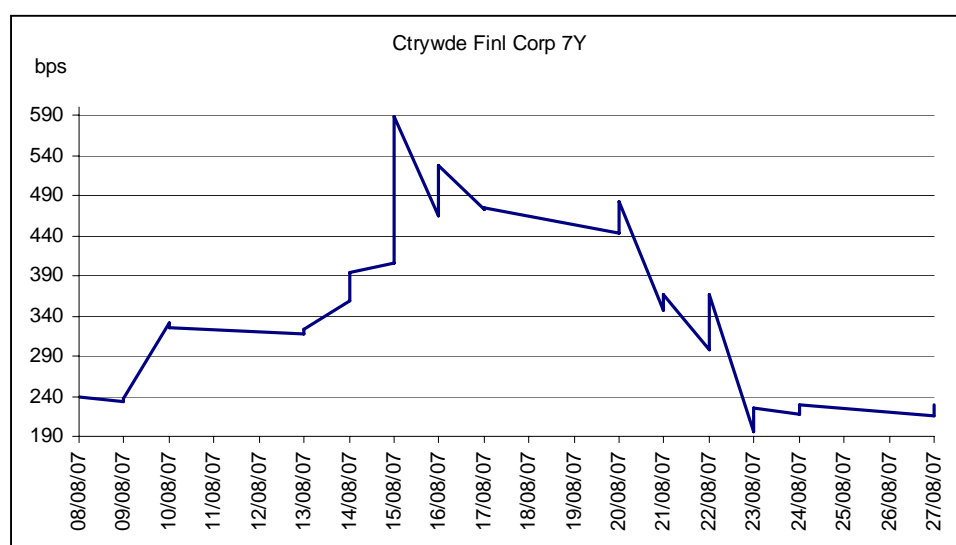


# The Italian RMBS Market

## A Week in Review: 22 – 29 August 2007

The U.S. last week saw an improvement in certain ABS indicators. Bank of America's investment of \$2 billion in Countrywide did much to improve sentiment in the markets and the perceived credit quality of the company which saw its spreads tighten dramatically.

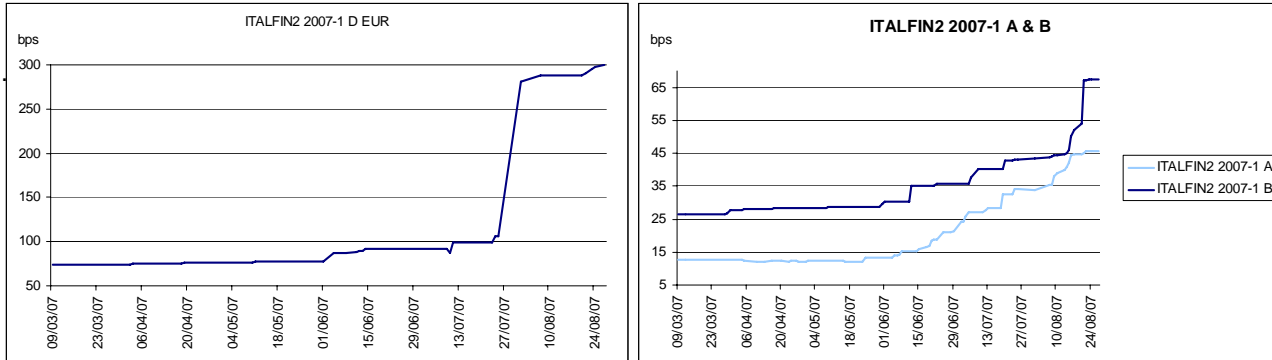


More good tidings came in the shape of ABX and CMBX which improved. As anticipated last week, pricing for almost all the CMBX tranches stabilised.

According to the National Association of Realtors, 97 out of 149 metropolitan areas in the U.S. continue to show an increase in their year-on-year growth. This news did not have a positive effect on the European ABS market, however which was characterised by another week of credit deterioration as illustrated by our top movers below:

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
BANCAJ9 9 A2 EUR	BANCAJA 9 FONDO DE Titul DE ACTIVOS	ES0312888011	38.75	25.34	AAA	RMBS	5.491
CHESTER02-A UK2002-A B EUR	Chester Asset Recs Dgs 2002 A PLC	XS0148914632	66.598	14.58	A	Credit Card	1.73
IMPAST2 1 A EUR	IM PASTOR 2 Fondo Titul Hipo	ES0347861009	29.901	13.65	AAA	RMBS	3.855
DELPHIN02-1 1 B EUR	Delphinus 2002 I BV	XS0147007909	57.069	9.21	A	RMBS	1.682
LUSITMORT5 5 A EUR	Lusitano Mtgs No 5 plc	XS0268642161	34.211	8.34	AAA	RMBS	5.293
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
LOTHMORT1 1 D GBP	Lothian Mtgs No1 PLC	XS0166183904	83.858	-1.65	BBB	PRMBS	0.925
GRANMORT03-3 3 C GBP	GRANITE Mtgs 03 3 PLC	XS0176411071	84.537	-1.18	BBB	PRMBS	1.078
GRANMORT03-3 3 M GBP	GRANITE Mtgs 03 3 PLC	XS0176410859	44.115	-1.15	A	PRMBS	1.079
LOTHMORT1 1 B GBP	Lothian Mtgs No1 PLC	XS0166183730	20.905	-1.14	AA	PRMBS	0.919
LOTHMORT2 1 A4 GBP	Lothian Mtgs No2 PLC	XS0176200888	7.848	-0.77	AAA	PRMBS	1.15

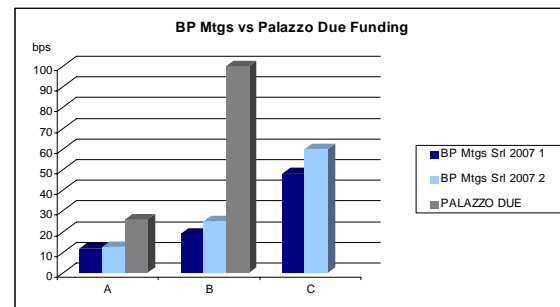
This general deterioration was reflected in Italy with the recent downgrade of Banca Italease SpA by Moody's. The ratings action impacted a number of deals where the bank was involved as servicer. The D tranche of Italfinance Securitisation Vehicle 2 was the first deal to be downgraded by Moody's from Baa3 to Ba1, affecting spreads on this security:



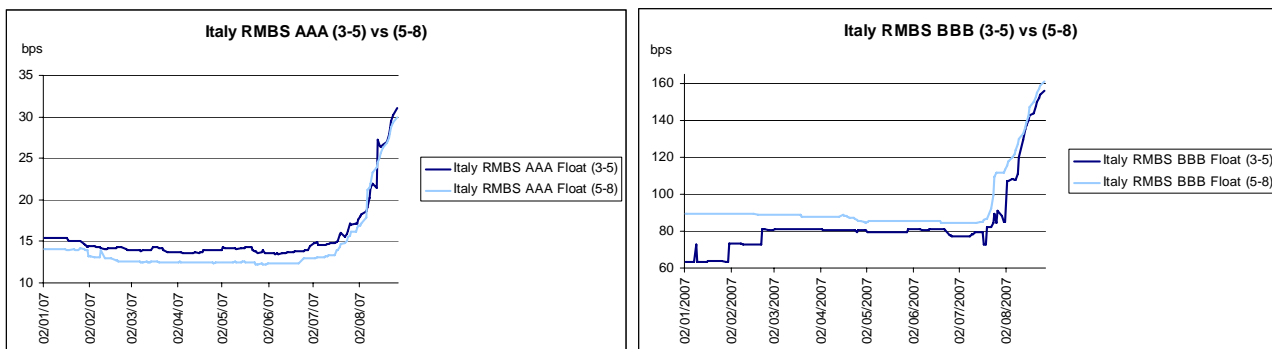
In addition to the rating action, the Italian market has also been affected by the global "bid" crisis – Italian RMBS deals that have recently priced are evidence of this.

The Palazzo Due Funding & CO deal, which is the most recent one (13Aug07), priced at new levels for the primary market. By way of comparison, let us look at BP Mortgage 2007-1 and 2007-2 which were issued in April and June 2007 respectively:

Class	BP Mtgs Srl 2007 1	BP Mtgs Srl 2007 2	PALAZZO DUE
A	11.9	12.4	<b>26</b>
B	19	25	<b>100</b>
C	48	60	NA
D	250	200	NA



The AAA level is now priced at more than double what it would have been two months ago. This trend is further confirmed by Markit's sector curves which have seen their spreads double in the past two months with no sign of decreasing as yet:



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The Italian market was, after the U.K., one of the first to utilise securitisation as a financing tool in Europe. Contrary to the U.K. market, however, very high credit ratings are required in order to obtain a mortgage and year-on-year growth remains one of the highest in Europe.

Despite sound fundamentals, the Italian market was the first in Europe to see one of its major financial institutions downgraded – due, primarily, to losses stemming from derivatives contracts – which only served to further increase investor fears. These fears have impacted spreads in the Italian ABS market which widened last week more than the European average.

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