

The French ABS Market

A Week in Review: 29 August – 05 September 2007

A notable announcement last week was the news from BNP Paribas that it was re-opening two of its asset-backed securities funds: ABS Eonia and ABS Euribor, which had slipped by 1.78% and 0.97%, respectively, from their Aug. 7 levels. According to the French bank's statement, the declines were "significantly less" than those indicated in an earlier press release issued on Aug. 23 – an announcement that had caused consternation in the markets. The other notable announcement came from President George W. Bush regarding a rescue plan for subprime borrowers, with tax liabilities and refinancing facilities top of the agenda.

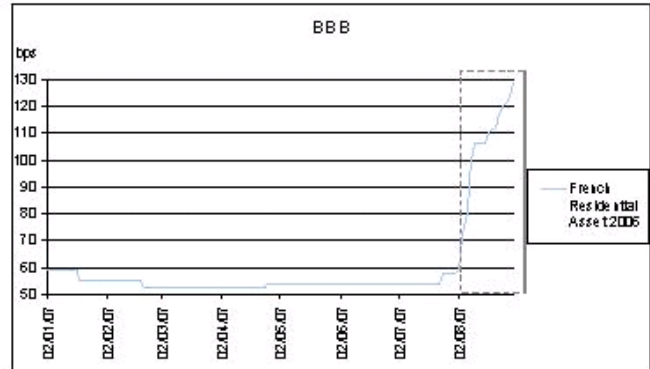
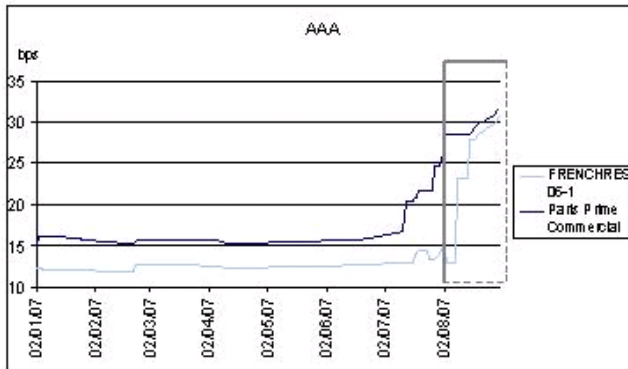
Markets at large now keenly await the European Central Bank announcement on interest rates scheduled for Sept. 6. Those that believe the ECB's release of funds into the inter-bank lending markets last month was not enough to contain the credit crisis will only be satisfied by an interest rate cut. European ABS markets remain jumpy with only a limited number of trades printed.

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Av. Life
FRENCHRES04-2 1 D EUR	French Residential Asset 2004 2 plc	XS0201382032	114.95	37.54	BBB	RMBS	2.355
DFM 1 A EUR	Stichting DFM Veh Lns Secn 2005	XS0221687626	41.174	18.75	AAA	Auto Loan	3.514
LOTHMORT2 1 D EUR	Lothian Mtgs No2 PLC	XS0176204443	97.296	10.98	BBB	PRMBS	1.167
CHESTER02-AUK2002-AB EUR	Chester Asset Recs Dgs 2002 A PLC	XS0148914632	77.409	10.89	A	Credit Card	1.716
SHERWVFUND03-1 2003-1 C EU	Sherwood Castle Fdg Ser 2003 1 PLC	XS0172549106	122.59	7.35	BBB	Credit Card	0.98
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Av. Life
PERMANFIN6 4 A EUR	Pern Fing No 6 PLC	XS0205329559	15.892	-1.33	AAA	PRMBS	2.462
HERMESII 1 A EUR	HOLLAND EURO DENOMINATED Mtg BACKED Ser HE	XS0119563350	16.18	-0.72	AAA	RMBS	1.134
ARM06-2 2006-2 3A2 EUR	Arkle Master Issuer Plc 2006 2	XS0277508692	17.708	-0.58	AAA	PRMBS	3.628
PHF 1 A EUR	Phoenix Fdg plc	XS0129414777	16.311	-0.5	AAA	RMBS	0.784
FPRP05 1 A EUR	FCC Proudreed Ppty 2005	FR0010247577	33.688	-0.03	AAA	CMBS	6.984

This week's top movers include two French deals. Now, the French securitization market has been held back for a couple of reasons. First, there is no legal concept of a trust in France, which limits opportunities for true sale and off-balance sheet deals for financial institutions. Most deals are issued by the "Fond Commun de Creances" and are managed by companies such as Eurotitrisation. Second, the fact that these companies are domiciled in France as opposed to off-shore jurisdictions also has a negative impact on tax payments. Furthermore, there are a limited number of mortgages referencing a single real estate asset, with the majority referencing a portfolio of assets. Add to that the relatively limited use of credit cards in France and it becomes clear why securitizations are mainly focused on commercial mortgage-backed securities or auto loans/leases such as Coeur Defense or Banque PSA Finance.

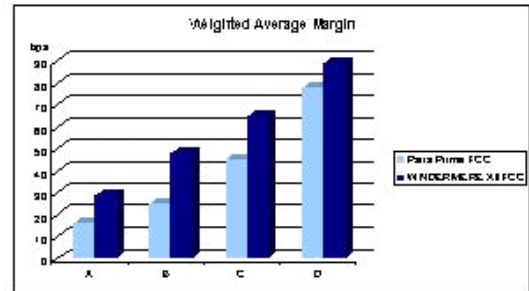
However, despite the fact that there is no subprime market in France and that households tend to borrow at a fixed rate, which limits the effect of interest rate rises, spreads in France are beginning to widen dramatically.

In the secondary markets, spreads for residential mortgage-backed securities and CMBS are converging to broader European levels. Analysis of the AAA and BBB tranches of French Residential Assets 2006-1 (RMBS) and Paris Prime Commercial FCC (CMBS) reveals that spreads have widened despite the fact that there has not been any rating agency action.

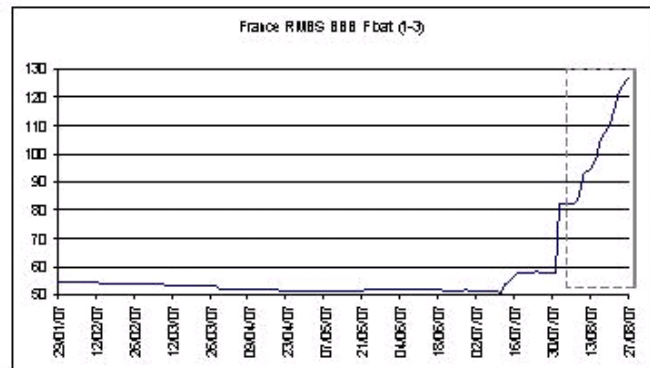
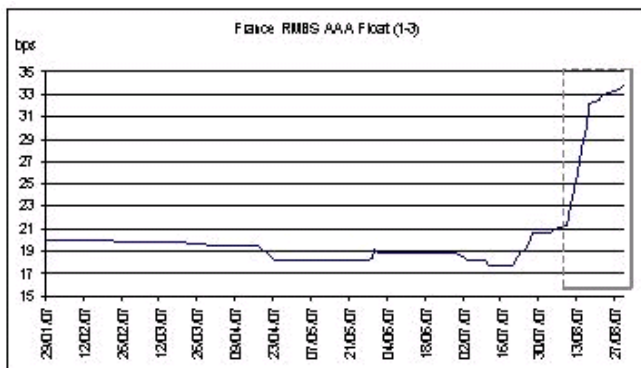


The primary markets have also readjusted. The Windermere XII FCC CMBS, which launched on Aug. 10, was priced at completely different levels compared to Paris Prime FCC a year ago. Contrary to other European countries, however, the margin difference is more concentrated in the most senior tranches:

Class	Weighted Average Margin		Difference	Rating
	Paris Prime FCC	WINDERMERE XII FCC		
A	16	29	81%	AAA
B	25	48	92%	AA
C	45	65	44%	A
D	78	89	14%	BBB



The sector curves reflect this adjustment but remain well below more exposed markets such as the Spanish or U.K. subprime markets.



During the presidential campaign, the recently elected French President Nicolas Sarkozy focused on the importance to the French people of access to the real estate market. His strategy hinged on the U.S. model and its access to subprime mortgages for non-conforming households – a model that has now been called into question in the wake of the credit crisis. Mr. Sarkozy has now emerged as a strong critic of the role of the rating agencies. Let us see how the central banks and the International Monetary Fund coordinate a response to the crunch.

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