBS was well below the average volume in July and August and the monthly average during the first half of the year.

Private-label residential MBS issuance includes both jumbo mortgages that exceed conforming loan size limits and higher-credit-quality mortgages with a FICO score of 675 and above that do not meet agency underwriting guidelines. RMBS new-issue volume decreased to $419.6 billion in the first nine months, down from $448.9 billion in the same period last year. Third-quarter issuance was $140.7 billion compared to $115.4 billion in the second quarter and $147.2 billion in the third quarter a year ago.

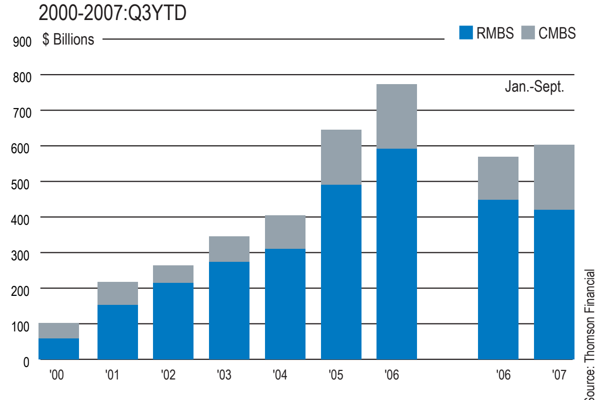
Issuance of Mortgage-Related Securities
2000-2007:Q3YTD



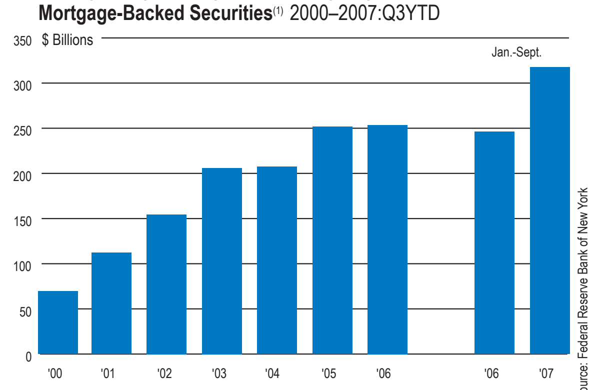
Issuance of Agency Mortgage-Backed Securities
2000-2007:Q3YTD



Issuance of Mortgage-Related Securities
2000-2007:Q3YTD



Average Daily Trading Volume of Agency Mortgage-Backed Securities[1] 2000–2007:Q3YTD



[1] Primary dealer activity

ABS Issuance Falls in the Third Quarter on Mortgage Market Weakness

Asset-backed securities (ABS) issuance totaled $759.6 billion through the first nine months of the year, a decline of 17.2 percent compared to the same period a year earlier. The third quarter ABS issuance of $127.5 represented a 60.0 percent decline compared to the second quarter, and 59.1 percent lower than the same period a year ago. The reduced volume is directly attributable to conditions in the subprime mortgage and home equity sectors. The consensus view is that the housing sector and the mortgage market downturn will continue at least into next year which will keep mortgage ABS and home equity (HEL) volumes depressed. The continuing stream of subprime mortgage rating downgrades, along with the significant credit spread widening, provides confirmation of the subprime credit quality deterioration. Non-housing finance related ABS sector spreads also widened during the quarter. Auto and credit card spreads did begin to rally and issuance began to pick up late in the quarter.

Leading ABS Sectors

HEL ABS volume decreased by almost half to $202.2 billion through the first nine months compared to $377.0 billion during the same period in 2006. Issuance at $14.2 billion was also dramatically lower for the third quarter, by 83.7 percent and 87.1 percent from the second quarter of 2007 and the third quarter of 2006, respectively. Despite the lower HEL volume this year, HEL still remains the largest ABS sector, accounting for 26.6 percent of total ABS issuance.

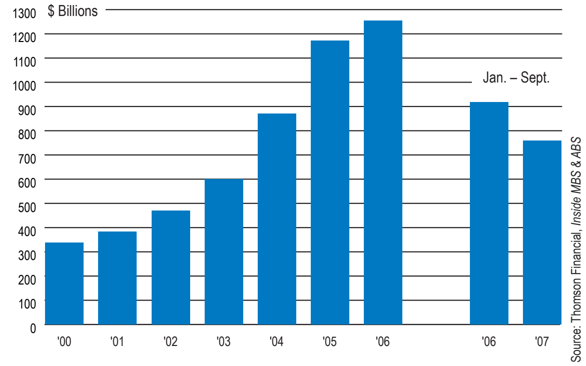
Mortgage ABS, including non-jumbo transactions comprising first-lien mortgage loans with weighted average FICO credit scores of less than 674 and subprime mortgages, volume was $85.7 billion in the first nine months of 2007, lower by 6.7 percent compared to the same period a year ago. Reflecting origination trends in credit exposed mortgage products, the primary market was virtually closed in the third quarter with issuance of $4.3 billion, compared to $40.0 billion in the third quarter of 2006, and $35.6 billion issued in the second quarter of 2007. (Subprime issuance was $26.2 billion in the third quarter, a 64.9 percent decline from the second quarter, and $189.3 year-to-date, a decline of 44.6 percent from the same period last year, according to Inside Mortgage Finance.)

Credit card ABS issuance totaled $70.3 billion at the third quarter, 28.5 percent higher than the first nine months of 2006. Third quarter volume was $22.7 billion, a modest decline of 0.4 percent from the second quarter but 25.4 percent ahead of the third quarter last year. The year-over-year growth can be attributed in part to the substitution of credit cards for HEL as the potential available mortgage equity withdrawal (MEW) volume growth has slowed in the reduced home price environment.

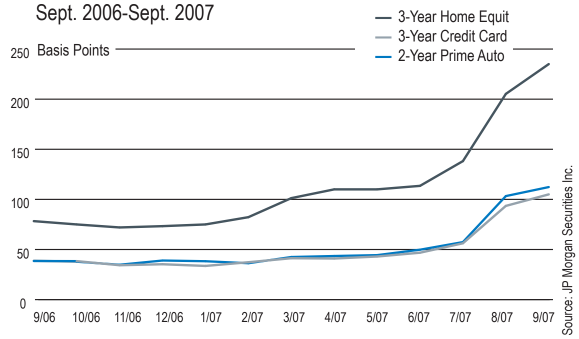
Auto loan ABS issuance of $48.2 billion through the first nine months of the year represented a 15.0 percent decline compared to a year ago. Lower auto sales contributed to the year-to-date issuance decline. Third quarter volume of $14.2 billion was 36.6 percent less than the strong second quarter, when issuance was boosted by Chrysler's ABS issuance to support its LBO. Weaker third quarter ABS pricing and diminished investor demand as a result of the effect of the subprime market deterioration also contributed to the lower issuance.

Student loan ABS issuance totaled $12.9 billion, a 22.9 percent rise on a linked-quarter basis but 9.8 percent lower than the third quarter of 2006. Year-to-date, issuance was $50.1 billion, 4.0 percent lower than the same period a year ago.

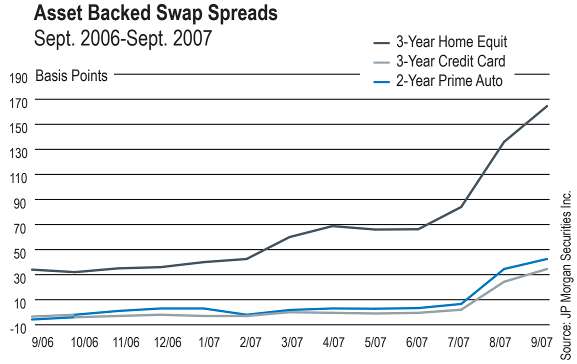
Issuance of Asset-Backed Securities
2000-2007:Q3YTD



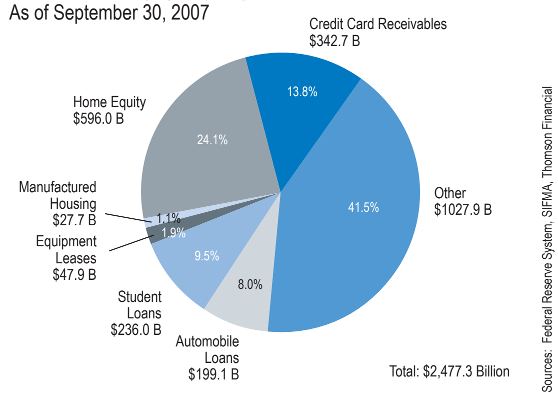
Asset Backed Spreads to U.S. Treasury
Sept. 2006-Sept. 2007



Asset Backed Swap Spreads
Sept. 2006-Sept. 2007



ABS Outstanding by Major Types of Credit
As of September 30, 2007



Subprime Weakness Leads to Lower CDO Issuance in Third Quarter, but Volume Still Ahead Year-to-Date

Global issuance of collateralized debt obligations (CDO) was higher through the first three quarters of the year compared to last year despite the second consecutive quarterly decline. Global credit risk repricing, subprime mortgage market deterioration and reduced liquidity contributed to the third-quarter issuance decline. Global issuance of funded CDOs reached $412.3 billion during the first nine months of the year, up 9.8 percent from the same period a year earlier. Third-quarter volume dropped to $63.0 billion, 54.6 percent lower than the third quarter a year ago and 64.0 percent less than the second quarter. Cash-flow and hybrid CDOs continued to be the dominant structures, accounting for $314.9 billion in the first three quarters of 2007, up 10.1 percent from the same period a year ago, with the synthetic funded CDO volume at $38.0 billion and the market value CDO issuance at $59.4 billion. The third-quarter cash-flow and hybrid volume was $50.4 billion, off 62.9 percent from the second quarter. The synthetic funded and market value sectors accounted for $3.1 billion and $9.5 billion, respectively, in the third quarter. Based on the CDO purpose segmentation, arbitrage CDOs represented 90.7 percent and balance-sheet CDOs 9.3 percent of global volume year-to-date. Arbitrage CDO volume was $356.8 billion in the first nine months, up 7.5 percent from last year, while third-quarter issuance was $57.2 billion, down 60.9 percent from the second quarter.

Collateral and Currency Sectors

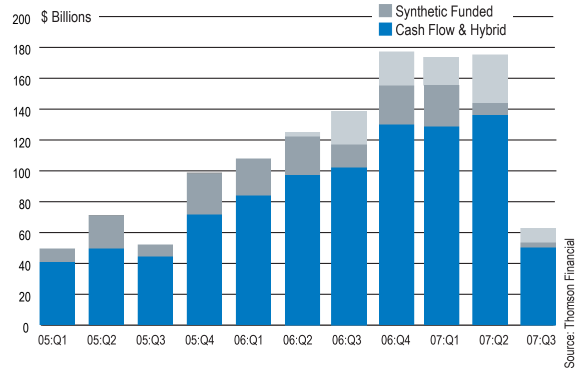
Although the structured finance (SF) collateral group encompasses a wide range of collateral types, the group is dominated by mortgage-related and home equity collateral. With the subprime market turmoil acceleration, third-quarter volume fell to $23.5 billion, down 74.9 percent from the second quarter. Collateralized loan obligations (CLO) replaced SF CDO as the largest collateral class at $30.6 billion in the third quarter, despite a linked-quarter volume decline. Investment-grade bond CDO issuance totaled $8.1 billion in the third quarter, compared to a revised $22.9 billion issued in the second quarter, and there were no CDOs backed primarily by high-yield bonds in the third quarter. Despite continued solid corporate credit quality, corporate bond- and, especially, loan-backed CDO volumes diminished as a result of the trend of increased investor risk sensitivity, subprime contagion, de-leveraging and decline in leveraged buyout (LBO) deal flow. The SF CDO and CLO sectors are diverging. The continued stream of CDO rating downgrades are concentrated in CDOs with subprime collateral. Although the SF CDO volume is likely to remain depressed at least through the end of the year, CLO issuance could increase from third-quarter levels as the leveraged loan market is beginning to regain liquidity, and issuance volumes are showing signs of recovery.

The dollar-denominated segment accounted for a 73.2 percent share of the global CDO issuance market at the end of the third quarter at $302 billion, 2.2 percent higher than in the same period in 2006. Third-quarter volume was 64.1 percent lower than in the second quarter. Euro-denominated CDO volume ranked second, with $16.2 billion, down 23.3 percent from the third quarter of 2006, but 36.3 percent higher year-to-date based on a very strong first half.

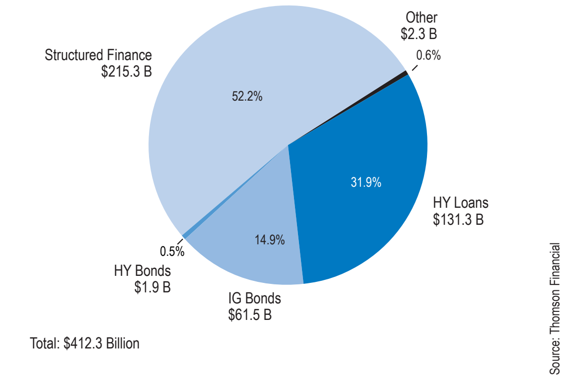
Credit Spreads Wider, More Pronounced in Credit Exposed Tranches

Based on Merrill Lynch data, AAA-rated cash CDO spreads widened in the third quarter. Spreads in the lower-rated and more credit-exposed sectors experienced even more pronounced spread widening. AA-rated CLO tranches widened by 68 basis points to 110 basis points, and spreads on BBB-rated tranches increased by 150 basis points to 350 basis points. Structured finance AA-rated CDO tranches widened by 115 basis points to 225 basis points, and BBB spreads increased by 200 basis points to 800 basis points.

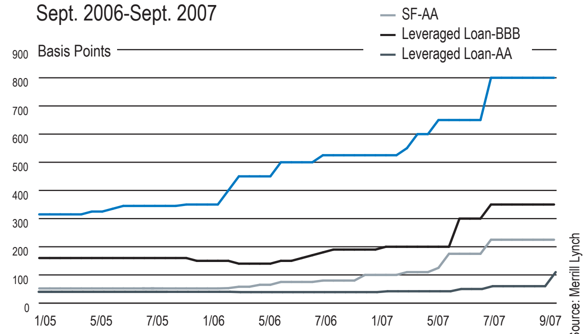
Global CDO Issuance by Transaction Structure
2005:Q1-2007:Q3



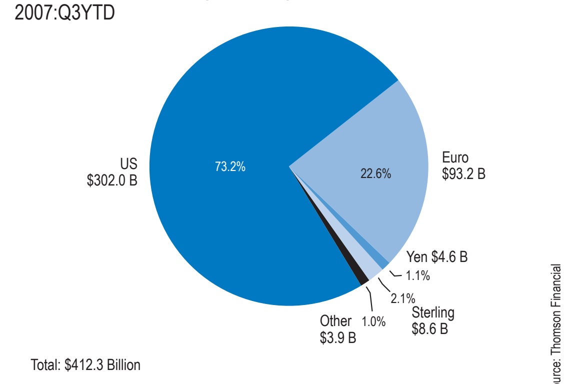
Global CDO Issuance by Underlying Collateral
2007:Q3YTD



Asset Backed Swap Spreads
Sept. 2006-Sept. 2007



Global CDO Issuance by Currency
2007:Q3YTD



Repo Average Daily Outstanding Increases in Third Quarter

The average daily volume of total outstanding repurchase (repo) and reverse repo agreement contacts increased 10.2 percent in the first three quarters of 2007 to $6.18 trillion from $5.61 trillion in the same period of 2006. Daily outstanding repo agreements averaged $3.78 trillion in the three quarters, a 12.2 percent increase compared to the average of $3.37 trillion outstanding during the comparable period a year ago. Average outstanding reverse repo increased by 7.1 percent to $2.40 trillion from the $2.24 trillion outstanding during the same period a year ago. The data represent financing activities of the primary dealers reporting to the Federal Reserve Bank of New York and include repurchase and reverse repurchase agreements involving U.S. government, federal agency, agency mortgage-backed and corporate securities.

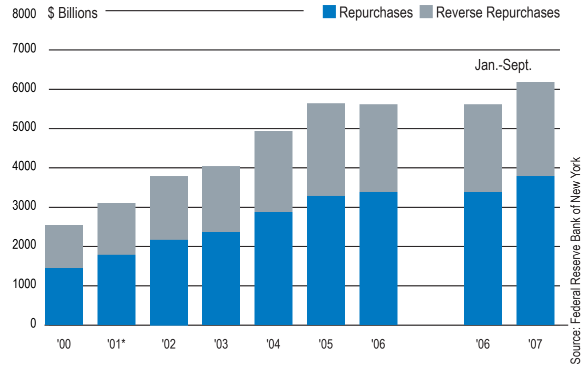
The Fixed Income Clearing Corporation's Government Securities Division (GSD), a SEC-registered clearing agency, facilitates orderly settlements in the U.S. Government securities market and tracks repo trades settled through its system by product type. Over $378.1 trillion in repo trades were submitted by GSD participants through the third quarter of 2007, with an average daily volume of approximately $2.0 trillion. Transactions involving Treasury notes accounted for the largest share of GSD's repo activity, representing $270.8 trillion, or 71.6 percent of total volume. Repos involving Treasury bonds accounted for an estimated $34.9 trillion, or 9.2 percent of the total and Treasury bills accounted for $23.3 trillion, or 6.2 percent, of the activity for the period. Transactions involving federal agency non-mortgage securities accounted for $31.6 trillion or 8.4 percent of 2007's volume through the third quarter.

Lower CP Volumes Reduce Money Market Outstanding to $4.03 Trillion

The outstanding volume of total money market instruments, including commercial paper (CP) and large time deposits, totaled more than $4.03 trillion at the end of September 2007, a 5.4 percent decrease from the end of the second quarter. CP outstanding declined to $1.86 trillion at the end of September, an 11.8 percent decrease compared to the end of the second quarter. In response to diminished liquidity, historically-wide CP credit spread levels, and the general market disruption, central banks initiated a series of actions in August which brought some stability to the marketplace. After an extended period of weekly declines in CP outstanding during the third quarter, aggregate CP volumes increased during October.

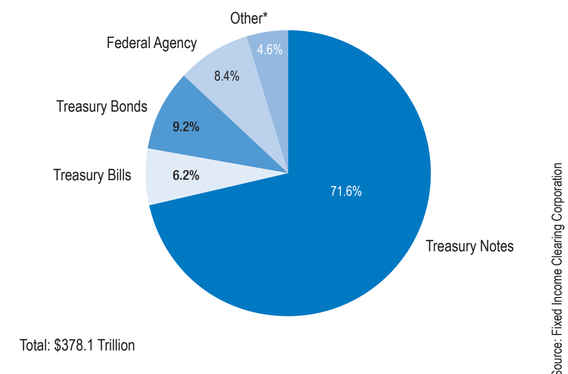
Financial CP outstanding stood at $767.0 billion as of the end of the third quarter, a 2.0 percent decline from the end of the second quarter. Non-financial CP outstanding also declined to $163.7 billion at the end of the third quarter, an 11.9 percent decrease during the quarter. Asset-backed commercial CP (ABCP) declined by 19.1 percent in the third quarter to $922.2 billion, the result of wider spreads, lower collateral values, weaker liquidity, heightened rollover risk and reduced investor demand driven by the fallout from the subprime market concerns. Overall, ABCP outstanding has fallen by $360 billion, or 30 percent, from its peak of $1.195 trillion outstanding on November 21. The ABCP market decline has forced some conduits to tap backup lines of credit. The ABCP market volume will not return to the peak volume levels reached earlier this year. Rather, some programs are anticipated to unwind, perhaps aided by such strategies as the Master Liquidity Enhancement Trust (MLEC) proposal. Over the near term, access by new issuers to the CP market will be constrained, and economical alternative funding sources will be pursued, including bank balance-sheet funding. As liquidity returns to the market, the CP market will attract the traditional issuer universe to support business capital spending and consumer finance on a selective basis.

Financing by U.S. Government Securities Dealers
Average Daily Amount Outstanding 2000-2007:Q3YTD



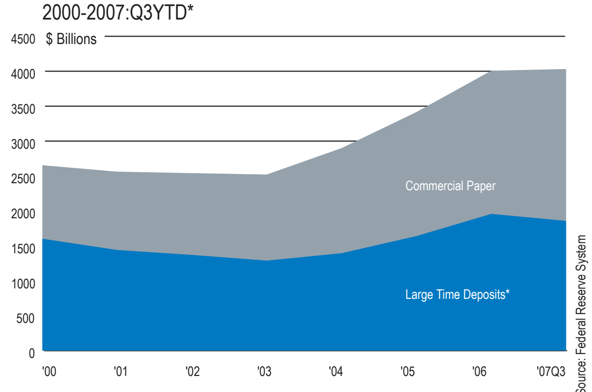
* Beginning July 2001 corporate securities are included

Repo Trades Submitted to the FICC
2007:Q3YTD



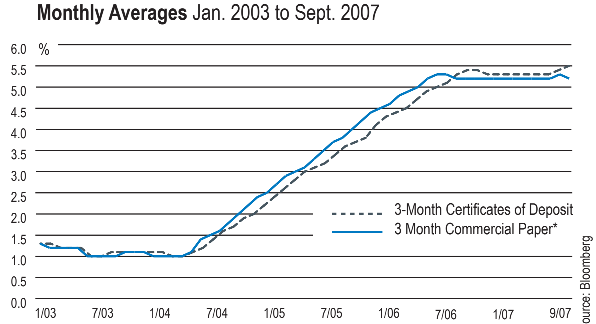
* Includes Discount Agency, Forward Starting Generic Repo Trades, STRIPs, TIPS Bonds, TIPS Notes

Outstanding Money Market Instruments
2000-2007:Q3YTD*



* SIFMA estimates

Domestic Money Markets Interest Rates
Monthly Averages Jan. 2003 to Sept. 2007



*Discount basis

Corporate Bond Issuance on Record Pace Despite Slow Third Quarter

Heightened investor risk sensitivity, credit risk repricing and reduced liquidity dramatically altered the market environment in the third quarter. Despite tighter financing conditions in the quarter, corporate bond issuance rose to $881.1 billion through the first three quarters of the year, a 13.5 percent increase over issuance in the first three quarters of 2006. A new corporate bond annual volume record is well within reach. Issuance declined to $229.1 billion in the third quarter, down 33.7 percent from the second quarter.

The corporate credit market showed signs of recovery in the latter part of the third quarter in response to the Federal Reserve's aggregate 75 basis point reduction in the Fed funds rate in September and October. Following another spate of bad news from the housing sector and subprime market, however, the market relapsed in late October as spreads widened, liquidity waned and volatility increased. By late November, credit spreads had reached their widest levels since 2003. Mergers and acquisitions (M&As) and leveraged buyouts (LBOs), which drove issuance growth in recent years, slowed in the third quarter. The balance of power has clearly shifted, and many new deals are likely to be done under adjusted terms more favorable to investors.

Credit Quality Stable at Present; Increased Risk Ahead

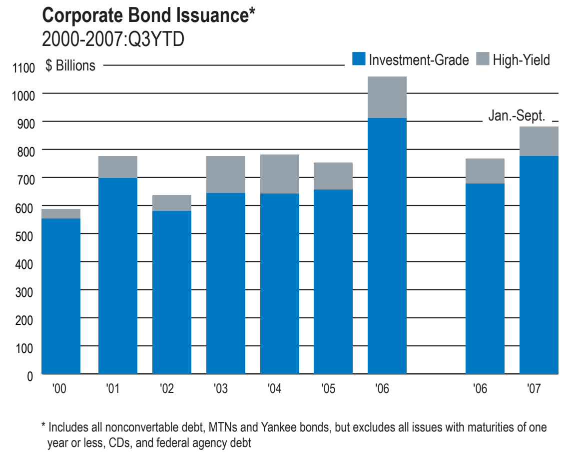
Underlying corporate financials have remained fundamentally solid. Although some corporate sectors are experiencing difficulty, corporations in general have good cash reserves and strong balance sheets built up over an extended period of double-digit percent profit growth. While the economic expansion is expected to continue, the slower rate of growth is a clear risk factor for corporate credit through the balance of the year, especially for those issuers most exposed to the mortgage lending and housing sector.

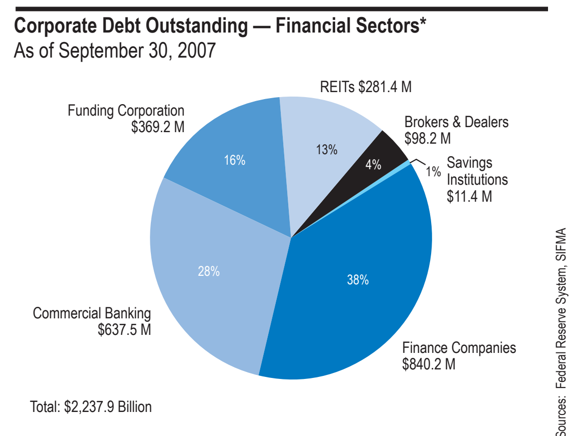
The default rate remains subdued, although the consensus view is that it will rise over the coming year. S&P Global Fixed Income Research reports a historically low 1.13 percent corporate bond default rate at the end of the third quarter. S&P expects the default rate to accelerate in 2008 and into 2009, reaching 3.4 percent a year from now, but still lower than the historical average. As another measure of risk exposure, S&P has reported on the downward movement in the ratings mix which results from a shareholder focus and shift in financial risk profile through such strategies as debt-financed corporate acquisitions and share buybacks.

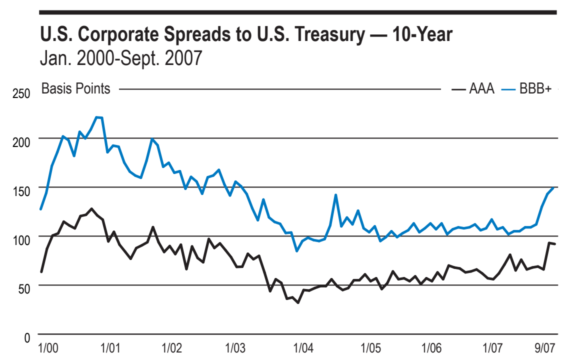
Investment-Grade Volume Strong Through Third Quarter

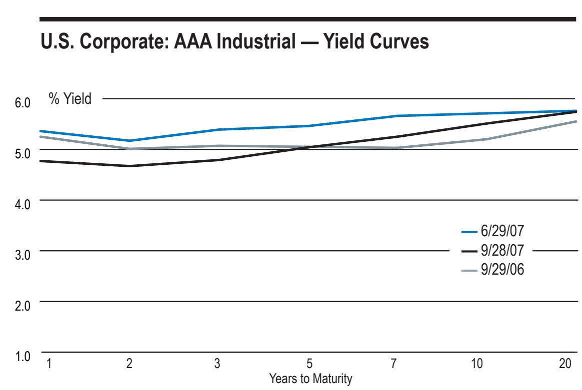
Non-convertible investment-grade issuance increased to $776.6 billion through the first three quarters of 2007, 14.5 percent higher than the $678.0 billion issued during the same period a year ago. Net issuance is running at slightly less than half of gross issuance, according to JP Morgan. On a linked-quarter basis, issuance decreased to $220.1 billion in the third quarter, down by 23.7 percent, from the second quarter, but up 1.9 percent from the third quarter of 2006. After a slow July in which investment-grade issuance totaled only $35.9 billion, the lowest total since April 2005, issuance recovered to a monthly average of about $92.1 billion in August and September, and the pace has continued into the fourth quarter.

Financial companies remain the leading investment-grade issuing sector, with commercial banks, investment banks and other credit institutions totaling $117.8 billion in issuance, more than 50 percent of the entire issuance volume in the quarter. The dominance of financials in the investment grade universe has raised concern about credit spread performance and risk vulnerability in view of the sector's exposure to the mortgage and structured finance markets. During October, the investment-grade derivative









index, CDX.IG, a measure of corporate credit risk, widened 10 basis points to 70 basis points.

High-Yield Issuance Ahead of Last Year Despite Slow Quarter

Despite a slow third quarter, issuance of non-convertible high-yield debt (below BBB) was $104.5 billion in the first three quarters of 2007, a 17.4 percent increase over the $89.0 billion issued in the first three quarters of 2006. The LBO and M&A surge through the first half of the year accounted for the increase, with M&A and LBO financing accounting for a record-high 40 percent of year-to-date high-yield volume, according to Merrill Lynch. During the third quarter, the reduced liquidity and credit market repricing led to a sharp decline in high-yield issuance to $9.0 billion, down from $56.8 billion in the second quarter and $23.5 billion a year ago. Manufacturing continues to be the leading industry sector, accounting for 26.4 percent of total high-yield issuance through the first nine months of the year. Returns on Merrill Lynch's high-yield index recovered toward the end of the quarter, reaching 2.44 percent for September and 0.33 percent for the quarter. Investor demand returned to the leveraged finance market in October driving a substantial rise in issuance, but has weakened again in November. Nevertheless, the high-yield market has moved away from the sanguine conditions in the first half of the year, leading to increased buying of credit protection in the derivatives market. The spread on the high-yield derivative index, CDX.HY, stood at a 545 basis points on November 21, 282 basis points wider than at the beginning of the year.

Medium-Term Notes, Convertible Issuance Increases Year-to-Date, Lower for the Quarter

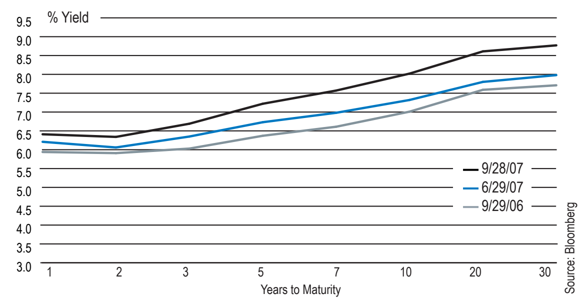
Issuance of medium-term notes (MTNs) grew to $274.9 billion through the third quarter of the year, an 11.0 percent increase over the $247.6 billion issued during the first three quarters of 2006. MTNs in the third quarter totaled $70.0 billion, down 28.9 percent from the second quarter and 20.6 percent from the same period a year ago. The MTN issuance decline reflects the general decline in issuer demand and reduced debt-financed corporate acquisition volume in the volatile third-quarter market environment, as well as reduced issuance by conduits and structured investment vehicles (SIVs).

Convertible issuance (including investment-grade and high-yield issues) increased to $57.9 billion in the first three quarters of the year, up 41.9 percent from the $40.8 billion issued during the same period in 2006. Issuance decreased to $8.8 billion in the third quarter from $28.3 billion in the second quarter and $9.7 billion in the third quarter of 2006. The year-to-date growth of convertible bond issuance reflects the value that bond investors place on the opportunity to participate in equity price appreciation. Hybrid capital issuance was $20 billion in the third quarter compared to $37 billion in the second quarter according to JP Morgan. However, the volume picked up late in the third quarter and into the fourth.

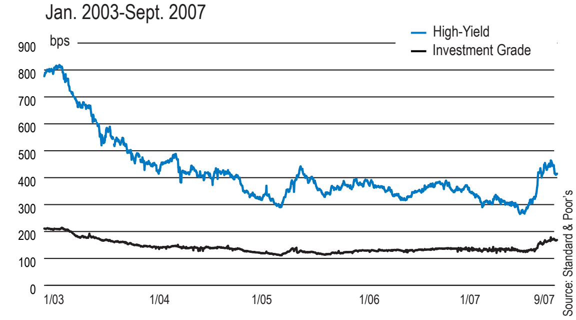
Trading Volumes Generally Down in Volatile Quarter

According to the FINRA's TRACE system, estimated investment-grade average daily trading volume decreased in the third quarter to $7.8 billion, lower than the $9.4 billion in the second quarter and the $8.1 billion average volume traded during the same period a year ago, which reflects credit market turbulence and investor risk aversion fueling illiquidity. High-yield average daily trading volume increased to $4.1 billion in the quarter, up from $4.0 billion in the second quarter but down from the $4.3 billion traded to a year ago. The higher high-yield volume in the quarter may indicate that investors were reducing their holdings in the high-yield credit repricing and reduced liquidity environment. Trading volumes in all sectors fell significantly early in the fourth quarter as illiquidity reigned. Some market participants have reported that FINRA's trade reporting system itself is contributing to reduced liquidity and trading volumes.

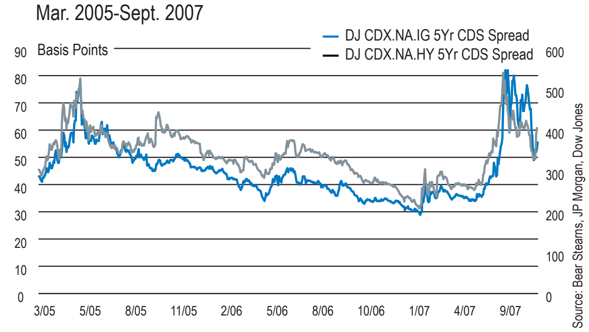
U.S. Corporate: BB Industrial — Yield Curves



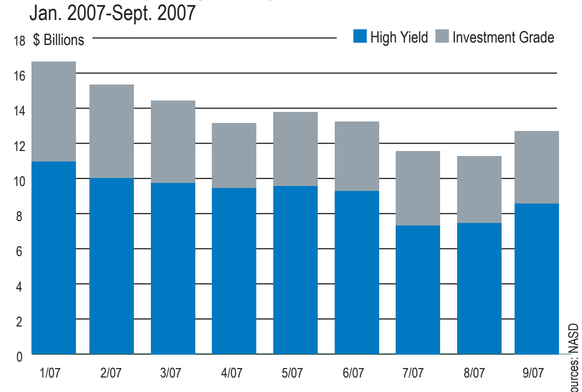
S&P Corporate Composite Spreads
Jan. 2003-Sept. 2007



Credit Default Swap Spread
Mar. 2005-Sept. 2007



TRACE Average Daily Trading Volume
Jan. 2007-Sept. 2007



Federal Reserve Rate Cut Propels Equity Indices Back to Record Levels Following Credit-Market-Driven Retreat; Trading Volumes Remain Elevated

Favorable equity market conditions in the first half of the year gave way to credit market weakness and dramatically lower corporate acquisition deal volumes in the third quarter, and equity prices declined from record levels earlier in the year. The markets, however, rallied late in the quarter following the Federal Reserve's 50 basis point cut in the Fed funds rate on September 19 and then again with the subsequent 25 basis point cut in October. The late-quarter rally was supported by signs of improved credit market conditions and renewed credit availability. A key consideration for the market outlook is whether corporate profit momentum can be maintained in an economy growing at a below-trend rate and under the cloud of housing weakness. A second important variable is whether credit market conditions will recover (or be subject to periodic relapses) and enable funding of M&As and LBOs. M&A deal volume dropped 50.5 percent in the third quarter. Prior to the recent dramatic corporate bond credit spread widening, the consensus view had been that corporate debt availability would pick up over the balance of the year from third-quarter levels, Regardless of whether that turns out to be the case, we are unlikely to see a return to the low-cost funding environment that prevailed during the first half. Even after the market rally late in the third quarter and into the fourth quarter, aggregate dividend yield and price-to-earnings (P/E) ratio based valuations were still well within historical ranges.

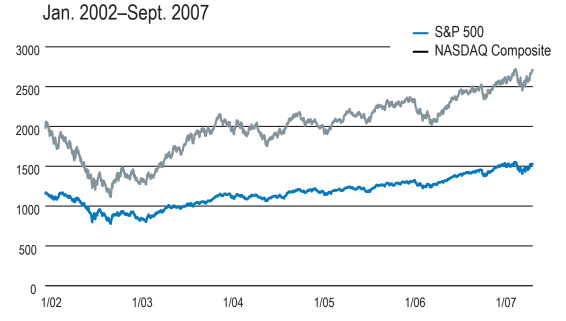
For the quarter, the Dow Jones Industrial Average (DJIA) rose by 3.6 percent, with the S&P 500 picking up 1.6 percent and the NASDAQ gaining 3.8 percent. On a year-over-year basis, the DJIA was up 19.0 percent, the S&P 500 14.3 percent and the NASDAQ 19.6 percent. Price appreciation initially peaked on July 19, when the DJIA rose above 14,000, before the effect of the credit market turmoil led to a 1,200 point drop over the next month. The DJIA then recovered to set a new record on October 9, at 14,164.53. Similarly, the S&P 500 fell in August to a low of 1,406.70 before bouncing back to a new record level of 1,565.15. Prices retreated on renewed subprime-driven credit market concerns commencing in mid-October. As of November 23, the S&P 500 stood at 1440.60, NASDAQ stood at 2596.60, and the DJIA stood at 12,980.88.

Share and Dollar Trading Volume Up, Reaching Record Highs

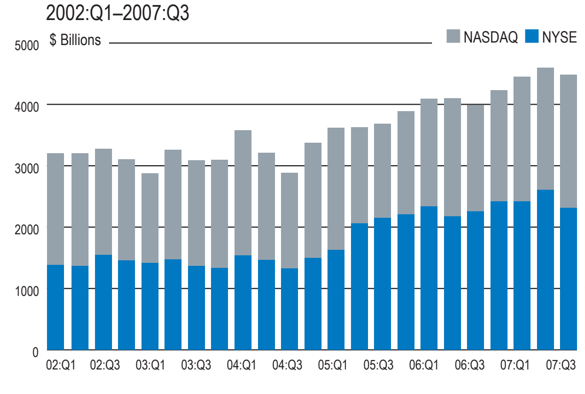
Average daily share volume surged by 15.7 percent in the third quarter on the New York Stock Exchange (NYSE), while NASDAQ volume increased by a more modest 3.8 percent compared to the second quarter. Average daily share volume on the NYSE rose to an average of 2,309.1 billion shares in the third quarter, the strongest quarter on record, despite the 26.4 percent decline in September from the 2,658.8 billion share average trading volume in August. NASDAQ share trading volume reached 2,173.3 billion shares in the third quarter. Trading volume declined in September after four consecutive monthly increases on both the NYSE and the NASDAQ. Year-to-date through the third quarter, the NYSE and NASDAQ daily average trading volumes increased to 2,111.2 billion shares, or up by 3.1 percent, and 2,140.1 billion shares, or by 5.6 percent, respectively, compared to the same period a year earlier.

The average daily dollar volume on both the NYSE and the NASDAQ established new records during the third quarter at $95.5 billion and $61.9 billion, up by 14.4 percent and 12.2 percent from the second quarter, respectively. This is the third consecutive quarter of new dollar volume records. The NYSE set a monthly record of $107.0 billion daily average in August,

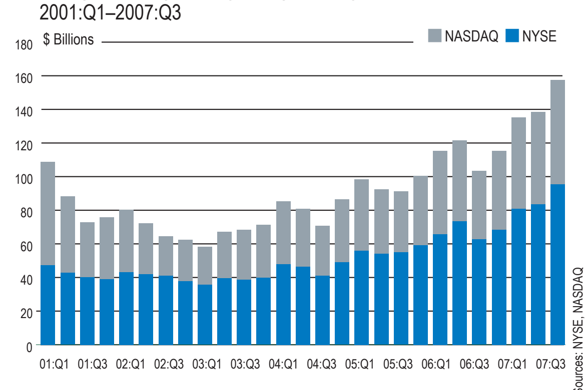
Daily Closing Stock Prices
Jan. 2002–Sept. 2007



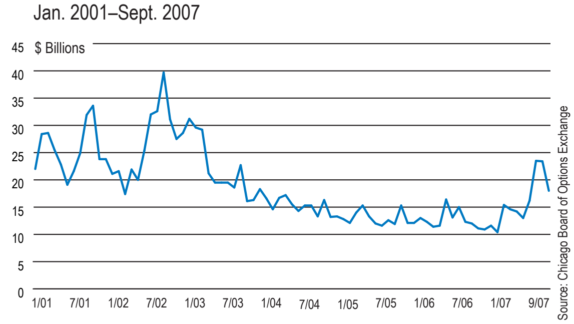
NYSE and NASDAQ Average Daily Share Volume
2002:Q1–2007:Q3



Equity Quarterly Average Daily Trading Volume
2001:Q1–2007:Q3



SPX Volatility Index (VIX) Close
Jan. 2001–Sept. 2007



but then fell in September to $80.8 billion. The NASDAQ averaged $55.1 billion daily in September, well below the monthly record of $106.4 billion set in March of 2000. Both the NYSE and the NASDAQ dollar volumes were well above the third-quarter levels of a year ago, increasing by 52.6 percent and 51.2 percent, respectively.

CBOE Volatility Index (VIX) Rose Sharply in the Quarter Before Receding at Quarter-End

The Chicago Board Options Exchange Volatility Index, or VIX, ended the quarter at 18.00, the lowest month-end close during the turbulent third quarter, but has since picked up, with a 25.61 reading as of November 23. The month-end VIX for July and August were 23.52 and 23.38, respectively, peaking at 30.83 on August 16. Until July, the VIX had been below 20.00 for 45 straight months.

Short Interest Rises Sharply to Near Record Levels

NYSE short interest declined to 11.65 trillion shares for the October 15 reporting period. Short-selling activity remained above the 10 trillion-share level for the ninth consecutive reporting period. The October 15 short interest represented 3.1 percent of the total shares outstanding on the NYSE. Short interest declined by 4.7 percent during the third quarter. Year-over-year short interest grew 22.0 percent. The short ratio, or short positions outstanding as a percentage of average volume at the exchange expressed in days, rose to 9.6 from 8.4 from September 28 to October 15.

Total Corporate Underwriting Reduced by Mortgage Market Turmoil

Third-quarter equity underwriting volume was $28.4 billion on 117 deals, compared to $63.7 billion on 114 deals in the second quarter. The lower third-quarter volume was affected by the deterioration in credit market conditions. Year-to-date dollar volume of $143.7 billion was 39.3 percent higher than the first three quarters of 2006. Absent an unexpected year-end deal surge, 2007 underwriting volume will fall short of the record of $204.5 billion set in 2000.

Closed-end funds had a strong first nine months, raising $34.8 billion on 81 deals, compared to $5.4 billion - 27 over the same period in 2006. Closed-end funds raised $3.6 billion in the third quarter, compared to $14.8 billion in the second. Preferred stock volume was also strong, totaling $11.3 billion on 17 deals in the third quarter, an increase of 65.7 percent on a linked-quarter basis.

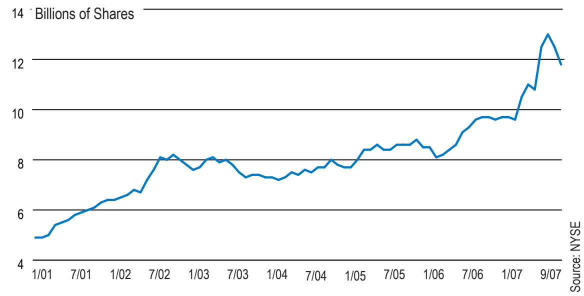
Combining corporate debt (straight bonds and securitizations) and equity underwriting, the securities industry raised $538.6 billion of corporate capital in the third quarter of 2007, a decline of 46.0 percent from the previous quarter and 31.0 percent from a year ago. The decline was directly attributable to lower mortgage ABS and non-agency MBS volumes, down 60.0 percent and 43.4 percent, respectively, attributable to subprime mortgage conditions.

Total 3Q Initial Public Offerings (IPOs) Lower than Last Quarter, Higher than Last Year

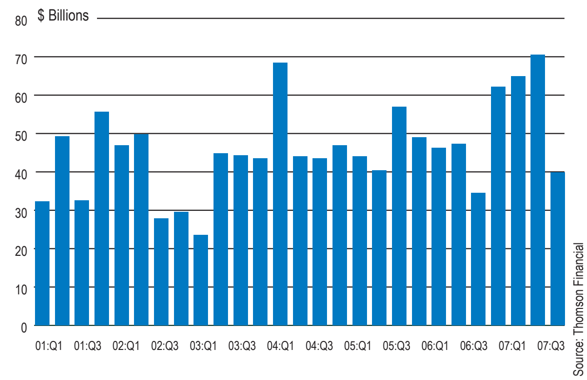
U.S. IPOs raised $14.2 billion in the third quarter, a decline of 53.9 percent on a linked-quarter basis. "True IPOs", which exclude Closed-end fund IPOs, were $10.6 billion, 34.1 percent lower than the second quarter of 2007 and well off the record $27.6 billion set in the fourth quarter of 1999, but 38.3 percent higher than in the same period a year ago.

The September backlog of filed U.S. IPOs increased for the second straight month to $29.5 billion on 151 deals, perhaps a harbinger of a higher fourth-

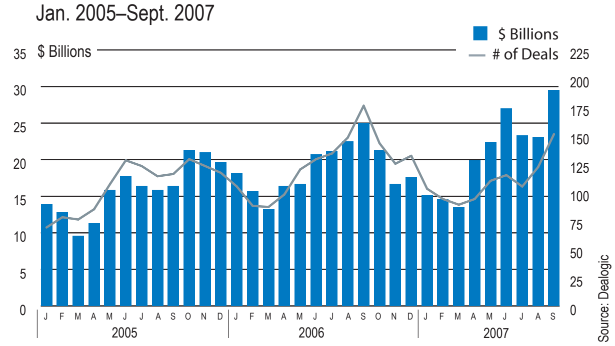
NYSE Short Interest
Jan. 2001–Sept. 2007



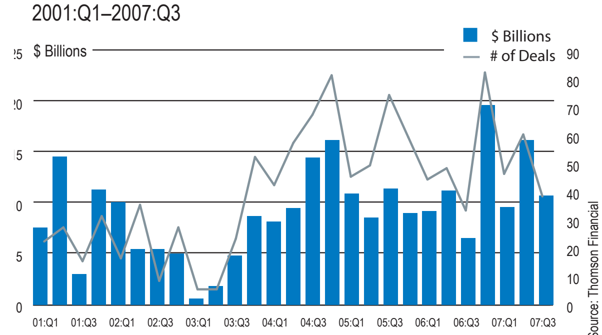
Total Equity Underwriting
2001:Q1–2007:Q3



Monthly IPO Backlog (as of first of the month)
Jan. 2005–Sept. 2007



Quarterly IPO Backlog - Excluding Closed-End Funds
2001:Q1–2007:Q3



quarter volume. The rising backlog of deals is being driven by equity market price appreciation and expectation of access to LBO funding.

Third Quarter Secondary Offerings Decline; Year-to-Date Ahead of 2006

The total value of third-quarter secondary equity offerings was $14.2 billion on 66 deals, down 56.7 percent from the second-quarter level and 13.5 percent less than during the same period a year ago. Through the third quarter, the year-to-date volume was $72.8 billion, or 2.4 percent ahead of the 2006 year-to-date level.

Credit Market Weakness Lowers U.S. M&A Deal Flow

Third-quarter credit market conditions led to reduced M&A deal volume following the surge in the first half of the year, when LBO growth elevated corporate acquisition deal flow. The announced third quarter deal volume of $317.3 billion represented a 50.5 percent decline from the strong second quarter, but was 8.3 percent higher than third-quarter volume a year ago. With the year-to-date announced volume of $1.37 billion, the $1.7 billion record set in 2000 remains in sight. Year-to-date, M&A announcements in dollar terms are 38.0 percent higher than in 2006.

Share Buyback Growth Accelerates Again on NYSE, but Remains Flat on NASDAQ:

Corporate share repurchase growth in the third quarter indicated a continuation of the buyback trend. Third-quarter buybacks rose on the NYSE and the NASDAQ by 28.4 percent and 1.1 percent, respectively. The announced dollar volume on the NYSE was $147.1 billion on 88 share repurchase programs while the NASDAQ reported a $14.5 billion volume on 41 programs.

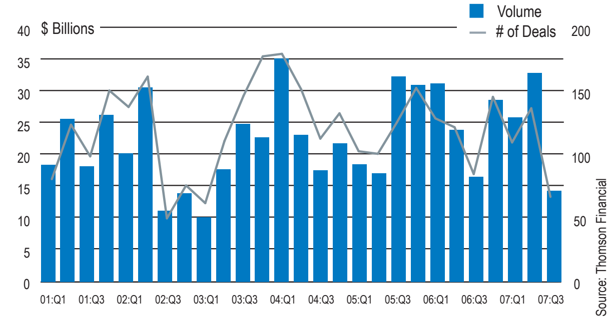
P/E Valuations Within Historic Norms

The price-to-earnings (P/E) ratio of the S&P 500 stood at 17.68 at the end of September, below the 10-year average. The P/E multiple at the end of the quarter was 0.5 percent higher than a year ago but declined 0.2 percent. P/E-based equity valuations have remained in moderate territory, based on strong profit growth over the last several years.

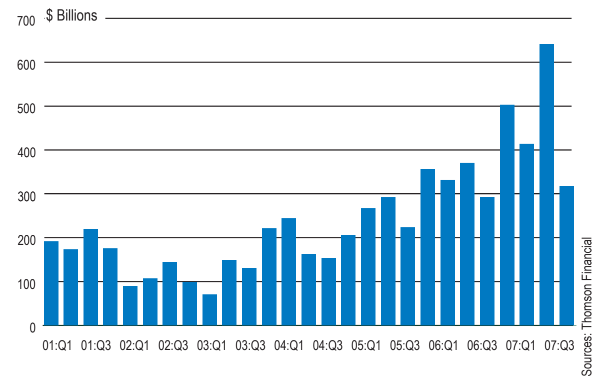
In addition, cash dividend levels continue to increase. Through October, there were 237 dividend increases, compared to 5 decreases and 2 dividend suspensions in the S&P 500 universe. Through the second quarter, the most current data available, the S&P dividend yield was 1.74 percent, which is the 5-year average. Furthermore, the dividend payout ratio looks to be moderate at 28 percent, compared to the 39 percent 5-year average.

Equity valuations will be dependent on the two variables noted at the outset: continued earnings and economic growth and corporate acquisition volumes, which, in turn, will be affected by access to and the cost of credit.

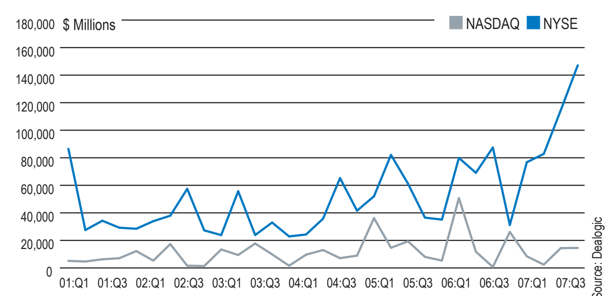
Quarterly Secondary Stock Offerings
2001:Q1–2007:Q3



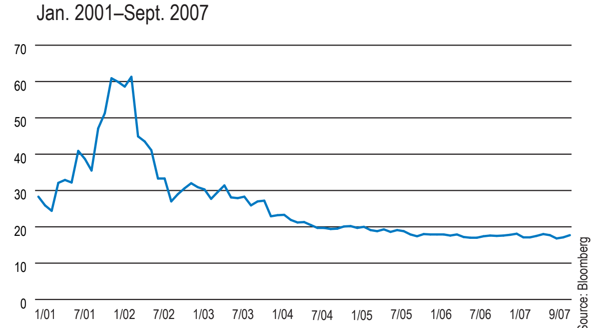
U.S. Mergers and Acquisitions Announced Deals
2001:Q1–2007:Q3



NASDAQ and NYSE Share Buybacks
2001:Q1–2007:Q3



S&P P/E Ratio
Jan. 2001–Sept. 2007



The State of the Leveraged Loan Market

By the end of the second quarter, record loan issuance and an immense new-issue calendar began to apply considerable downward price pressure on existing supply. As a result, bids within the leveraged secondary loan market retreated by the end of June on a record $142.7 billion loan trading volume, according to the Loan Syndications and Trading Association's (LSTA) Trade Data Study. The extensive market correction which ensued during July—trade volume was recorded at $38.4 billion—and early August certainly tested the loan market's ability, not only to function efficiently and effectively, but also to provide ample liquidity during this period of historic volatility.

The root causes of the correction certainly began with the meltdown of the subprime market, but many other factors were at play, including the rapid fall in prices across equity and credit markets. Lenders and issuers across all markets had benefited from the favorable economic conditions of the past several years, with default rates reaching record lows in the first half of 2007. Market fundamentals were extremely supportive for M&A activity (particularly LBOs) which, together with strong global demand for bank loans, created enormous pressure on issuers to originate larger and, in some cases, non-traditional or bond-like structures. Even as spreads continued to tighten, deals were still oversold in the primary market, and the process continued based on the apparently insatiable demand in the marketplace.

As the subprime market deteriorated further, crossover lenders involved in both subprime and syndicated loans began to face liquidity concerns. As these marginal liquidity providers backed off from the well-invested loan market, new supply and demand economics began to take shape.

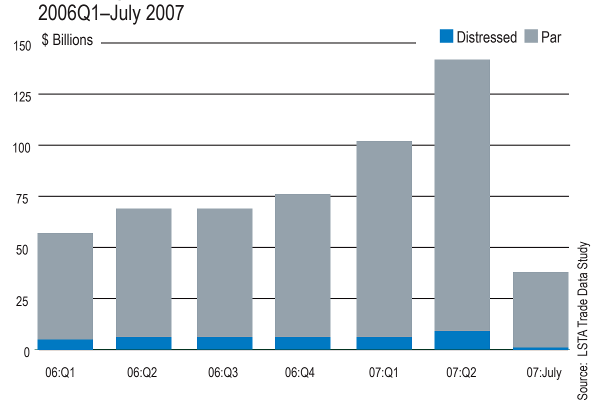
An assessment of the fall in demand must center on the CLO issuance growth of the past several years, which had provided an enormous amount of funding to the asset class. The CLO market was largely shut down for much of the quarter, and CLO managers were forced to pull back as spreads on the liability side continued to widen. Investors in AAA liability tranches, which comprise the majority of CLO capital structures, were extremely hesitant to fund new CLO structures given the volatile and uncertain market conditions. As a result, an important source of demand was taken out of the marketplace.

The loan asset class would showcase a high level of dexterity through its ability to react to the subsequent supply and demand pressures which characterized the third quarter. Not only would supply need to be curtailed, but credit had to be repriced as traditional lenders reassessed their risk tolerance and return profile. Issuers reacted quickly, and by the end of the quarter, the primary market looked quite different than the second quarter. Leveraged lending plummeted 46 percent to $119 billion, according to Reuters Loan Pricing Corporation (LPC), while BB/BB- spreads increased by 141 bps to 313 basis points and B+/B spreads widened by 151 basis points to 387 basis points, according to S&P Leveraged Commentary and Data (LCD). In order to clear the market, new deals would now be smaller, offer increased traditional covenants, terms and much richer coupons. Vintage deals that were a part of the massive overhang (the portion of the new issue calendar which had yet to clear market) would be offered at discounted prices in an effort to increase yield. By third quarter's end, the strategy began to achieve its desired result; the overhang fell an estimated $40 billion to $190 billion.

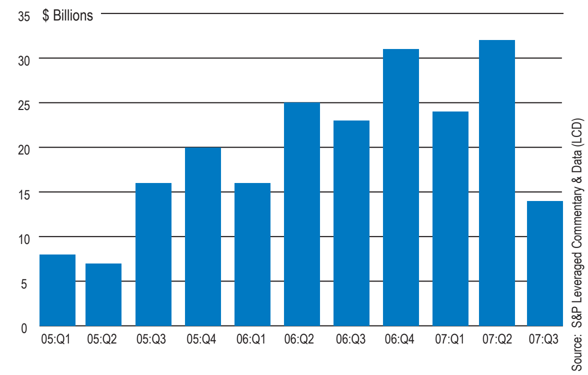
Secondary Loan Market Review

The LSTA reported that 96 percent of its market dataset (U.S. term loans containing 3 or more broker quotes priced by LSTA/LPC Mark-to-Market) recorded mark-to-market (MTM) losses during July. As bids fell pre-

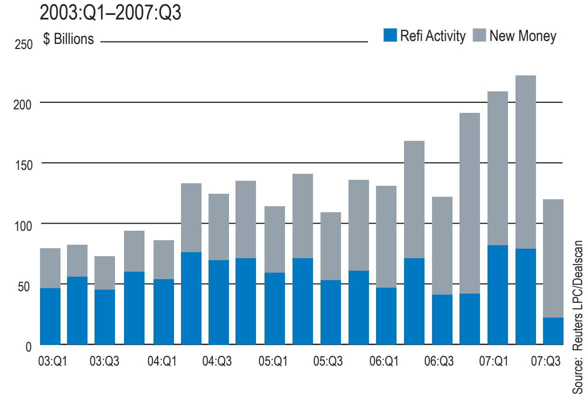
Secondary Trade Volume
2006Q1–July 2007



CLO Issuance
2005:Q1-2007:Q3



Leveraged Loan Issuance
2003:Q1–2007:Q3



cipitously in the secondary market, 78 percent of decliners recorded MTM price declines of at least 1 percent, while 15 percent suffered declines of more than 5 percent. These losses drove the mean price of the market dataset down 363 basis points to 95.06, while its average bid-ask spread widened from 74 bps to 140 basis points. As a result of this swift market correction, the percentage of loans priced at a premium to par (100) fell dramatically to 5 percent of the market dataset from 73 percent one month earlier. From a total-return perspective, the S&P/LSTA Leveraged Loan Index (LLI) was at a record low of -3.35 percent for July. The loan credit default swap market's slide was even more dramatic.

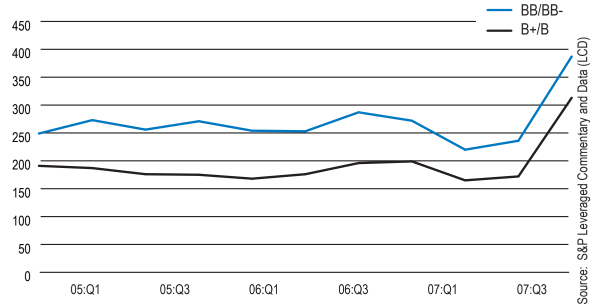
From month-end July to August 3, prices fell an additional 100 basis points, while bid-ask spreads widened another 16 basis points. On August 6, the trend of significant price declines finally subsided, albeit only momentarily, as both traditional and nontraditional lenders began to chip away at the new-issue loan calendar, taking advantage of the deep sell-off in the secondary market. The sell-off, which was driven more by technical market conditions than changes in fundamental credit quality, created buying opportunities in the secondary market as a number of high-quality names were trading at historically attractive prices. For the first time in 33 consecutive daily trading sessions, the market recorded larger aggregate MTM price gains than losses. Investors, observing this flight to quality, bid up higher-rated and first-lien loans that were available at deep discounts. Investors also took advantage of the even deeper discounts offered on covenant-lite loans. The process of price discovery ensued throughout the remainder of the month as the market dataset's mean price bounced from a low of 94 to a high of 94.95, finally ending the month at 94.42. For the month of August, 46 percent of prices advanced, while 54 percent declined. The market did show signs of regaining stability, as 20 percent of loans recorded MTM gains of more than 1 percent, while 27 percent of loans suffered MTM losses of 1 percent or more, with only 2 percent reporting losses of 5 percent or more. The LLI posted a 0.23 percent return.

Benefiting from Federal Reserve actions, the markets showed signs of renewed vitality during September. Positive news finally came out of the primary loan market in the form of First Data's successful jumbo-sized allocation. The secondary market rallied with the LSTA's market dataset recording a 90 basis point increase in its mean price as its average bid-ask spread tightened 23 basis points to 125 basis points. The LLI followed suit, and posted a record high monthly return of 1.95 percent. CLO business (demand) remained scarce, and new issue volume (supply) was weak, while the $150 billion institutional pipeline loomed over the market.

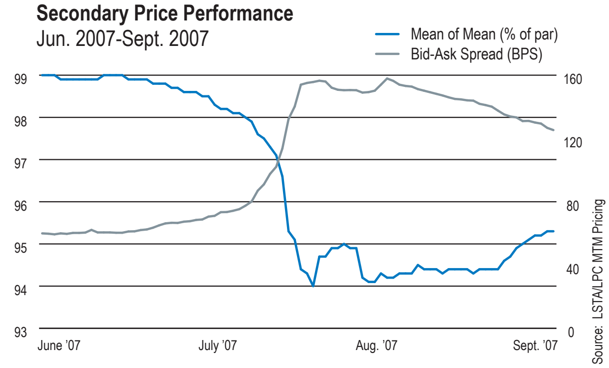
Investors bid up riskier assets in the form of the previously "beaten down" single-B rated loans during September. Investors were far less bullish on the second-lien side, as this segment underperformed its first-lien counterparts. By month-end, 81 percent of loans recorded MTM gains, with only 18 percent reporting losses. More than one-half of advancers recorded MTM price increases of 1 percent or more, with 3 percent recording gains of 5 percent or more. Conversely, 8 percent of decliners recorded MTM losses of more than 1 percent, with only 2 percent reporting losses of 5 percent or more.

Even as MTM prices rallied, loans bid at a premium to par continued to be scarce, which is characteristic of the current market environment. During September, the percentage of par-plus loans within the market dataset increased slightly to 4 percent from 1 percent, but still well shy of the 81 percent recorded at the end of the second quarter. Loans which had been bid down to the 90 to 98 price range strengthened considerably. The price segment had reached 72 percent of the market dataset at the end of

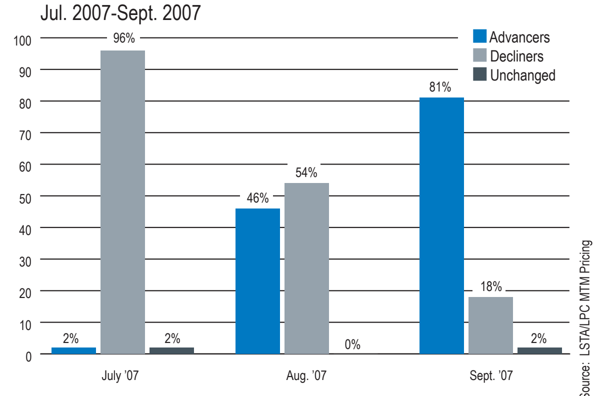
New Issue Spreads
2005:Q1-2007:Q3



Secondary Price Performance
Jun. 2007-Sept. 2007



Secondary Price Volatility
Jul. 2007-Sept. 2007

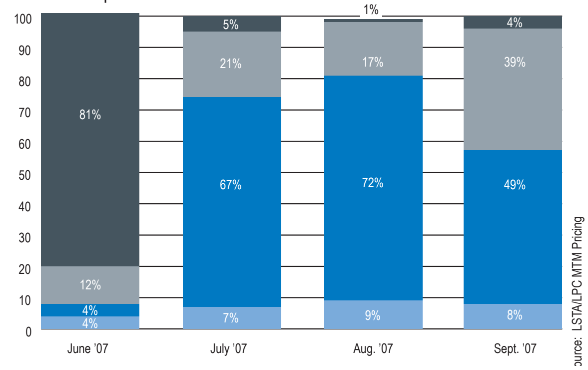


August, while the 98 to 100 price range shrank to 17 percent. September's rally shifted the mix toward the higher price range of 98 to 100, which, by month's end, comprised 39 percent of the market dataset.

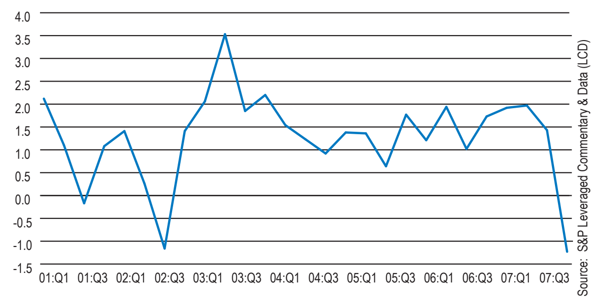
Despite September's impressive rally, third-quarter performance remained bearish. The LLI produced the lowest quarterly index return on record, at negative 1.23 percent, according to LCD. During this three-month period, 75.0 percent of the LSTA market dataset recorded MTM losses of 1 percent to 5 percent, with an additional 16 percent recording losses of 5 percent or more. These losses equated to a 344 basis point decrease in the mean price to 95.32, and a 59 basis point widening in bid-ask spread to 125 basis points.

While still historically strong, there was some softening in credit quality metrics. According to LCD, default rates ticked up in the third quarter, pushing S&P's default rate to 0.55 percent at the end of September, up from an all-time low of 0.29 percent at the end of the previous quarter, but well below the historical average of 3.1 percent.

Secondary Price Distribution
June-Sept. 2007



S&P/LSTA Leveraged Loan Index Quarterly Returns
2001:Q1-2007:Q3



Mutual Fund Flows Higher Despite Market Volatility

Flows into mutual funds, including equity, bond, hybrid and money market funds, were on a record pace through the third quarter, with a year-to-date net cash inflow of $617.6 billion, 118 percent ahead of the $283.4 billion inflow through the first three quarters of 2006. Net assets of all mutual funds were also up at $11.9 trillion at the end of third quarter, a substantial increase of 22 percent over the second quarter. The credit market turmoil, however, slowed the pace during the quarter. With the continuing market volatility affecting investor demand through the balance of the year, mutual fund flows for 2007 are likely to fall short of a full-year record.

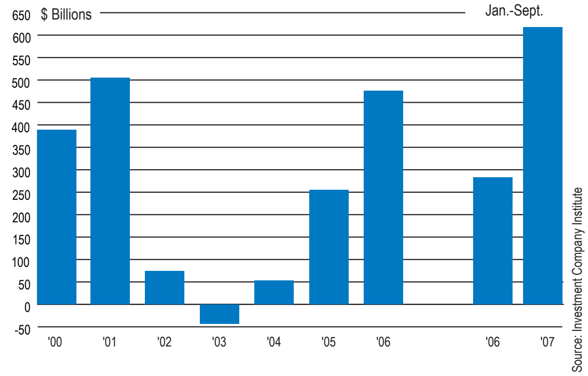
Boosted by a return to record high equity index levels late in the quarter, equity fund inflows continued their ascent, with an increase of almost $165 billion, or 7.4 percent, over the second quarter. However, on a year-to-date basis, the net cash flow into equity funds of $3.5 billion was 71.5 percent less than the inflow in the first three quarters of 2006.

Bond fund flows were lower as a result of the fallout from the subprime mortgage deterioration, credit repricing and reduced liquidity in the credit markets during the quarter. Third-quarter net inflow was $7.4 billion, compared to $14.5 billion during the same period a year ago and $42.4 billion in the second quarter of this year. Investment-grade corporate bond sector funds had an inflow of $10.6 billion in the third quarter, 57.7 percent lower than the second quarter. Affected by the weakened leveraged credit market liquidity early in the quarter, third-quarter high-yield mutual fund inflows were negative, with an outflow of $1.5 billion, from the inflow of $0.9 billion recorded in the second quarter. Weekly high-yield bond fund flows turned positive late in the quarter. Benefiting from the "flight to quality" arising from investor risk aversion, Treasury fund inflows reached $1.3 billion in the third quarter, the second consecutive net positive inflow quarter. MBS funds continued to be affected by weakened housing and mortgage market conditions, with a net outflow of $1.06 billion in the third quarter. Tax-exempt, or municipal bond, funds had inflows for the seventh consecutive quarter, although the pace moderated to $2.4 billion **compared to the previous three quarters in which inflows exceeded $7 billion average. Investor "flight to quality" depressed municipal bond pricing until the sector rallied late in the quarter.**

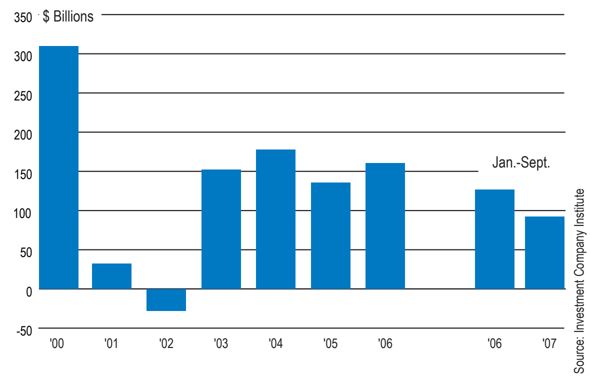
Hybrid funds, which invest in equity and debt securities, reached an inflow of $3.1 billion in the third quarter, lower than the second quarter. Money Market mutual fund inflow surged again for the second consecutive quarter to $283.2 billion, up 236.8 percent from the same period last year, as investors continued to show a preference for short-term, liquid investments.

As we enter the fourth quarter, investors continue to find mutual fund returns and diversification attractive. Sector selection will be driven by underlying performance. The search for safety and liquidity suggests continued flows into money market and Treasury funds. The outlook for riskier asset classes, especially mortgage funds, remains unsettled. Investors have taken comfort in the Federal Reserve's attention to the market conditions, and indeed Fed rate cuts have boosted corporate bond and equity markets. As always, equity fund performance will follow the outlook for economic growth and profits, which have sustained despite real estate and financial sector difficulties.

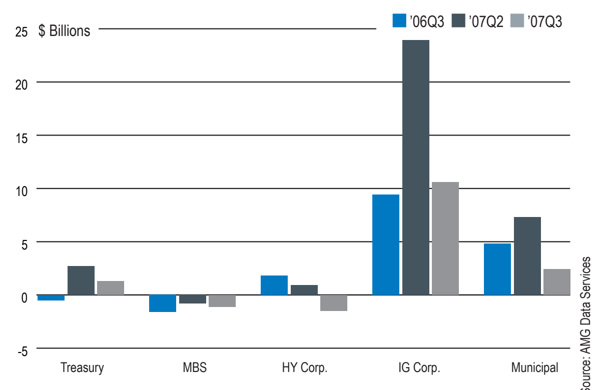
Net Cash Flows of Mutual Funds
2000-2007:Q3YTD



Net Cash Flows of Equity Mutual Funds
2000-2007:Q3YTD



Net Cash Flows of Bond Mutual Funds by Sector



Assets of Mutual Funds
2000-2007:Q3YTD