

The European ABS Market

A Week in Review: 20 – 27 November 2007

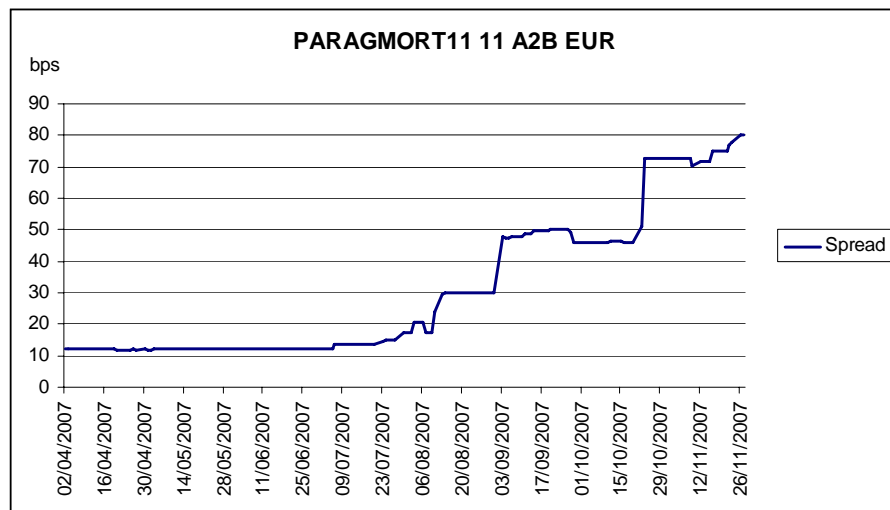
The European ABS market was, once again, focused on the performance of financial institutions' shares rather than any potential write-downs or shortfalls from the underlying assets.

Attention was centred primarily on Northern Rock which announced on Monday that it favoured the offer from Virgin Money over other consortia such as the one led by Luqman Arnold, former head of Abbey National. A takeover by Virgin Money, if it goes ahead, could have a negative effect on Northern Rock's credit rating which, in turn, may affect the ratings of the Granite deals.

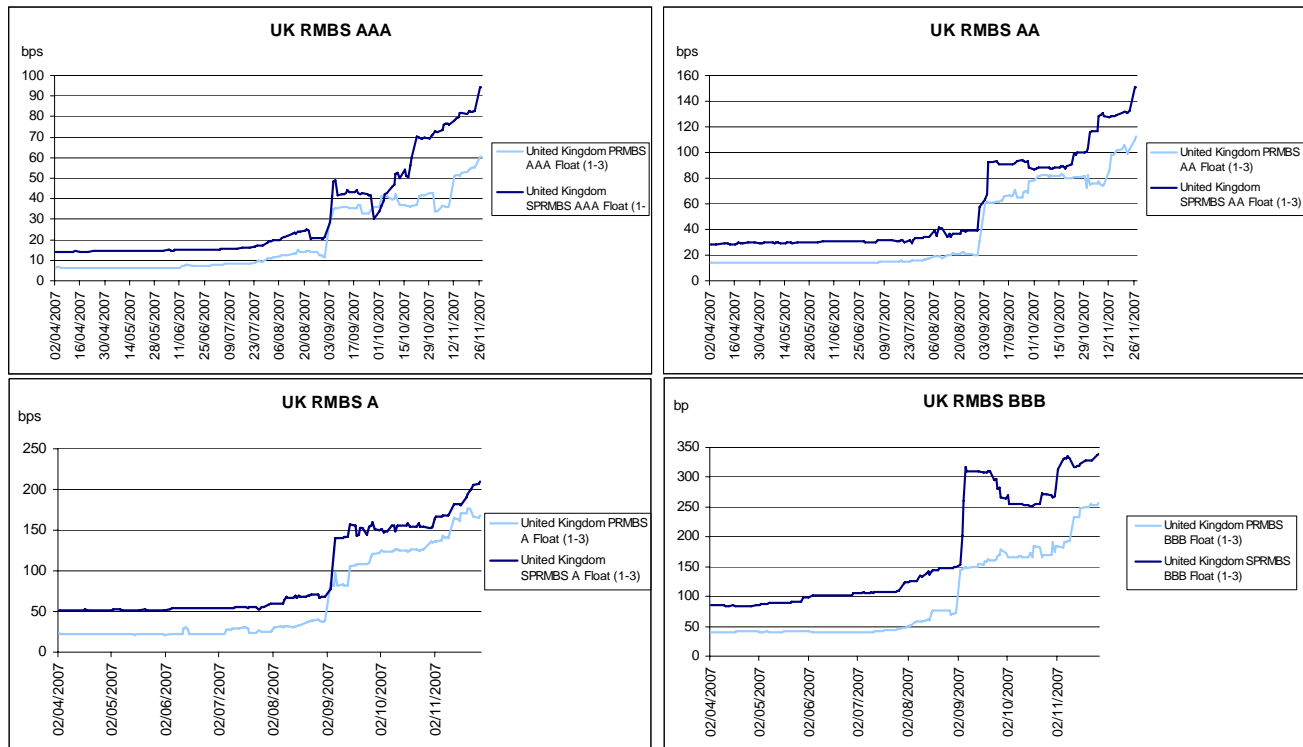
Another financial institution in the spotlight was HSBC after it announced that it would inject £17bn into two of its SIVs, Cullinan and Asscher, to avoid a sale of assets. HSBC's proposed structure is similar to the superfund that Citi, Bank of America and JPMorgan plan to create.

Turning to Paragon, the lender announced preliminary results for the financial year and noted that they expect to refinance a £280 million corporate facility in February 2008. Given the lack of flow in the primary markets, Paragon noted that they would consider a rights issue to raise funds during this challenging time.

Despite buy to let activity within Paragon, we classify it as a UK Prime RMBS. For example the portfolio of Paragon Mortgages 11 consists of 3,651 first ranking mortgage loans made to individuals and corporates (with guarantees from individuals) secured on residential properties located in England, Wales, Scotland and Northern Ireland. This portfolio diversification should limit deterioration in the securities Paragon has issued in the past.



But according to the spread above it looks like, despite the quality of the portfolio, the securities are now trading closer to the UK Sub Prime levels than to the Prime level.



Our top five movers this week show that the market is depreciating again, with little sign of improvement:

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
PERMANFIN2 5 C GBP	Perm Fing No 2 Plc	XS0163980476	204.097	18.3	BBB	PRMBS	1.057
HERMESV 1 A EUR	HOLLAND EURO DENOMINATED Mtg BACKED Ser HE	XS0157783936	44.38	16.01	AAA	RMBS	1.962
BANCAJ9 9 A2 EUR	BANCAJA 9 FONDO DE Titul DE ACTIVOS	ES0312888011	74.28	10.88	AAA	RMBS	5.703
SMSY05 2005 A1 EUR	Smile 2005 Synthetic BV	XS0238920226	53.615	7.22	AAA	Small Business Loan	1.337
BANCAJ8 1 A EUR	BANCAJA 8 FONDO Titul ACTIVOS	ES0312887005	72.726	4	AAA	RMBS	5.488
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMORT04-1 2 C EUR	Granite Mtgs 04 1 Plc	XS0184563897	236.754	-9.83	BBB	PRMBS	1.343
GRANMORT04-1 3 C GBP	Granite Mtgs 04 1 Plc	XS0184567534	218.496	-6.92	BBB	PRMBS	1.357
VELA-HOME4 4 A1 EUR	Vela Home Srl 4	IT0004101991	46.243	-1.63	AAA	RMBS	3.676
BANCAJ10 10 A2 EUR	BANCAJA 10 Fondo Titul Activos	ES0312872015	65.314	-1.28	AAA	RMBS	4.047
BBVA-AUT2 2 A EUR	Bbva Autos 2 Fondo de Titul de Activos	ES0333761007	51.708	-1.22	AAA	Auto Loan	1.455

The fact that many banks are now trying to prevent their SIVs from selling assets can be interpreted positively. By preventing a firesale of bonds and displaying confidence in the performance of underlying collateral pools, the market appears to be signalling its intent to ride out the recent turmoil.

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