Leveraged Finance News

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Downgrade Rolls Downhill As Investors Reprice Risk

For the last couple of years, junk bonds and leveraged loans have benefited from historically low interest rates as their relatively rich yields attracted all kinds of investors. This created a virtuous cycle, allowing even some of the weakest companies to refinance debt, which in turn pushed defaults rates lower and made these investments appear safer.

Standard & Poor's downgrade of the United States' credit rating pulled the rug out from under the high yield loan and bond markets as investors aggressively repriced risk and banks reconsidered how much capital they were willing to commit to arranging deals or making markets.

As of Wednesday's close, the average bid on loans in the S&P/LSAT Leverage Loan Index was 91, down 3.7 points from mid-July.

High yield bonds were hit even harder: the average bid on S&P/LCD's flow names was 93.15, down 7.27 points on the week and 9.98 points over the previous four weeks.

While the loss of the U.S.'s AAA rating has no direct implications for the creditworthiness of most corporate issuers, the downgrade underscored concerns about the weakening economy and the escalating debt crisis in Europe. This reassessment of the macroeconomic outlook was driven home as the stock market tumbled and investors fled for the safety of U.S. Treasury bonds, notwithstanding the downgrade.

"The fall-out effect is really what's got the junk bond market in the throws of risk aversion right now," said **Kevin**

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Inside This Issue

Leveraged Finance News is taking a two week hiatus. Our next issue will be published Sept. 6.

Europe: Primaries Shut, Secondary Deals

One investor's double-dip fear is other investor's buying opportunity. So goes it Europe, where seemingly never-ending bad economic news has shut down the leveraged loan and high yield bond primary markets, while creating some pretty interesting buying opportunities on the secondary.

Still, with morale low and cash flowing out, market participants wonder when leveraged loans and high yield bonds in Europe will bounce back. Strong fundamentals aside, fighting the technicals monster is no easy feat.

"I'm going with the best case scenario, where there'll be no double-dip recession but instead we'll see low growth in Europe and interest rates remaining low," said **Chris Brils**, co-head of global high yield at **F&C Investment Management** and lead manager for the F&C European High Yield Fund and global high yield funds. "This would mean that credit metrics can improve and spreads can tighten from their current levels."

European high yield spreads are cur-

(See Europe on page 6)

Zero Yield on Tsys Helps HY ... Eventually

The Federal Reserve's decision to keep interest rates low until 2013 and continue reinvesting in Treasury notes should eventually help the high yield loan and bond markets, as weary investors shake off the current fear and once again begin to hunt for yield.

Since the end of its $600 billion bond-buying program called QE2, the second installment of its "quantitative easing" program, market observers have wondered whether there would be another such program, or a QE3.

The Federal Open Market Committee said on Aug. 9 that it would keep basic interest rates, the federal funds rate, between zero and 0.25% until mid-2013. The Fed also said in its statement that it "will maintain its existing policy of reinvesting principal payments from

(See Zero on page 7)

Market Buzz

Banks Roadshow $400M Immucor HY Deal

DEALS

Immucor is selling $400 million in high yield bonds to help finance its buyout by **TPG Capital**. Banks launched a roadshow Wednesday. The Norcross, Ga.-based company, which provides products to the medical industry for blood testing, is offering senior notes due 2019. Lead bookrunner **JPMorgan** kicked off a roadshow Wednesday, along with **Citigroup** and **UBS**. The roadshow is expected to end on Aug. 16. Immucor has received commitments from Citigroup and JPMorgan for total debt financing of $1.1 billion. Leading the facility is a $600 million term loan. Price talk on the term loan is between Libor plus 450 bps and Libor plus 475 bps, with an OID of 99. In addition to the term loan, the facility includes a five-year, $100 million revolver (LFN, July 11, 2011). The junk bonds are taking out a $400 million bridge facility. **Moody's Investors Service** assigned the proposed notes a Caa1 rating, the company a B2 corporate credit rating, and the credit facility a BB- rating. **Standard & Poor's** assigned Immucor a preliminary B+ corporate credit rating and the term loan and revolver a preliminary BB- rating.

Rock Ohio Caesars' $125 million term loan B is oversubscribed. Commitments were due Wednesday. **Credit Suisse**, **Deutsche Bank** and **Citadel** are the banks on the loan, which is part of a larger financing package that the issuer, a joint venture between **Caesars Entertainment** and **Rock Gaming**, will use to develop casino and gaming operations in Cleveland and Cincinnati. Price talk on the loan is at Libor plus 650 bps, with a 1.5% Libor floor and an OID of 98. The financing package also includes a $125 million delayed-draw term loan A that will be held by Credit Suisse and Deutsche Bank and $380 million in second-lien senior notes due 2018. Credit Suisse is the lead bookrunner and is joined by Deutsche Bank on the bond deal. Moody's I assigned a Ba3 rating to the term loan and a Caa1 rating to the bonds. S&P rated the term loan BB- and the bonds B.

CLOS

The **Carlyle Group** said last week it had recently added $1 billion in new CLO assets under management. On Aug. 3, Carlyle purchased the management contracts of a

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SourceMedia

CAROL J. CLOUSE — *Editor*
carol.clouse@sourcemedia.com — Phone: 212-803-8718
MATTHEW SHEAHAN — *Senior Editor*
matthew.sheahan@sourcemedia.com — Phone: 212-803-8741
ALLISON BISBEY COLTER — *Senior Editor*
allison.colter@sourcemedia.com — Phone: 212-803-8271
TOBY WALTERS — *Data Researcher*
MIKE STANTON — *SVP & Managing Director, Capital Markets Division*
mike.stanton@sourcemedia.com — Phone: 212-803-6552
HARRY NIKPOUR — *Group Advertising Director*
harry.nikpour@sourcemedia.com — Phone: 212-803-8638
JESSICA SILVEIRA — *Associate Director of Circulation Sales*
Phone: 212-803-8761
MICHAEL NASS — *Marketing Manager*
Phone: 212 803-8278
LOUIS FUGAZY — *National Account Manager*
louis.fugazy@sourcemedia.com — Phone: 212 803-8773
JOSHUA GOOLSBY — *Advertising Coordinator*
Phone: 212-803-6075
DENISE PETRATOS — *Reprints Marketing Manager*
Phone: 212-803-6557
SHARON POLLACK — *Executive Director, Creative Services*
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For reprints, back issues and bulk distribution needs, please contact Denise Petratos at (800) 367-3989 or e-mail: denise.petratos@sourcemedia.com.

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$500 million CLO from **The Foothill Group**. The purchase was approved by the current investors in the CLO, which can reinvest for roughly the next two and a half years. Carlyle also issued a $507 million CLO, called Carlyle Global Market Strategies 2011-1, its first new issue since 2008, in a deal that closed July 21. It was arranged by **Wells Fargo** and **Mitsubishi UFJ Securities**. The two transactions boosted assets under management by Carlyle's structured credit team to $12.7 billion in 31 collateral loan funds in the U.S. and Europe. "We see continued opportunity in both acquisitions and the new issue market. CLOs are proven performers over the long-term," **Linda Pace**, a Carlyle managing director and head of U.S. structured credit, said in a statement.

Highland Capital Management has been appointed the manager of a $243 million collateralized loan obligation previously managed by **CypressTree Investment Management**. An affiliate of Highland, **Acis Capital Management**, assumed the role as collateral manager of Hewett's Island CLO I, after the majority of the subordinated noteholders nominated the firm for the position, Highland said in a statement released Wednesday. The transaction, completed July 18, raises Highland and its affiliates' total CLO assets under management to $17.5 billion, comprised of 27 different CLO vehicles. "We are honored by our selection as manager of this CLO and believe we are well positioned to improve its credit quality and performance," **Josh Terry**, portfolio manager at Acis, said in the statement.

Ares Management is expanding its presence in the European CLO market. The private equity firm said last week it had agreed to acquire **Indicus Advisors**, a London-based firm that manages $2 billion in various investment vehicles, including collateralized loan obligations, and provides advisory services on approximately $4 billion. Ares, based in Los Angeles, has approximately $43 billion in committed capital in private equity and debt funds. It has a publicly traded business development company, **Ares Capital Corp.**, that lends to middle-market companies and, through its portfolio company, Ivy Asset Management, manages several CLOs. "This transaction will enhance our presence in European corporate credit, where we will manage in excess of $5 billion in long-only, long-short, structured products and private debt investment strategies," **Tony Ressler**, senior partner and chairman of the executive committee at Ares Management, said in a statement. "We believe that European corporate credit will continue to grow for years to come," he said. Seven Indicus professionals will join Ares' capital markets group in the firm's London and New York offices. **David Reilly** and **Ujjaval Desai**, who are based in London, will be named co-heads of Ares' European capital markets group and will be responsible for European syndicated debt and global structured products.

PEOPLE

Crédit Agricole Corporate and Investment Bank named two directors in its loan syndication group. **Jean-Michel Fatovic** will be responsible for the distribution and trading of loans with a focus on the U.S. corporate and leveraged market. He comes to Credit Agricole from **Standard Chartered Bank**, where he was responsible for underwriting, managing and trading a portfolio of U.S. loans. At Crédit Agricole, Fatovic will report to **Jeff Ferrell**, managing director and head of loan syndication sales and trading for the Americas. **Federico Fiorentini** will be responsible for the origination and structuring of syndicated loans in the Latin American market. He was previously with **HSBC**, where he was responsible for origination, structuring and distribution of syndicated loans for Latin American corporates and financial institutions. At Crédit Agricole, Fiorentini will report to **Jean-Philippe Adam**, managing director and head of loan syndications for Latin America.

CIT Group appointed **Nelson J. Chai** as president. Chai, 46, was previously executive vice president, chief administrative officer and head of strategy. As president, he will maintain his current responsibilities as well as assume oversight of CIT's corporate finance and vendor finance operating segments. He will continue to report directly to chairman and chief executive **John A. Thain**. "Nelson has been a key member of my executive team and instrumental in CIT's continuing transformation," Thain said in a statement. "In his expanded role, he will focus on domestic and international growth opportunities and creating operating efficiencies for our corporate finance and vendor finance business segments." CIT had not had a president since **Alex Mason** resigned in the first quarter of 2010, according to company spokesman **Matt Klein**. Chai joined CIT in the second quarter of last year, several months after Thain took the helm. He had previously worked with Thain at Merrill Lynch and at **NYSE Eurone xt**. Prior to joining CIT, Chai was Merrill's chief financial officer and worked under Thain, who was then chief executive. Before this, Chai was executive vice president and chief financial officer of NYSE Euronext and its predecessor company NYSE Group, and was chief financial officer of Archipelago Holdings.

Germany's **DZ Bank** has hired **Johannes Knolle** as a director for its leveraged finance group, according to reports. He will be based in Frankfurt and report to **Stefan Lippold**, head of leveraged finance for Germany. Knolle was most recently with **Houlihan Lokey** on the debt advisory and restructuring group. He previously served with **Dresdner Kleinwort**, DZ Bank and **HypoVereinsbank**. DZ Bank is the fifth largest bank in Germany and serves as a central bank to a network of approximately 1,000 co-operative banks. A representative was not immediately available for comment.

ECM's Craston Finds Value in European Loans

Like other asset classes, European loans have been affected by the recent market disruption. Prices have declined as headlines have worsened, and with the outlook for global and European economies highly uncertain, managing a loan fund can be challenging.

But **Matthew Craston**, head of alternative investments at London-based **European Credit Management** (ECM), believes there is long-term potential in loans that investors can still realize, which enables the asset class to hold its own even in trying times. The key to continued good performance in the loan space, he believes, is that managers need to stay the course, maintain a strict focus on credit selection and actively manage their exposures.

"We have always made sure not simply to buy and hold the credits that we select, but to rotate them within our portfolio according to their relative value at any given time," Craston said."We mark to market every week, and yes, prices have given up some of the gains of the first five months of the year, but we hope that by sticking with what we do, we can continue to deliver returns similar to those that we have been able to deliver in the past."

Matthew Craston

"We are focused on the quality of companies... but we also limit our exposure per country."

For Craston, whose team manages around €1 billion in two established senior secured loan funds, both of which are open to new investment twice monthly, credit selection is key, and ECM invests in companies whose business models are strong, that generate steady cash flow and can delever quickly.

"We are focused on the quality of companies that we invest in, but we also limit our exposure per country and per sector, so that we are not too over exposed in any one area," he said.

"Obviously when we're nervous about the market, we adjust the fund accordingly, building up higher cash balances or weighting it more toward lower beta credits, but overall, ours is a long fund with a longer-term focus."

Likewise, private equity players in Europe are targeting higher quality companies. Almost all European private equity shops are sitting on large sums of money that they have not invested, Craston said, and the current downturn notwithstanding, they will continue to look for opportunities to deploy that cash, which in turn will result in more new loan issuance going forward.

"Private equity always uses senior secured loans, and while we're obviously not expecting new issuance to be at the levels we saw three or four years ago, we're not expecting it to dry up either, and the primary market opportunities in Europe are highly attractive" he said. "We also believe that there's enough interest from institutional investors to support the loan asset class."

One key factor that institutional investors have seen is that recoveries on senior secured loans turned out to be quite high, and they are confident about the asset class in the event of default, Craston said.

More importantly, though, the institutional investors for which ECM manages funds are the only investors that can access loans in Europe. In the U.S., retail investors now play a significant role in the leveraged loan market, but in Europe, the fact that retail investors are "locked out" of the senior secured loan universe perhaps makes the market more attractive to institutional investors in terms of the value and the returns available, Craston said. "Not having that strong retail presence in Europe has perhaps also meant that new loan issues have remained generally well structured," he said.

But even though both of ECM's funds have returned more than 10% in the last 12 months, it is nevertheless tough in the current market context to isolate the advantages that loans offer from the general negativity. Investors are concerned about the sovereign debt problems of some European countries, and it's normal that many view the entire region in the same light, Craston said.

However, it's important to note that the loan market is not highly exposed to the more problematic countries like Greece, Portugal and Italy. In fact, the weighting of those countries in the loan indices is extremely low, Craston said.

And the market downturn caused by concerns over the fate of parts of Europe has resulted in attractive secondary market yields on deals from the healthier countries, where ECM has the bulk of its holdings, and it has created new buying opportunities for the funds. "If a loan trades down to the low 90s with a good prospect of prepayments at par in the next six months, prospective returns become very interesting," Craston said.

Indeed, similar value opportunity in the bond markets have been encouraging enough to lead ECM to launch a new dedicated high yield fund next month.

Craston joined ECM in January 2004 to set up its loans department, and he remains responsible for that business as well as ECM's special situations fund. Prior to ECM he specialized in high yield credit as a managing director at **UBS**, which he joined as Swiss Bank Corporation in 1991. —*Savita Iyer-Ahrestani*

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Loome, senior portfolio manager and head of high yield investments for **Delaware Investments**. "Whenever there's a big equity down day it's going to have an effect on high yield bonds as well. It's more of a knock-on effect, but it basically affects volatility and liquidity and liquidity is definitely drying up."

Michael Nitka, managing director and head of bank loans at **Cantor Fitzgerald**, said the move wider in loan spreads has been driven by "a mix of defensive selling and an anticipatory capital raise for opportunities down the road. Regardless, there is a general investor expectation of wider spreads and a higher risk premium. Whether it's trading desk balance sheet reduction or the buyside raising cash, the effect is the same, downward volatility ."

"Investors are logically hoping for opportunities to buy things cheaper," Nitka said. "While credit quality is always a component, it's not the driving factor. It's more a function of relative value and there is a feeling that, given diminished liquidity, spreads across the leveraged credit space should be wider. That's why you tend to see higher correlation across credit asset classes on the way down with more unique price moves on the way back up as investors have more time to look at individual issues."

While the leveraged finance markets have more than erased their gains for the year, observers said any comparison with the financial crisis was premature. "In the last week and a half there's been a lot of global turmoil and we've seen bids drop off sharply in both the loan and high yield markets, but nothing like what we saw in 2008," said **Meredith Coffey**, the **Loan Syndication and Trading Association's** senior vice president of research.

Coffey said that average bids are nowhere near the low of 60 reached in December 2008, after Lehman Brothers collapsed. "Not only is the drop far less significant, there are not the same fundamental pressures." She added that the default rate on the index is 0.33%, while the shadow default rate, which takes into account forward-looking measures, such as hiring of restructuring advisers, is 1.33%.

"We probably do have some real selling as loan mutual funds raise cash in preparation for redemptions, but again, it's nothing like 2008."

Investors were pulling their money out of high yield bond and loan funds even before the downgrade. In the week ending Aug. 3, junk bonds saw $804 million walk out the door, and loan fund redemptions reached $261 million, according to **Lipper**. There was talk that redemptions for the Aug. 10 week could reach more than $2 billion for bond funds and more than $1 billion for loan funds.

There is still a two-way market, as some participants said they were buying on weakness; however these people said they were cautious of committing too much capital ahead of further possible declines. "In large part, the reason the loan market has done so well is positive technicals; there was more demand than true new issuance," said a loan fund manager based in New York, who did some bargain hunting last week.

"We're in for a rough couple of months," he said.

Martin Teevan, global head of fixed income with **Ticonderoga Securities**, said the impact of fund outflows on liquidity is being exacerbated by the fact that trading desks are capital constrained. In addition, he said, underwriters have backstopped recently announced LBOs, which "will create a supply overhang until market conditions permit pricing."

For now, participants say, losses in the secondary markets have all but shut down the primary market. "It would be crazy to bring something now," said the New-York based loan fund manager. "Some of the deals that were already out there will probably finish up. It'll be interesting to see how they change."

Immucor was one of the few issuers to stick its neck out, launching a roadshow for $400 million of junk bonds on Tuesday. The B+ rated maker of blood-testing products, which has $1.1 billion of commitments from **JPMorgan** and **Citigroup** to finance its buyout by **TPG**, is also in the market with a $700 million senior secured credit facility that was announced Aug. 2.

"With such high yields available in the secondary market I could care less about the primary market," said another loan fund manager. "I'd expect that most would be postponed.

Some participants downplayed the impact of the downgrade of the U.S. "This is the Y2K of this generation," said the head of capital markets at a middle market lender, who called the downgrade "a non-event for the capital markets."

Others see a big disconnect between the state of the high yield market and the broader economic climate. "Earnings have been very strong, and corporations in general have demonstrated tremendous resilience despite the weak consumer background," said **Peter Andersen**, a senior portfolio manager with **Congress Asset Management**.

And Loome said that lower prices and higher yields in the junk bond market mean that it's a great time to buy. "I would point out that what is specific to the high yield market is the valuations now are very attractive, especially if you look where all government debt is traded nowadays and fundamentals seem to be very positive and much stronger than the headline, macroeconomic indicators are leading people to believe." He noted that the high yield market is not dependent on top-line growth and could hold up well under lowered expectations for economic growth.

But **Jeffrey Werbalowsky**, co-CEO of **Houlihan Lokey**, said that the country's debt situation is a cause for deep worry for all markets. "I am more concerned about the fundamental overleveraging of our society which was the impetus behind the downgrade, and the inevitable consequences of that over-leveraging," he said.

"Absent some dramatic innovation, we will need to pay back more and consume less, and government—federal state and city—will provide less value and services than the taxes they take in. All that negative consumption adds up to difficult sledding for equities and risk assets, and if market conditions continue you will see real problems showing up in the high yield market as well." *—ABC, MS*

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rently at around 700 bps over swaps, a level that prices in a 50% chance of a double-dip recession happening, Brils said. Current prices could actually prove to be a good buying opportunity for some, and Brils himself took advantage of a brief rally last Wednesday to reposition his portfolio by buying some higher quality names.

But, he said, "while investors might have a constructive idea of where the market is headed, conviction is low, and many investors are sellers as there are funds flowing out of the market. You do need people to come back at some point in time, but it remains to be seen who will take that plunge, and who will attest to the fact that what's happening is nothing inherent to the corporate high yield market, but a soft patch in the economy and spillover from the sovereign crisis."

That idea is a tough sell, though, given all the negativity surrounding the European leveraged finance space, including the very real fear of a double-dip recession, Europe's sovereign debt crisis and a deluge of negative headlines—including the possibility of France being downgraded—that have caused the secondary markets for both bonds and loans to weaken, and essentially shut down the new issue markets.

There's no telling when the new issue market for bonds will reopen, but when it does, issuers are going to have to borrow at a much higher rate, given the repricing of risk in the secondary market. This will be tough for weaker single-B companies that are already quite vulnerable, said **Paul Watters**, senior director at **Standard and Poor's** in London, but it's important also to note that the high yield sector in Europe has actually performed well overall and company balance sheets are generally in good shape.

Most high yield companies have indeed managed to refinance and push out their debt maturities to 2012 and beyond, Brils said, which bodes well for the market in general and contributes to its fundamental strength. However, right now that may not be enough for most investors to go on, given the dominance of market technicals and redemptions from high yield funds.

To that end, leveraged loans may be in a better position right now than their high yield bond counterparts, since they are less correlated to broader market corrections and, in turbulent times, are viewed as a safer investment destination.

"Investors are interested in loans because of their historical low default rate/high recovery rates, and we are now at a point in Europe where secondary prices make for a good buying opportunity," said **Martin Horne**, managing director at **Babson Capital** in London.

According to **Moody's Investors Service**, the outlook for defaults on both sides of the Atlantic is low. However, loan investors don't have to rely on that prediction alone, Horne said, because "if you look at the peak default rates experienced in 2009, the actual loss rate across the entire market was only 2.5% to 3%. So if you have a portfolio of well diversified loan names that yields you 7%, there should be very little chance of investments experiencing capital loss."

Horne believes that the leveraged loan space can, to a large extent, hold its own against the broader macroeconomic downturn.

"When you're lending into the loan space, you don't need economic growth, you just require cash flow to service payments," Horne said. "Most of the companies we invest in today have continued to trade and perform well through three of the worst years ever for the world economy, and the cyclical businesses have generally had their balance sheets restructured and are at good leverage points now. Stock levels are also lower and cash levels are good, and this is true for a range of companies in different sectors and across various European jurisdictions."

Over the past couple of years, European issuers have made good use of the high yield bond market to refinance their debt, and now, Watters believes, the shut down in the high yield market could actually create the opportunity for the leveraged loan market to benefit from potential refinancing needs. Moreover, there have been a couple of acquisition deals done recently that will require loan financing. "But getting any traction done in the loan market would mean that the issuer has to be the right kind of credit," he said.

Without a doubt, the outlook for new issuance is the biggest question mark for the European leveraged finance markets, both on the loan and bond side, said **Stephen Mostyn-Williams**, founder of law firm **smwlaw** and high yield bond analysis service **DebtXplained**. The pipeline for high yield deals is substantial, he said, but whether they get done remains to be seen. And on the loans side, "the suggestion is that new issuance will trade down, so people would rather buy in the secondary, which is already quite attractive," he said. "None of that bodes well for the primary market, and I think we're in for some difficult times ahead."
—Savita Iyer-Ahrestani

HY BOND FORWARD CALENDAR

Announce Date	Issuer	Issue	Amt ($mm)	Price Date	Price Talk	Lead	Road Show	Moody's/S&P/ Fitch @ Issue	Industry	Type
8/9/11	Immucor	Sr Notes '19	400	n.a.		DB	8/10-8/16	NR / NR / NR	Healthcare/Hospitals	144A
8/2/11	Jeld-Wen	Sr Notes (SEC) '18	575	n.a.		BAML	n.a.	B3/CCC+/NR	Diversified Manufacturing	144AL
8/2/11	ROC Finance	Notes-2nd Lien '18	380	n.a.		CS	n.a.	NR / NR / NR	Gaming	144AL
6/21/11	Main Street Personal	Sr Notes '19	95	n.a.		CORTVIEW	n.a.	B3/B-/NR	Financial Services	144AL
5/13/11	Gulf Offshore	Sr Notes '16	110	n.a.		GH	n.a.	NR / NR / NR	Diversified Services	144A

** As of 8/11/11* *Source: KDP Investment Advisors*

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its securities holdings." But a large QE3 program in the same mold as QE1 and QE2—where the Federal Reserve buys hundreds of billions in securities—is unlikely, according to analysts.

"If you look at where the economy was at the end of QE1 and QE2, they haven't won a lot of faith that would make a [QE3] imminent," said **Winston Wilson**, national asset management sector leader at accounting firm **Grant Thornton**. Wilson points out that the Fed took a lot of criticism for both QE1 and QE2, and that the state of the economy at the end of QE2 was not greatly helped.

Still, the move to keep interest rates near zero until 2013 should eventually drive yield-hungry investor to riskier, higher yielding, asset classes like junk bonds and leveraged loans, as well as equities, sources say.

After buying troubled mortgage-backed securities from banks as part of its QE1 program, the Fed has taken money from these maturing securities and kept it on its books by simply using it to buy Treasurys. This has been a kind of back-door QE3. "We've been getting a passive QE3 since the Fed is investing the mortgage and agency money back into Treasurys," said **Thomas Tzitzouris**, head of fixed income research for **Strategas Research Partners**.

Tzitzouris added that the Fed's actions could depend on further deterioration in the economy, as it was not expecting the higher levels of unemployment, slower economic growth or the U.S. credit downgrading by **Standard & Poor's**.

"An actual QE3 wasn't high on the list, as the Fed rightfully realized that printing more money wouldn't necessarily be helpful," said **Axel Merk**, president and chief investment officer at **Merk Investments**. "What's astonishing about the Fed [on Aug. 9] is that they managed to coerce the yield curve lower without printing money, just by a statement. That's the cheapest sort of Fed policy. I strongly disagree that committing to a Fed funds rate near zero for two years is prudent, but hats off for being able to do so without printing money."

"If you look at where the economy was at the end of QE1 and QE2, they haven't won a lot of faith that would make a [QE3] imminent."

Theodore Koenig, president and CEO of **Monroe Capital**, said that another large securities buying policy would be especially bad because the market would become dependent on it. "It's a difficult balancing act. The last time the Fed did it and withdrew it, the market didn't react very well. It's like a drug," he said. "When you do it people get hooked on it, and when you take it away there are negative effects."

But what the Fed might do as a QE3 would be to take steps to force banks to start lending again.

Something the Fed could do that would have a positive effect on the economy, without dumping a lot of money into the system, is change the capital holding requirements for banks, reducing the amount of capital they have to hold on their books, Koenig said. This would enable the banks to lend more money and that would help the economy. However, the trend right now worldwide is to increase such requirements, and the Fed increased these requirements in response to the 2008 economic crisis, when banks came up short on their capital holdings after mortgage securities went bad.

Wilson said that another thing the Fed could do is to reduce the rates that they pay banks to hold excess reserves. "That would squeeze them a little bit and force them to lend," said Wilson.

"Ultimately they're going to hope that by keeping interest rates low they'll stimulate an expansion of the economy and not have to do something else," said Koenig. "The other choices are not optimal." *—MS*

LEVERAGED LOAN FORWARD CALENDAR

Announce Date	Issuer	Issue	Amt ($mm)	Commit Date	Price Talk	Banks	Use of Proceeds	Industry
7/19/11	La Paloma Generating	TL	299	8/4/11	L+525-550 @ 96-97	BofA	Refinance	Electric Generation
7/19/11	La Paloma Generating	2dn Lien	110	8/4/11	L+875 @ 97	BofA	Refinance	Electric Generation
7/12/11	NCR	TL	700	N/A	N/A	JPM	Acquisition	Technology
6/30/11	Blackboard	TL	700	N/A	L+475	BofA, DB, MS	Buyout	Software
6/13/11	Sophos	TL	280	N/A	L+450 @ 99	RBC	Acquisition	Technology
5/23/11	CoStar	TL	415	N/A	L+350, 1.25% Floor	JPM	Acquisition	Real Estate/ Technology
5/20/11	Helm Financial	TLB	$120	5/20/11	L+500 @ 99, 1.25% Floor	CS	Refinance	Railway
5/19/11	U.S. Silica	TLB	260	N/A	L+375 @ 99.5	BNP	Refinance, Dividend	Metals/Mining
5/11/11	CHG Healthcare	TL	217	5/19/11	L+400 @ 99.875, 1.5% Floor	Barc	Refinance	Healthcare

** As of 8/11/11* *Source: Leveraged Finance News*

MOST RECENT CLOSED U.S. LEVERAGED LOANS

Close Date	Borrower	Facility Amount ($ mil)	Tranche Amount ($ mil)	Loan Type	Maturity	All Agents
8/2/2011	OM Group Inc	900.0	200.0	RevCred/Term Ln	8/2/2016	BOA/BNP-PARIBAS/ PNC-BANK-CORP
8/2/2011	OM Group Inc	900.0	100.0	RevCred/Term Ln	8/2/2016	BOA/BNP-PARIBAS/ PNC-BANK-CORP
8/2/2011	OM Group Inc	900.0	350.0	RevCred/Term Ln	8/2/2017	BOA/BNP-PARIBAS/ PNC-BANK-CORP
8/2/2011	OM Group Inc	900.0	250.0	RevCred/Term Ln	8/2/2017	BOA/BNP-PARIBAS/ PNC-BANK-CORP
7/29/2011	Ardent Health Services LLC	200.0	200.0	Term Loan B	10/28/2015	BOA/BARCLAYS/GECC
7/29/2011	Boart Longyear Ltd	250.0	250.0	Rev Cred Fac	7/29/2016	BOA/PNC-BANK-CORP/ US-BANK-NA
7/29/2011	Euronet Worldwide Inc	350.0	260.0	RevCred/TLA	7/29/2016	BOA/US-BANK-NA/ BANK-MONTREAL/BBVA/ KEYBK
7/29/2011	Euronet Worldwide Inc	350.0	10.0	RevCred/TLA	7/29/2016	BOA/US-BANK-NA/ BANK-MONTREAL/BBVA/ KEYBK
7/29/2011	Euronet Worldwide Inc	350.0	80.0	RevCred/TLA	7/29/2016	BOA/US-BANK-NA/ BANK-MONTREAL/BBVA/ KEYBK
7/29/2011	Pinnacle Entertainment Inc	410.0	410.0	Rev Cred Fac	7/29/2016	BOA/JPM/BARCLAYS/ DEUTSCHE-BANK/ WELLS-FARGO/ CREDIT-AGRI-CIB/ UBS-BANK/CAPITAL-ONE
7/28/2011	Evans Analytical Group Inc	150.0	15.0	RevCred/Term Ln	7/28/2016	GECC/SUNTRUST-BK/ ALLY-COMM-FIN/ ING/GOV-BK-IRELAND
7/28/2011	Evans Analytical Group Inc	150.0	135.0	RevCred/Term Ln	7/28/2017	GECC/SUNTRUST-BK/ ALLY-COMM-FIN/ING/ GOV-BK-IRELAND
7/28/2011	Silgan Holdings Inc	1,885.6	800.0	RevCred/TLA	7/28/2016	DEUTSCHE-BANK/BOA/ WF/CITI/MIZUHO-CORP
7/28/2011	Silgan Holdings Inc	1,885.6	520.0	RevCred/TLA	7/28/2016	DEUTSCHE-BANK/BOA/ WF/CITI/MIZUHO-CORP
7/28/2011	Silgan Holdings Inc	1,885.6	480.2	RevCred/TLA	7/28/2016	DEUTSCHE-BANK/BOA/ WF/CITI/MIZUHO-CORP
7/28/2011	Silgan Holdings Inc	1,885.6	85.4	RevCred/TLA	7/28/2016	DEUTSCHE-BANK/BOA/ WF/CITI/MIZUHO-CORP
7/28/2011	Conn Appliances Inc	430.0	430.0	Rev Cred Fac	7/28/2015	BOA/JPM/WF/ CAPITAL-ONE/REGIONS-BK
7/28/2011	CREZ Transmission Facilities	506.8	448.7	Term Loan	8/29/2016	SCOTIABANK/SOC-GEN/ DEUTSCHE-BANK/ BTM-UFJ/SIEME/ DNB-NOR/METLIFE-BANK/ CIBC
7/28/2011	CREZ Transmission Facilities	506.8	42.4	Term Loan	8/29/2016	SCOTIABANK/SOC-GEN/ DEUTSCHE-BANK/ BTM-UFJ/SIEME/ DNB-NOR/METLIFE-BANK/ CIBC
7/28/2011	CREZ Transmission Facilities	506.8	15.7	Term Loan	8/29/2016	SCOTIABANK/SOC-GEN/ DEUTSCHE-BANK/ BTM-UFJ/SIEME/ DNB-NOR/METLIFE-BANK/ CIBC
7/27/2011	Cellular South Inc	800.0	600.0	RevCred/TLB	7/27/2017	BOA/UNION-BANK-NA/ REGIONS-BK/RAYJAB/ US-BANK-NA/MOELIS-CO
7/27/2011	TB Corp	76.0	15.0	RevCred/Term Ln	7/27/2016	GECC/BOA-MERRILL/WF/ BBVA

Source: Thomson Reuters

MOST RECENT COMPLETED HIGH YIELD DEALS

Issue Date	Issuer	Principal Am ($mm)	Currency	Coupon %	Maturity	Moody Rating	Standard & Poor's Rating	Bookrunner(s)
8/2/2011	Reckson Operating	250.0	US	5	8/15/18	Ba1	BBB-	Wells Fargo
7/28/2011	Carrols Rest-Hispanic Brands	200.0	US	8.875	8/15/2016	B2	B	Wells Fargo Jefferies
7/28/2011	Tempel Steel Co	135.0	US	12.000	8/15/2016	B3	B	Jefferies
7/27/2011	AmeriGas Partners LP	450.0	US	6.250	8/20/2019	Ba3	NR	Credit Suisse, JP Morgan Wells Fargo, Citi
7/27/2011	Antero Resources Finance Corp	400.0	US	7.250	8/1/2019	B3	B	JP Morgan, Wells Fargo Barclays Capital
7/27/2011	Ford Motor Cr Co LLC	1,000.0	US	5.875	8/2/2021	Ba2	BB-	Barclays, Goldman Sachs HSBC Securities, RBS
7/26/2011	Bormioli Rocco & Figlio SpA	359.5	EUR	10.000	8/1/2018	B1	BB-	JP Morgan BNP Paribas
7/26/2011	HCA Inc	2,000.0	US	7.500	2/15/2022	B3	B-	JP Morgan, Barclays Capital BankofA ML, Citi Deutsche Bank, Wells Fargo
7/26/2011	HCA Inc	3,000.0	US	6.500	2/15/2020	B3	B-	JP Morgan, Barclays Capital BofA ML, Citi Deutsche Bank, Wells Fargo
7/26/2011	Precision Drilling Corp	400.0	US	6.500	12/15/2021	Ba1	BB+	Credit Suisse, RBC Cap Markets Morgan Stanley
7/26/2011	Reynolds Group Issuer Llc	1,500.0	US	7.875	8/15/2019	Ba3	BB-	Credit Suisse HSBC Securities
7/26/2011	Reynolds Group Issuer Llc	1,000.0	US	9.875	8/15/2019	Caa1	B-	Credit Suisse HSBC Securities
7/25/2011	Academy Ltd	450.0	US	9.250	8/1/2019	Caa1	CCC+	Credit Suisse, Goldman Sachs Barclays, Morgan Stanley
7/22/2011	MTR Gaming Group Inc	565.0	US	11.500	8/1/2019	B3	B-	JP Morgan
7/21/2011	North Atlantic Trading Co Inc	80.0	US	19.000	1/15/2017	Caa2	CCC	Jefferies
7/21/2011	North Atlantic Trading Co Inc	205.0	US	11.500	7/15/2016	B2	B-	Jefferies
7/20/2011	Capsugel FinanceCo SCA	462.4	EUR	9.875	8/1/2019	Caa1	B	Barclays Capital, UBS Deutsche Bank, Mizuho KKR Capital Markets
7/20/2011	Suncoke Energy Inc	400.0	US	7.625	8/1/2019	B1	B+	JP Morgan, Credit Suisse Barclays, Citi, RBS
7/20/2011	Trader Corp	290.0	US	9.875	8/15/2018	B3	B	RBC Capital Markets
7/19/2011	TMX Finance LLC	60.0	US	13.250	7/15/2015	B2	B+	Jefferies
7/15/2011	China Shanshui Cement Grp Ltd	232.2	CY	6.500	7/22/2014	NR	BB-	BOCI, Credit Suisse
								Deutsche Bank, UBS
7/15/2011	SRA International Inc	400.0	US	11.000	10/1/2019	Caa1	CCC+	BofA ML, Citi Goldman Sachs
7/14/2011	ExamWorks Group Inc	250.0	US	9.000	7/15/2019	B3	CCC+	BofA ML, Barclays SunTrust Robinson Humphrey Wells Fargo, Credit Suisse Goldman Sachs
7/14/2011	Kratos Defense & Security	115.0	US	10.000	6/1/2017	B3	B+	Jefferies
7/14/2011	Level 3 Finance	600.0	US	8.125	7/1/2019	Caa1	CCC	Citi, BofA ML Deutsche Bank, Morgan Stanley Credit Suisse
7/14/2011	WMG Acquisition Corp	765.0	US	11.500	10/1/2018	B3	B-	Credit Suisse UBS Investment Bank
7/14/2011	WMG Acquisition Corp	150.0	US	9.500	6/15/2016	Ba2	BB-	Credit Suisse UBS Investment Bank
7/14/2011	WMG Holdings Corp	150.0	US	13.750	10/1/2019	B3	B-	Credit Suisse UBS Investment Bank
7/12/2011	Dynacast Inc	350.0	US	9.250	7/15/2019	B2	B	JP Morgan Macquarie Bank
7/9/2011	Intime Dept Store(Grp)Co Ltd	247.5	CY	4.650	7/19/2014	NR	BB-	Citibank NA London Industrial & Comm Bk of China

Source: Thomson Reuters

HIGH YIELD SECONDARY GAINERS & LOSERS

(AS OF 08/10/11)

— TOP GAINERS —

Bond	Price 8/10/11	Price 8/3/11	Change	Yield 8/10/11	Yield 8/3/11	Spread 8/10/11
CIT Group Inc (USD) 5.8% 7/28/2011	99.25	68.75	30.5	0.00%	0.00%	
Ashton Woods USA LLC (USD) VAR% 6/30/2015 144A	68.625	59.875	8.75	21.15%	25.54%	2059.65
Willamette Industries Incorporated (USD) 9% 10/1/2021	129.125	121	8.125	5.25%	6.18%	315.45
Southern Natural Gas Company (USD) 8% 3/1/2032	132.375	126.5	5.875	5.38%	5.78%	237.72
Union Carbide Corporation (USD) 7.75% 10/1/2096	119.25	113.625	5.625	6.49%	6.82%	298.97
FelCor Lodging LTD Partnership (USD) 10% 10/1/2014	106.5	100.875	5.625	-1.03%	-2.99%	-109.56
Washington Mutual Incorporated (USD) 5.5% 8/24/2011	112.375	107.125	5.25	0.00%	0.00%	
Sealed Air Corporation (USD) 6.875% 7/15/2033 144a	98.5	93.75	4.75	7.01%	7.46%	390.34
Borg Warner Automotive Inc (USD) 8% 10/1/2019	127.5	122.75	4.75	4.00%	4.62%	224.42
MacMillan Bloedel Limited (USD) 7.7% 2/15/2026	118.5	113.875	4.625	5.80%	6.23%	326.28
Utilicorp United Incorporated (USD) 8.27% 11/15/2021	127.125	122.75	4.375	4.87%	5.36%	275.17
Ahold Finance USA Inc (USD) 6.875% 5/1/2029	122.25	118.25	4	4.97%	5.28%	218.91

— TOP LOSERS —

Bond	Price 8/10/11	Price 8/3/11	Change	Yield 8/10/11	Yield 8/3/11	Spread 8/10/11
CNO Financial Group (USD) 7% 12/30/2016	125.75	151.5	-25.75	1.93%	-1.99%	96.34
Homer City LLC (USD) 8.137% 10/1/2019	67.875	90.375	-22.5	15.13%	9.88%	1337.3
Clearwire Corp. (USD) 12% 12/1/2017 144A	70.625	93.125	-22.5	20.49%	13.65%	1924.17
Citigroup Global Markets (USD) 7.375% 4/7/2014	93	115.375	-22.375	11.85%	2.73%	1147.37
Mercer International Inc. (USD) 8.5% 1/15/2012 CVT	251	272.625	-21.625	0.00%	0.00%	
MasTec Inc. (USD) 4% 6/15/2014	126.75	146.875	-20.125	-4.71%	-9.83%	-511.48
Homer City LLC (USD) 8.734% 10/1/2026	69.375	88.875	-19.5	13.54%	10.19%	1095.7
Mylan Inc. (USD) 3.75% 9/15/2015 CVT	149.75	168.75	-19	-6.65%	-9.54%	-723.93
Bank Of America Corp (USD) Flt% Perp	85.5	103.625	-18.125	9.50%	7.43%	599.49
Forest City Enterprises Inc. (USD) 3.625% 12/31/2009	107.5	125.625	-18.125	0.16%	-7.01%	-14.83
Convergys Corp. (USD) 5.75% 12/22/2009	120.25	138.125	-17.875	4.15%	3.00%	133.68
Bank Of America Corp (USD) 8% Perp	85.375	102.75	-17.375	9.37%	7.45%	

Source: The High Yield Advantage, Advantage Data Inc., (617) 261-9700.

HIGH YIELD BOND FUND PERFORMANCE

Name Of Fund	Total Net Assets 7/31/11 ($ Mil's)	12/31/10 To 08/10/11 % Change	Rank	Lipper Leader 07/11
Fidelity Real Est Hi Inc	677.6	6.16	1	
J Hancock III:Cre HY;A	17.0	5.15	2	
Calvert Fd:HY Bond;I	35.6	3.11	3	
Westcore:Flex Inc;Rtl	62.8	3.00	4	
Highland Flt Rate Opps;C	425.6	2.84	5	
CNI:Hi Yld Bond;Inst	46.0	2.62	6	Y
Old Mutual:Dw HY;I	11.5	2.53	7	Y
Crdt Suis Flt Rt HI;Com	37.4	2.52	8	Y
Dunham:High-Yield Bond;N	54.0	2.37	9	
J Hancock II:Gl HY;NAV	375.0	2.34	10	
PowerShares Fd HY Corp	543.8	2.25	11	
Forward:High Yld Bd;Inst	96.0	2.16	12	
RvrPrk:Sh-Tm HY;Inst	18.2	2.06	13	
PNC:Hi Yld Bond;I	6.8	1.96	14	
Intrepid:Income;Inst	50.8	1.75	15	
Aquila 3 Peaks HI;Y	155.0	1.73	16	
MainStay:Hi Yld Crp;A	3,370.4	1.72	17	
Vanguard HY Corp;Adm	8,684.9	1.71	18	
Ivy:High Income;A	1,107.7	1.67	19	Y
SEI Inst:High Yield;A	1,583.8	1.67	20	Y

Number of All High Yield Funds: 629
Lipper HI Curr Yld Bd IX: -0.25

Source: Lipper

LOAN SECONDARY ADVANCERS AND DECLINERS

(For the week ended August 10, 2011)

Top 10 Advancers

Facility	Previous Bid	Current Bid	Percent Change
Regency Entertainment (12/06) TLb	24.75	29.75	20.202
Regency Entertainment 12/06 B/C Pro Rata	25	30	20
Regency Entertainment (12/06) TLc	25.25	30.25	19.802
PagesJaunes 10/06 (EUR) 2nd Lien TLD	28	33	17.857
Interstate Bakeries 2/09 3rd Lien TL	18.75	20	6.667
PT Domas Agrointi TL	45	48	6.667
Tribune 12/07 Bridge	4.5	4.792	6.489
Vinashin 5/07 (USD) TL	47	50	6.383
Lafarge / Monier 10/09 PIK with Equity TLA	125	132	5.6
Quinn Group 10/06 (MUL) RC	45.833	48.333	5.455

Top 10 Decliners

Facility	Previous Bid	Current Bid	Percent Change
Countrywide Financial Equity	295	2.6	-99.119
Graceway Pharmaceuticals 5/07 Mezzanine	0.15	0.088	-41.333
US Power Gen Equity	5.708	3.833	-32.849
Education Media Equity	4	3	-25
Accretive Solutions 4/10 2nd Lien TL	35	30	-14.286
North Las Vegas 11/09 TLB	10.75	9.25	-13.953
Infor Global Solutions Add-on 2nd Lien TL	83.5	73	-12.575
Infor Global Solutions 4/10 (EUR) Extended TLB	95.75	85.5	-10.705
Advanstar 10/09 Equity	10	9	-10
SelectRemedy 7/07 2nd Lien TL	50	45	-10

Source: Markit

CLOSED END LOAN FUND PERFORMANCE

Name Of Fund	Total Net Assets 07/31/11 ($ Mil's)	12/31/10 To 08/09/11 % Change	Rank
Pioneer Floating Rate Tr	504.5	1.63	1
LMP Corporate Loan	124.3	1.15	2
Blackstone/GSO Sr Flt Rt	298.4	0.97	3
Invesco VK Sr Loan;IB	498.3	0.55	4
Eaton Vance Sen Flt-Rt	517.3	0.43	5
Eaton Vance Senior Inc	265.5	0.29	6
Invesco Prime Income Tr	563.8	0.25	7
Eaton Vance Flt-Rt Inc	589.1	0.24	8
Invesco VK Senior Income	891.1	0.02	9
Nuveen Senior Income	228.0	-0.22	10

Name Of Fund	Total Net Assets 07/31/11 ($ Mil's)	12/31/10 To 08/09/11 % Change	Rank
BlackRock Dvsd Inc Strat	135.2	-0.51	11
BlackRock Flt Rt Inc II	146.5	-0.68	12
BlackRock Fltg Rate Inc	343.2	-0.75	13
Nuveen Float Rt Inc Opp	364.9	-0.81	14
BlackRock Flt Rt Inc	277.1	-0.87	15
First Tr Sr Fltg Rl II	371.0	-0.93	16
Nuveen Float Rate Inc	580.4	-1.28	17
Invesco VK Dyn Cred Opps	955.6	-1.30	18
ING Senior Income;A	340.9	-1.49	19
BlackRock Def Opp Credit	127.3	-1.66	20

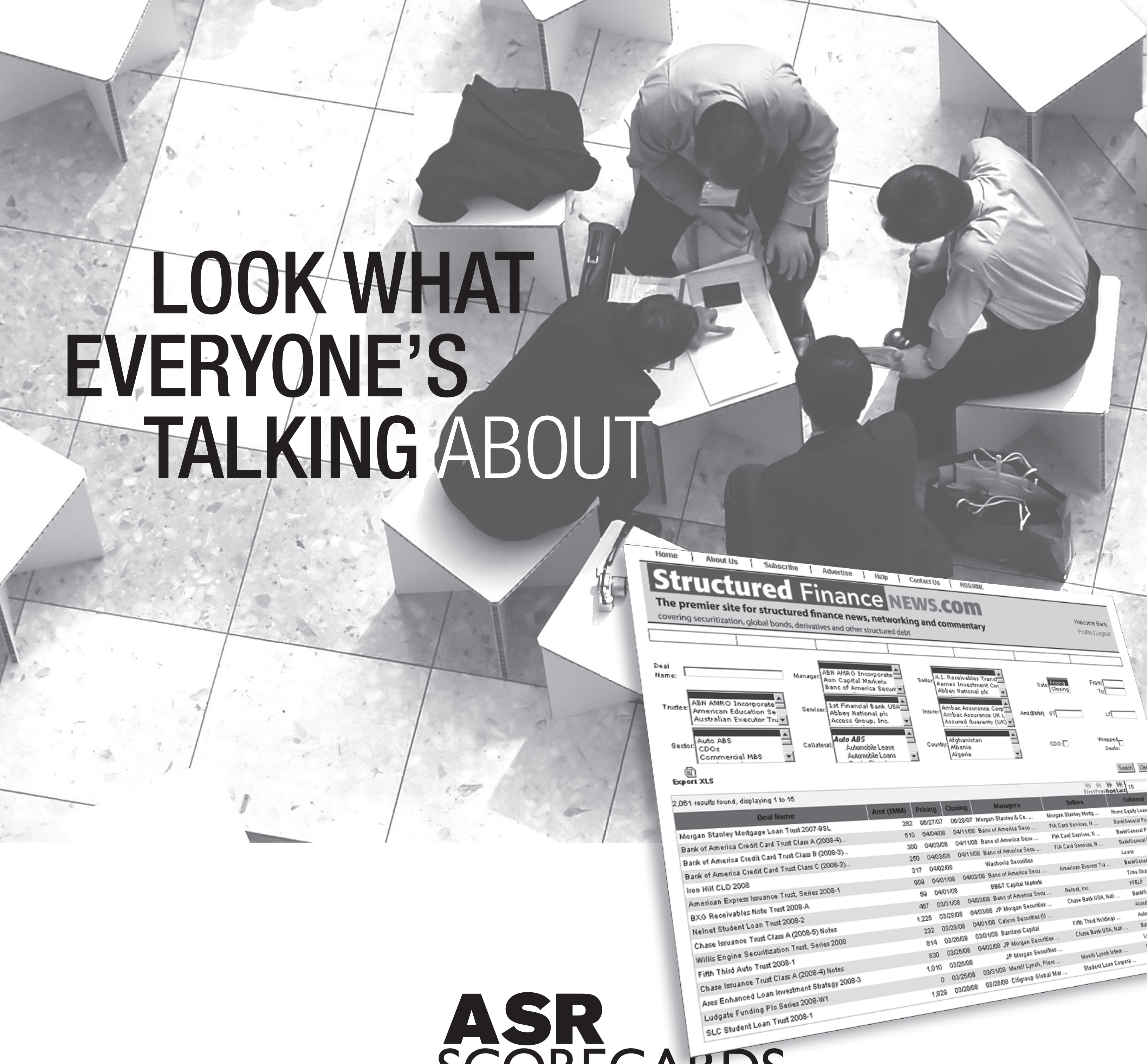
Source: Lipper

— Average % Change: -0.39 —
— Number of Funds: 29 —

Loanbase Statistics — Syndicated U.S. Loans

Data distribution as of August 11, 2011 (in millions)

	2008		2009		2010		2011	
M	All	Leverage	All	Leverage	All	Leverage	All	Leverage
Q1	278,888	127,832	116,359	29,849	144,572	65,496	386,524	177,089
No. packages	758	446	302	169	438	256	734	422
Q2	330,752	129,901	159,494	72,550	324,445	133,808	574,295	242,552
No. packages	792	465	454	297	689	398	967	497
Q3	267,756	146,147	102,603	56,890	234,183	98,213	91,464	35,592
No. packages	663	423	403	258	636	307	158	74
Q4	163,881	79,818	189,953	96,122	363,001	159,073	N/A	N/A
No. packages	439	285	482	325	822	420	N/A	N/A
Total Dollars	1,041,278	483,698	568,409	255,410	1,066,200	456,590	1,052,283	455,234
Total Packages	2,652	1,619	1,641	1,049	2,585	1,381	1,859	993



ASR SCORECARDS

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