

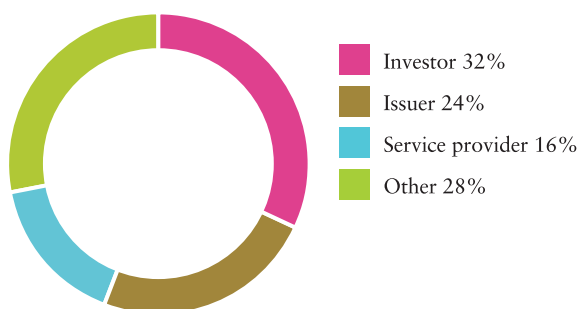
Structured finance perspectives

Green shoots, due diligence and investor best practices

Due to continued interest in the findings of Principia's 2010 structured finance survey we approached 150 more participants at the American Securitization Forum conference in February 2011. The results provide a fresh snapshot of the market and insight to assess how attitudes of structured finance investors have changed, even since mid-2010.

In the second half of 2010 over 500 market participants completed Principia's investor due diligence survey. It identified the most important aspects of investor due diligence and also, how well investors believed their organizations were equipped to analyze ABS and MBS investments - with greater confidence, independence and efficiency.

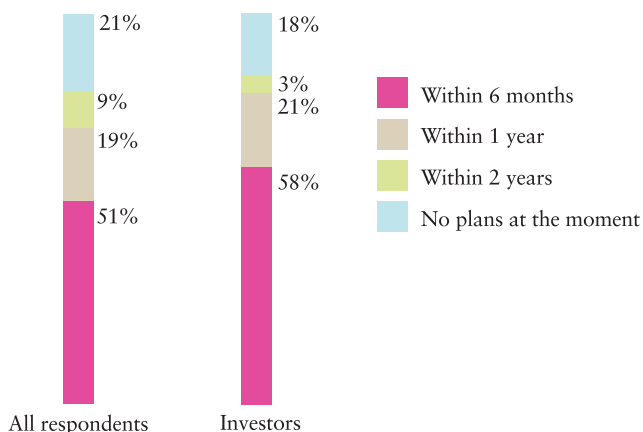
ASF 2011: Responses by industry segment



Positive outlook

70% of all those who responded to Principia's ASF 2011 survey stated they would be increasing their activity in structured finance within 12 months. As much as 50% said that they would be ramping up their activity in the next six months.

When will investors and other market participants be increasing their activity in the ABS and MBS markets?



This suggests a noticeable improvement in investor and market sentiment since Principia's mid-2010 study. 12% more respondents said they planned to increase activity within a year than when asked in 2010. Even more tellingly, where the previous study saw 59% of investors say that they planned to increase investment activity within a year, the latest results revealed a 20% increase in confidence. 79% of investors at ASF 2011 stated that they had plans to increase their ABS and MBS investment activity during 2011.

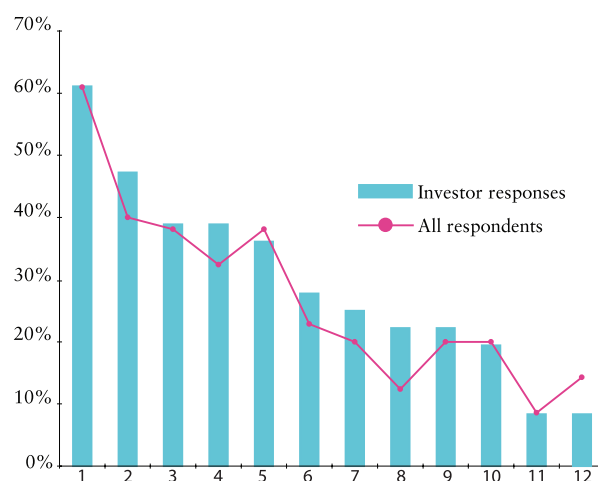
Investor due diligence and best practices

The Principia 2010 survey identified which aspects of investment analysis, risk oversight and operations investors saw as fundamental in the management of structured finance investment.

In the 2011 study, Principia questioned how investors prioritize the key aspects of due diligence, identified in the 2010 report. Respondents were asked to rank the operational issues they felt were most important for ABS and MBS investors today. The graph shows which items investors chose, versus the wider market. There were some interesting differences in opinion.

What are the most important operational issues ABS/MBS investors need to address today?

1. Modeling the full deal structure in investment analysis
2. Cashflow projections using forecasting assumptions
3. Integrating loan-level data
4. Negative internal perceptions of ABS/MBS
5. Accessing collateral performance data across asset classes
6. Managing deal and portfolio compliance against set limits
7. Getting away from multiple spreadsheets
8. Central risk oversight of deal and collateral performance
9. Reducing time needed to analyze and report across deals
10. Managing all exposures in a single environment
11. Accommodating regional differences/standards
12. Eliminating inconsistencies from front to back office



Being able to model the full deal structure when analyzing any given deal was ranked as the most important issue investors needed to overcome.

In Principia's 2010 survey, over 50% of investors stated that they were not effective at modeling the full deal structure in their analysis of new or existing securities.

Structured finance perspectives continued...

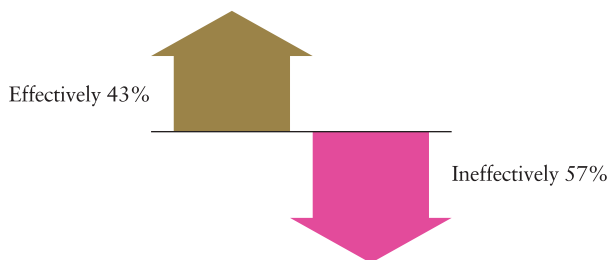
“It’s hard to find consistency in terms of risk management decisioning across the entire portfolio with our current systems.”

Managing Director, Structured Finance Investment, US Investment Bank with over 397Bn in AUM

Investors and the market alike agreed that the projection of cashflows through the waterfall and stress testing using forecasting assumptions was the next most important issue facing investors today. Again, the earlier study highlighted that this was an aspect of due diligence that continues to be a major operational challenge for investors.

Investor effectiveness:

Assessing future cashflows and forecasting valuations



Performing these activities is reliant on the extent to which an investor can access a full structuring of the transaction through their analytical platform, including the cashflow waterfall. Cashflow calculations should access all the available issuance and ongoing loan performance data to most confidently predict and manage future exposures.

Loan level and collateral performance data integration ranked next. Juxtaposed with positive signs of increasing investor confidence however, was the view that overcoming negative internal perceptions of structured finance was a continued concern.

While best practices in ABS and MBS investment were clearly identified, performing this work across the entire portfolio remains the biggest challenge for many investors. In both Principia studies operational inefficiencies can be seen to be driving various deficiencies in investment analysis, risk oversight and reporting.

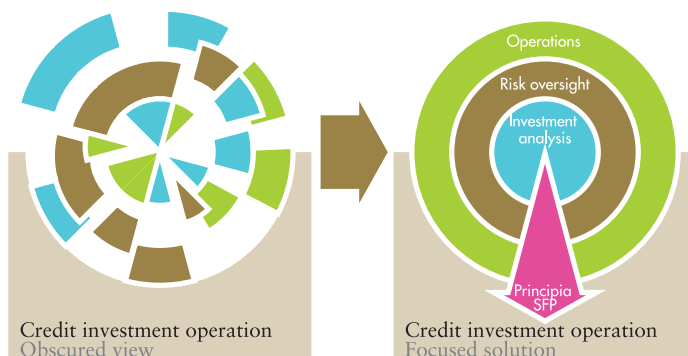
This challenge is highlighted by the results. It was investors themselves rather than market respondents as a whole, who stated that the challenge of developing a central platform for the ongoing risk oversight of deal tranche and collateral performance across ABS and MBS portfolios was a significant challenge.

Consolidating data into a single analytical framework that can rapidly normalize and manipulate the information for all the deals in a portfolio, across all ABS, MBS and fixed income asset classes remains a major challenge for investors. With in-house systems it can be operationally complex and resource intensive to fully integrate cashflow models and collateral performance data from multiple internal and external sources, or make it in any way relational for consistent investment analysis, valuations, stress testing and reporting

92%

of 2010 respondents believed that technology has an increasingly vital role to play in structured finance investment

Know your investments: Visibility, analysis and control



Principia SFP is the most comprehensive software solution for the end-to-end management of structured finance investments. It integrates the unique portfolio management, risk oversight, compliance and accounting requirements of ABS, RMBS, CMBS, Covered Bond, CDO and structured credit portfolios, on a robust and scalable platform.

Financial institutions and independent investment managers use Principia SFP to fully understand and manage ABS, structured credit and fixed income securities from front to back office. It provides a common operational and analytical platform to pull together deal cashflow and performance data from multiple sources (such as Intex, Lewtan or proprietary analysis). From a single window investors and risk professionals can more confidently model the entire structure of any given deal, predict and forecast future deal and collateral exposures through the waterfall, set and monitor compliance limits, perform risk surveillance reporting and implement detailed operational workflows from initial investment, through to accounting.

For 15 years, the platform has been used by global commercial banks, insurance companies and investment managers. It is available as an implemented system or a subscription, web-based Software-as-a-Service solution.

For more information please contact:

Douglas Long, EVP Business Strategy

Email: long@ppllc.com
Tel: +44 (0)20 7618 1366

Jason Foundakos, Business Development

Email: foundakos@ppllc.com
Tel: +1 (212) 480 6359

Follow Principia’s investor due diligence updates via the website www.ppllc.com or these online channels:

LinkedIn: linkedin.com/company/principia-partners

Blog: absinvestor.wordpress.com

Twitter: twitter.com/ABS_MBS_Trends