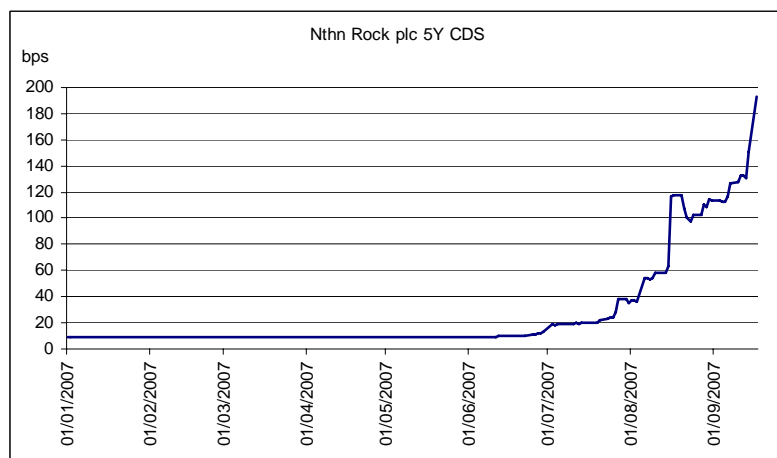


The Credit Card ABS Market

A Week in Review: 12 – 19 September 2007

Last week bore witness as another European bank fell victim to the liquidity crisis. On 4 September, the much lauded UK mortgage lender, Northern Rock, found itself in the unenviable position of being rescued by the lender of last resort – the Bank of England – when it found itself unable to borrow in the interbank lending markets as a result of the credit squeeze.

News of the emergency bail-out was leaked, and a public relations disaster ensued resulting in droves of customers queuing up to withdraw their savings. In an attempt to quell the panic, the British government moved to guarantee Northern Rock deposits. News of the rescue saw Northern Rock shares drop by more than 30% on Monday and its 5 year CDS spreads blew out:

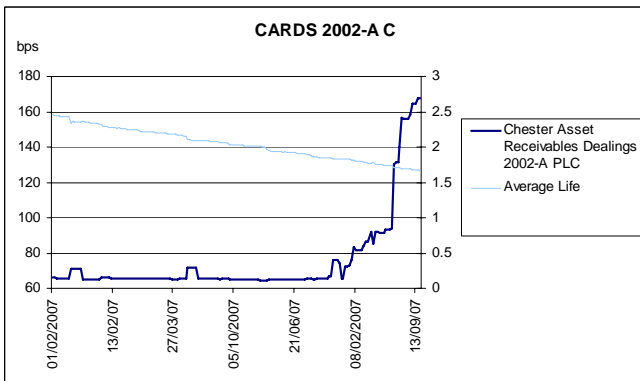
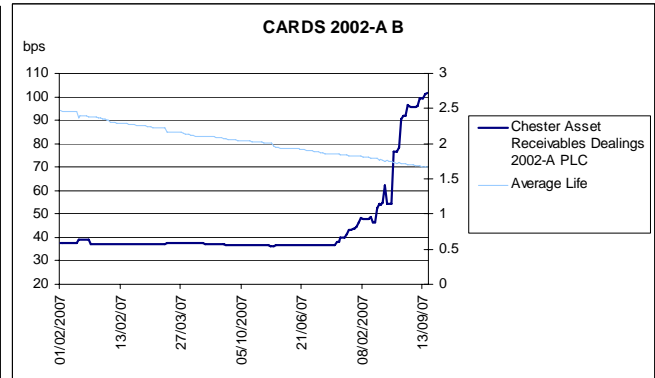
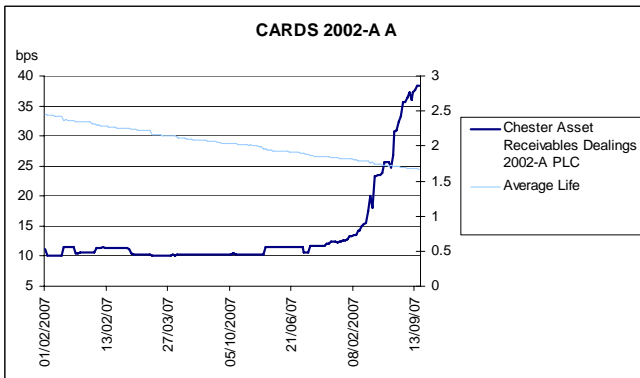


The dramatic loss of confidence in Northern Rock will undoubtedly have an effect on the European ABS market – particularly since Northern Rock, the fourth biggest mortgage lender in the UK, is the sponsor of Granite, one of the biggest Master Trusts in Europe. Despite being a bankruptcy remote SPV, investors are nervous nonetheless about current market conditions.

While collateral analysis of delinquencies (90 +) in Granite show them to be 0.44%, indicative of the good quality of the pool and below the 1% average typical of other UK Prime Master Trusts, a good many of our top deteriorators this week comprise securities issued by Granite:

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMAST06-1 2006-1 C4 EUR	Granite Master Issuer plc 2006 1	XS0240608702	194.814	19.63	BBB	PRMBS	3.425
GRANMAST05-1 2005-1 M3 GB	Granite Master Issuer plc 2005 1	XS0210926225	110.554	17.27	A	PRMBS	2.529
CHESTER02-A UK2002-A C EU	Chester Asset Recs Dgs 2002 A PLC	XS0148915282	149.804	11.2	BBB	Credit Card	1.672
GRANMAST06-1 2006-1 A6 EUR	Granite Master Issuer plc 2006 1	XS0240602929	50.602	9.84	AAA	PRMBS	3.361
GRANMOR103-2 2 M EUR	Granite Mtgs 03 02 Plc	XS0168771748	82.825	8.68	A	PRMBS	1.921
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
DELPHIN03-2 1 A EUR	DELPHINUS 2003 II	XS0176996360	33.741	-1.24	AAA	RMBS	1.033
SEF2 2 A EUR	Sestante Fin Srl 2	IT0003760136	54.26	-0.89	AAA	RMBS	9.163
AIREVALLEY06-1 2 A1 EUR	Aire Vy Mtgs 2006 1 plc	XS0264192989	49.181	-0.51	AAA	PRMBS	3.894
HERMES11 11 A EUR	Holland Mtg Backed Ser Hermes XI BV	XS0242423589	44.861	-0.4	AAA	RMBS	5.763
CANDIDE6 2006 A3 EUR	Candide Fing 2006 BV	XS0275035789	45.164	-0.31	AAA	RMBS	5.083

A good example of investor jitters is CARDS 2002 (Chester Assets Receivables Dealings):



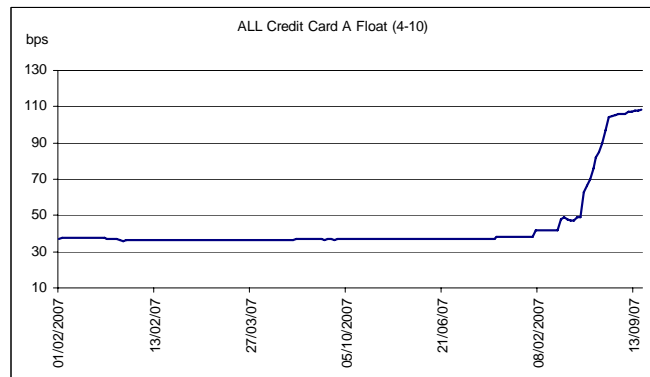
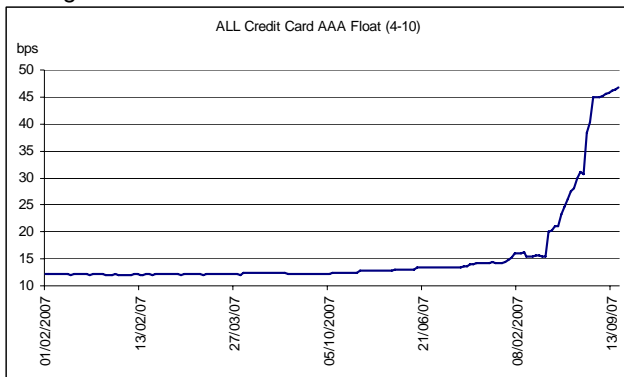
Class	Margin	Credit Enhancement	Rating
A	18	12%	AAA
B	55	7%	A
C	125		BBB

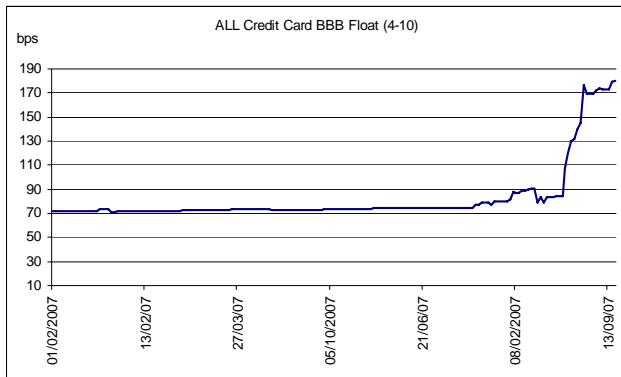
CARDS issuance reflects the typical European credit card deal structure of AAA, A and BBB tranches but no AA tranche.

In light of the ongoing sub-prime fallout and recent lending practices, it is likely that the credit card sector will deteriorate.

However, there are a limited number of credit card issues in Europe, compared to the RMBS sector, with only two deals since the beginning of 2007: Arran Funding Limited 2007-A and Turquoise 2007-1. The main issuers in Europe are Arran Funding, Chester Asset Receivables Dealings, Cumbernauld Funding, Gracechurch Card Funding, MBNA America European Structured Offerings, Pillar Funding Series, Sherwood Castle Funding and Turquoise Card Backed Securities plc.

In terms of sector, the average is similar to that seen previously with a significant uptick in spreads during the month of August:





The credit card sector has clearly been impacted by the financial crisis this year, as have other credit sectors, but collateral delinquencies in both the UK and the US have not been out of the ordinary.

From an economic standpoint, 18 August will be remembered as the day the Fed cut interest rates by 50 bps – the first US interest rate cut in fifteen months. This change in monetary policy demonstrates the impact of the credit crunch on the Fed’s objectives concerning employment and inflation.

Mr Bernanke’s announcement is certain to be welcomed by the securitisation markets and we should expect to see spreads stabilise or even tighten in the coming weeks both in the US and Europe.

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