

Granite Master Issuer

A Week in Review: 19 – 26 September 2007

The Fed interest rate cut of 50 bps was well received by the markets and warmly welcomed by investors since it was seen as a step towards averting a full blow credit crisis..

This action has relieved pressure on U.S. sub-prime borrowers and on the broad ABS investor base in terms of delinquencies and repossessions.

From a European standpoint, the Fed rate cut was also a welcome one since it had a positive effect on many securities which saw their spreads stabilise.

However, as was the case last week, Northern Rock and the Bank of England found themselves in the eye of the storm. The BoE had to perform a policy U-turn and agreed to lend against a broader range of collateral to alleviate the liquidity squeeze.

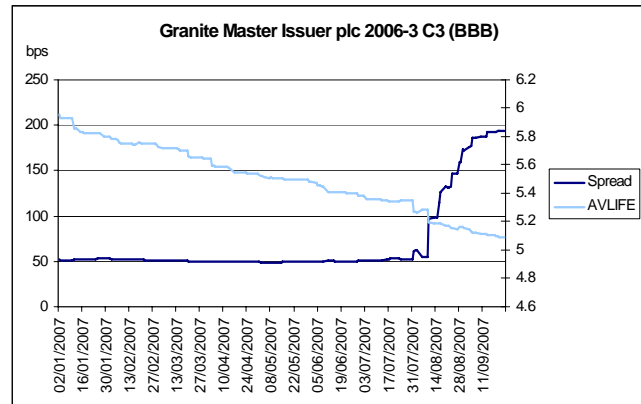
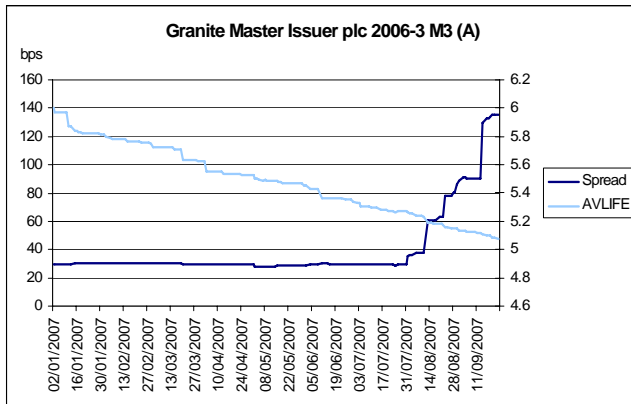
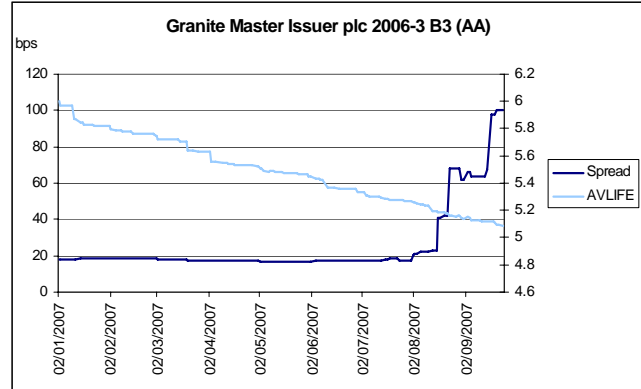
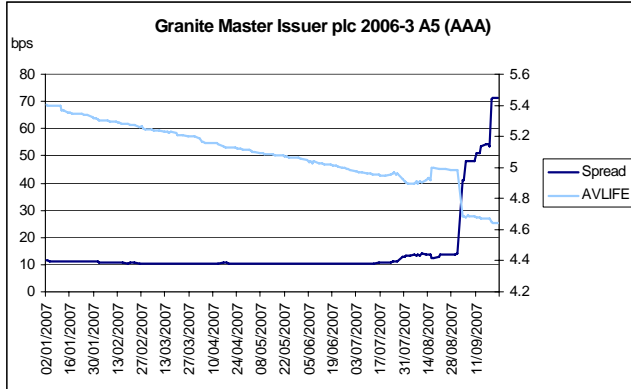
In order to qualify, these mortgages need to adhere to specific criteria such as limited Loan to Value (95%) and arrears (less than 2 months). Furthermore, the pool of mortgages provided to BoE should not have a LTV higher than 75% and a hair cut will be required (Around 4 to 6% for AAA/AA).

These requirements reflect those stipulated by rating agencies for rating ABS deals notably the hair cut which could be interpreted as an overcollateralisation in order to protect effectively the BoE.

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMAST06-3 2006-3 A5 EUR	Granite Master Issuer plc 2006 3	XS0267967924	69.306	18.48	AAA	PRMBS	4.645
GRANMAST06-1 2006-1 C4 EUR	Granite Master Issuer plc 2006 1	XS0240608702	212.144	17.33	BBB	PRMBS	3.411
GRANMAST05-4 2005-4 A5 EUR	Granite Master Issuer plc 2005 4	XS0229614200	65.044	16.93	AAA	PRMBS	2.338
GRANMORT04-3 3 C GBP (2)	Granite Mtgs 04 3 Plc	XS0201487567	194.176	10.77	BBB	PRMBS	3.675
GRANMORT03-3 3 B GBP	GRANITE Mtgs 03 3 PLC	XS0176410776	77.806	8.66	AA	PRMBS	1.03
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
CELTICRES11 11 A3a EUR	Celtic Residential Irish Mtg Secn No 11 plc	XS0275790789	42.726	-1.69	AAA	RMBS	4.398
HOLLMB7 1 A2 USD	HOLLAND Mtg BACKED Ser HERMES VII BV	XS0177872172	39.501	-1.65	AAA	RMBS	2.615
LEEKF15 1 Ac EUR	Leek Fin No Fifteen PLC	XS0216897859	52.582	-1.59	AAA	SPRMBS	1.692
HOLLH31 1 A1 EUR	HOLLAND HOMES MBS 2003 1 BV	XS0182739853	41.471	-1.15	AAA	RMBS	4.088
PERMAN3 4 A1 EUR	Perm Fing NO3 PLC	XS0179397772	34.417	-1.1	AAA	PRMBS	1.612

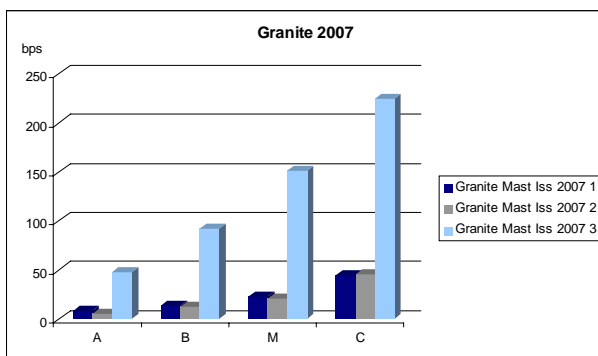
Unsurprisingly, our top deteriorators this week are dominated by securities issued by Granite Master Issuer. Although rating agency action has only been taken on Northern Rock, not Granite, spreads on the deals have largely widened.

In the space of a week, Granite Master Issuer 2006-3 A5 saw its spreads widen by almost 20 bps. This switch is similar across all classes. While we note some stabilisation of the UK Prime RMBS market, the depreciation of Granite is likely to impact market spreads since Granite has issued more than £50 bn of ABS.



Despite recent events surrounding Northern Rock and Granite, Granite Master Issuer 2007-3 was priced last week at record levels for UK Prime RMBS as shown by the weighted average margin information below:

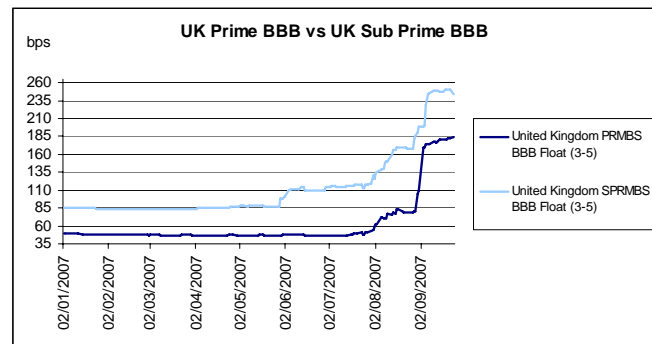
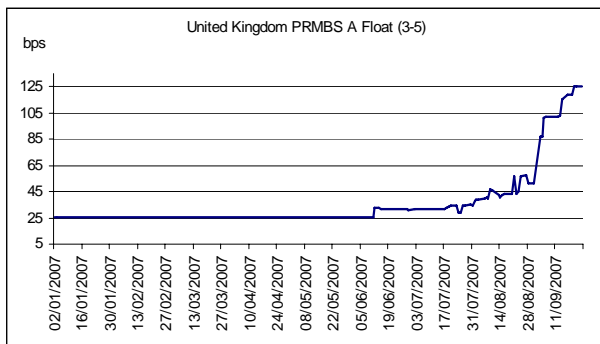
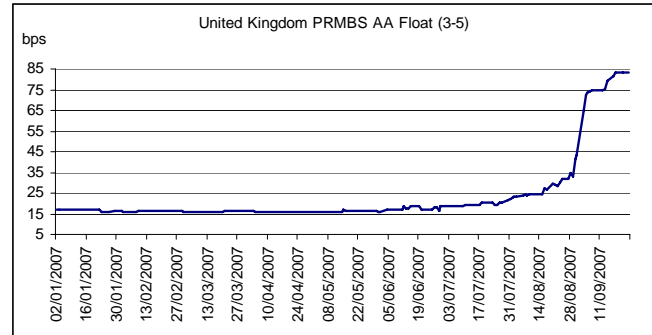
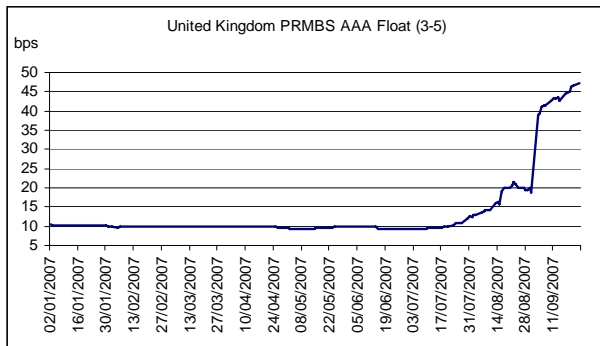
Class	Granite Mast Iss 2007 1	Granite Mast Iss 2007 2	Granite Mast Iss 2007 3	Rating
A	8.1	5	47.8	AAA
B	13.5	12.4	92.4	AA
M	23.5	21	151.1	A
C	45.1	46.3	225	BBB



This issue will remain on Northern Rock's balance sheet. Interestingly, the weight of the subordinated tranches is less than half what it used to be for previous issues such as the one described below:

Class	Granite Mast Iss 2007 1 (%)	Granite Mast Iss 2007 2 (%)	Granite Mast Iss 2007 3 (%)
A	11.8	12.3	8.6
B	8.2	7.9	5.95
M	4.8	3.9	2.8

On 31 July 2007, the total cumulative losses for this master trust was £7.45 million. The reserve fund totalled £516 million - according to Fitch it should be at least equal to or more than 1.65% of the total pool. This pool repays at an annualised CPR of 35%.



Granite now trades at 20 bps higher than the rest of the UK Prime market. The real question now is: Will the market adjust to Granite or will Granite lead to a market adjustment? The answer will no doubt come from the BoE who have the power to unlock the crisis by coming to the aid of the banks.

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