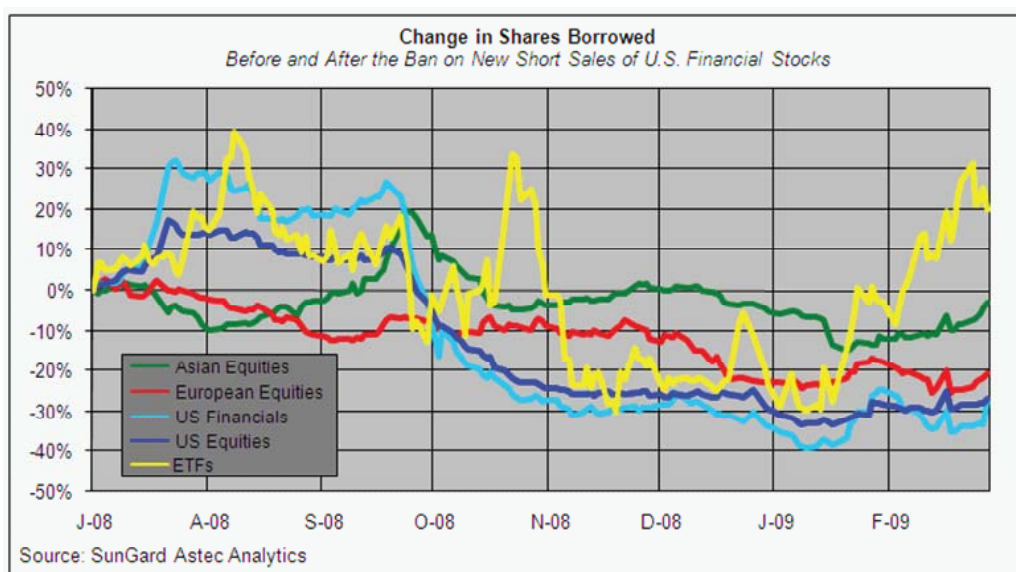


Securities Lending Volume Rebounded and Loan Spreads Have Increased

The securities lending industry has never undergone a contraction until now. Therefore, it has been especially tough over the past year as market conditions caused pain for all participants.



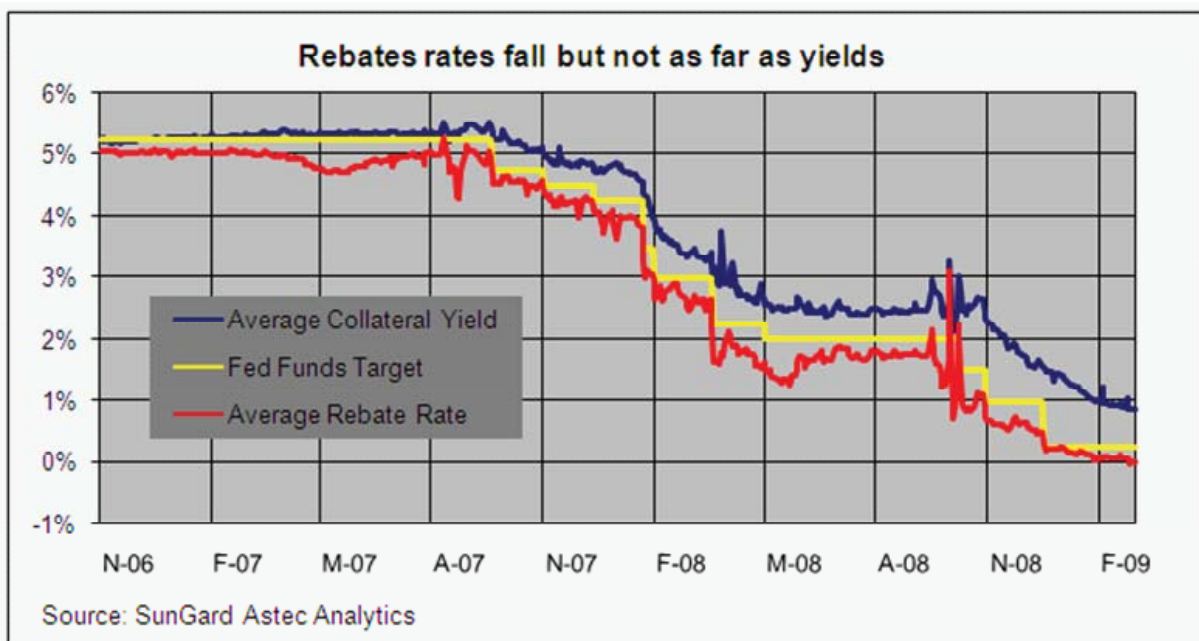
Borrowing demand from hedge funds declined and lending volume was down almost 40% for U.S. financial stocks and over 30% for all U.S. stocks from mid-year 2008 to January 2009.

On the supply side, many beneficial owners suffered when reinvestment asset prices were marked down due to the credit and liquidity crisis. This caused some beneficial owners to withdraw from lending. However, many more beneficial owners took the long-term view and remained in their lending programs. Fortunately, they concluded that exiting now would cause further pain by selling reinvest instruments at a loss and foregoing future lending revenue.

The beginning of the decline in lending volume occurred when the SEC banned short selling of U.S. financial stocks on September 19, 2008. Unfortunately, lending volume declined not only for U.S. financial stocks, but for Asian and U.S. stocks in general.

The good news is that after reaching a low in mid-January '09, it seems that volume in the securities lending market has bottomed and is back on its way up. Demand to borrow U.S., European and Asian equities increased over the past six weeks and the demand to borrow ETFs has increased even more.

Another positive is that spreads between cash collateral reinvest yields and rebate rates increased over the past year. Rebates on USD cash-collateralized loans have ordinarily decreased as the Federal Reserve has reduced the Fed Funds rate, but rebates have not recently tracked the Fed Funds rates as closely as in the past. In fact, rebate rates on individual loans have often been higher than both the Fed Open and Fed Target rates, indicating that lenders are making loans at a loss. However, lenders are providing higher than normal rebates in this interest rate environment because they are earning even higher reinvest yields. In addition, they are quoting high rebate rates on some new loans to generate additional cash collateral so that reinvestment instruments currently underwater do not have to be sold at a loss.



About SunGard Astec Analytics

SunGard Astec Analytics is a research company specializing in market information services for the global securities lending industry. Astec Analytics services also integrate with SunGard’s leading solutions for US and international securities finance, including the Loanet, and Global One real-time multi-currency solutions for international securities lending and Martini, a real time trading platform for bond and equity securities financing.

To contact an Astec Analytics solution specialist: +1 212 514 8340

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