

As you can see below, the ABS team has provided some excellent info about AAA rated ABS securities and how they compare to AA rated corporates. Historically, AAA ABS & AA corporates have traded anywhere from 40 Bps to 120 BPS above the 5 year on the run USTR.

In short, a AAA rated ABS should have yields comparable to the AA corporates.

How can we determine if a AAA rated ABS security has these yields:

1. Determine the yield on the ABS Cusip under discussion
2. Determine the yield on the 5 year on the run USTR  
In the WSJ there is a "Bond Market Data Bank" section. This lists the current on the run securities. We would need the 5 year security. (At this time it is the 11/15/04 5.875% security which has a yield of 6.126)
3. Determine the yield on the average 5 year AA corporate security.  
This is a little gray. The JPM desk used an internal analysis.  
A suggestion would be.....In the WSJ there is a "Yield Comparisons" schedule (this is based on Merrill Lynch Bond Indexes.) There is a Corporate "1-10YR High Quality" item. As of 12/1 the yield was 6.90.
4. Determine the spread between the USTR and the AA corporate bond.  
In my example, the difference between the AA corporate and the 5 year USTR is .774 (6.9 - 6.126). This 77 BPS seems to fall into the current range on the chart below.
5. Determine the spread between the USTR and the AAA ABS security.
6. Compare the spreads determined in Step 4 and Step 5 and determine if they are substantially consistent.

What would constitute "substantially consistent with spreads for dually rated securities in one of the two highest rating categories." Perhaps + or - 5 BPS????

Here's the data we discussed. It shows that AAA fixed-rate credit card ABS trades close to AA corporates. (The actual data points are in the attached spreadsheet).

*Spread in basis points  
over 5yr tsy*

