

The Dutch RMBS Market

A Week in Review: 17 – 24 July 2007

The home equity crisis in the U.S. and the ensuing downgrades by the rating agencies have had a knock-on effect on the European asset-backed securities market and its participants.

Despite greater credit enhancement in Europe than in the U.S., the rating agency actions have had a direct impact on the spreads of many securities. Recently, there have been comparatively few securities showing spread improvements compared with the number showing a deterioration in spreads. If we look at the top five deteriorating ABS (see table below), it is the BBB tranches that tend to dominate.

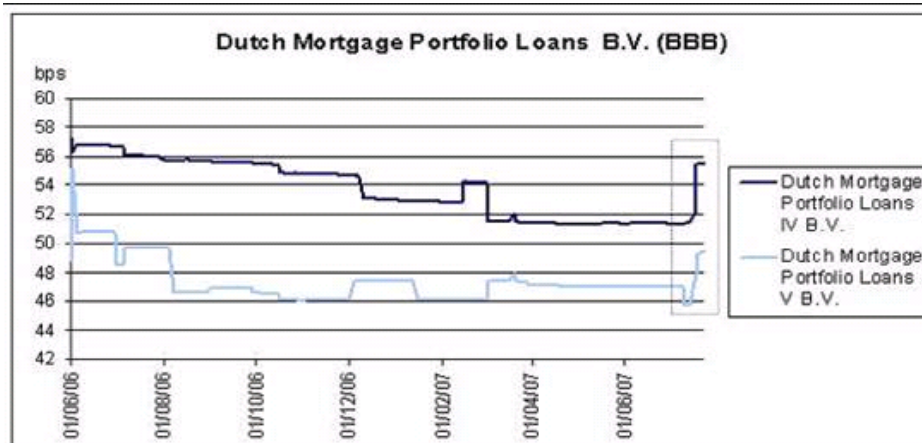
ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
CHESTER03-C UK2003-C C EU	Chester Asset Recs Dgs 2003 C PLC	XS0178090758	72.766	6.22	BBB	Credit Card	2.988
GRANMAST07-1 2007-1 3C2 GB	Granite Master Issuer plc 2007 1	XS0284075560	53.804	5.69	BBB	PRMBS	4.912
HOLMF10 3 C1 EUR	Holmes Fing No 10 PLC	XS0262872277	45.349	5.52	BBB	PRMBS	2.008
DMPL4 1 C EUR	Dutch Mtg Portfolio Lns Iv Bv	XS0194097670	55.396	4	BBB	RMBS	3.844
DUTCHMORT5 1 C EUR	Dutch Mtg Portfolio Lns V BV	XS0230786195	49.313	3.7	BBB	RMBS	5.198

ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
AUBURN4 1 B GBP	Auburn Secs 4 PLC	XS0202811039	26.496	-1.23	AA	PRMBS	2.255
GRANMORT03-3 3 C GBP	GRANITE Mtgs 03 3 PLC	XS0176411071	43.173	-0.24	BBB	PRMBS	1.182
MARS2 1 A1b EUR	Marble Arch Residential Secn No 2 Ltd	XS0186951629	12.832	-0.19	AAA	SPRMBS	0.975
GRANMORT03-3 3 M GBP	GRANITE Mtgs 03 3 PLC	XS0176410859	23.652	-0.1	A	PRMBS	1.184
EUROPRT 1 A EUR	EUROPEAN Ppty Cap 1	FR0010060327	24.63	-0.08	AAA	CMBS	4.936

In light of the U.S. home equity woes, strategists have tried to find parallels in Europe. The U.K. and Spanish subprime markets have attracted attention given the perceived weakness of their collateral pools with margins and spreads continuing to widen across all tranches.

Among this week's top decliners, there are two securities that stand out: the BBB tranches for Dutch Mortgage Portfolio Loans IV and V, both of which saw spreads widen by almost four basis points. The first one was issued in August 2004 and the second one in December 2005 (Note the difference in the average life column in the above table).

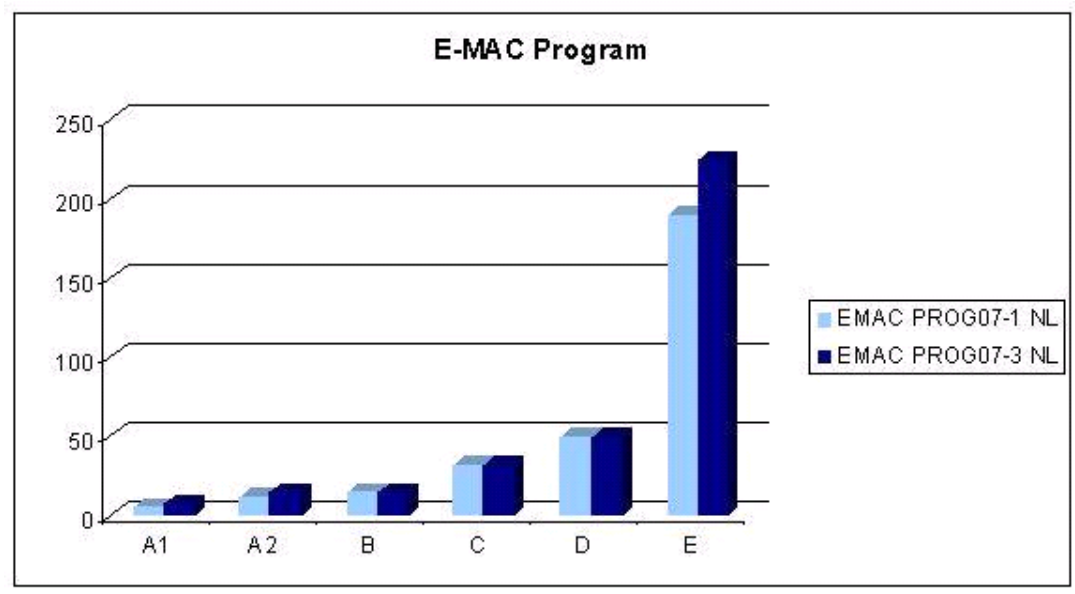
Over the last six months, spreads on these two securities have tightened and have still not regained their initial margins of 78bps and 47bps respectively. This trend is illustrated in the graph below:



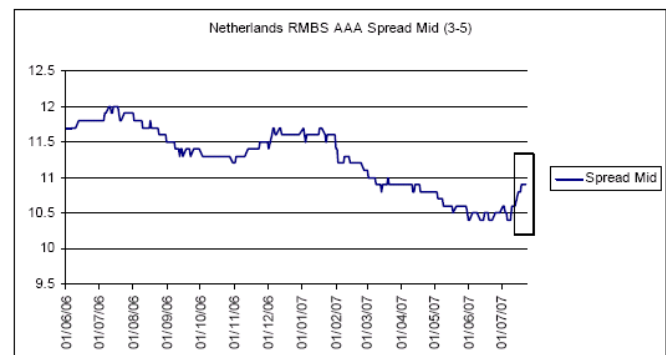
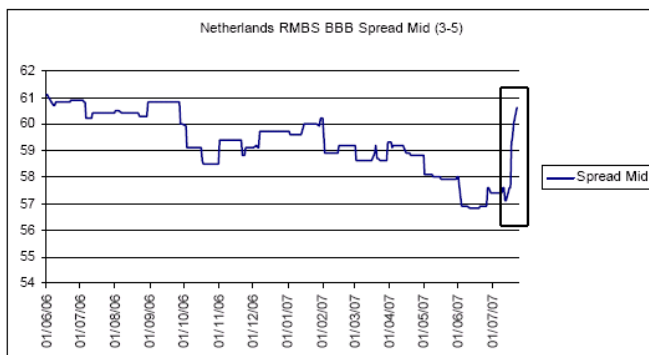
Our focus this week on the Dutch RMBS market hinges on the fact that it is considered to be a European benchmark market. A hitherto stable market with a rosy future, the recent weakening belies a negative outlook which is affecting the new issues coming to market.

The recent E-MAC Program B.V. / Compartment NL 2007-3 was recently priced higher than the Compartment NL 2007-1 which was issued only three months earlier. This has had a pronounced impact on the BB tranche, as illustrated in the table below:

Class	Margin Compartment NL 2007-1	Margin Compartment NL 2007-3	Average Rating
A1	5	7.5	AAA
A2	12	15	AAA
B	15	15	AA
C	32	32	A
D	50	50	BBB
E	190	225	BB



This weakness in spreads is reflected in all Dutch sector curves, from AAA through to BBB:



The real question is why spreads for Dutch RMBS have suddenly widened while the housing market remains constant. The most likely driver of this negative sentiment comes on the back of spread widening in the Spanish and U.K. RMBS markets. This trend will no doubt play out in the other major European countries, such as Italy, France and Germany.

Philippe Pagnotta

ABS Analyst, Structured Finance

Markit

Tel: +44 20 7260 2214

Email: philippe.pagnotta@markit.com

For more information on Markit's ABS products, please contact: sfsales@markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.