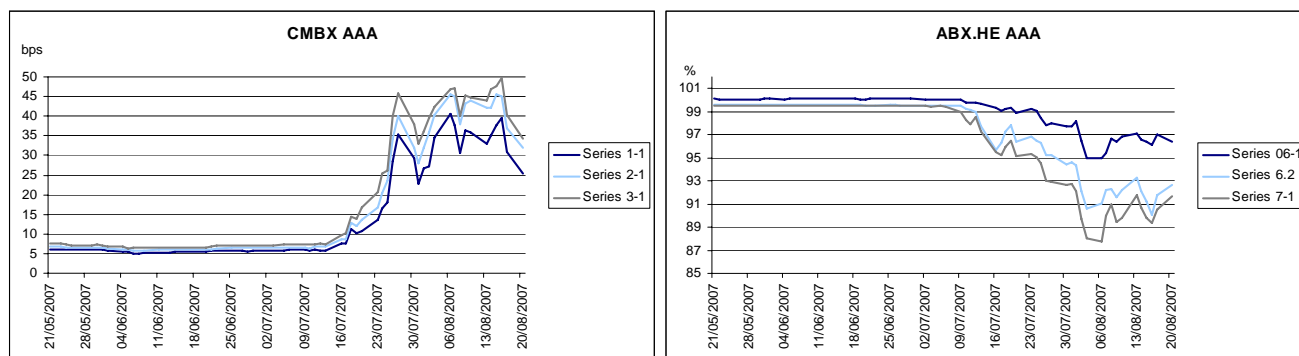


The UK Sub Prime RMBS Market

A Week in Review: 15 – 22 August 2007

Last week's decisions by the Federal Reserve and the European Central Bank to inject liquidity in the monetary system hit the headlines, monopolizing the news agenda for a couple of days. Of the two organizations, only the Fed decided to lower its discount rate, no doubt prompting many investors to expect an interest rate cut as early as September.

From an asset-backed securities point of view, the volatility observed in recent weeks seems to be less marked and there are tentative signs that the market is stabilizing. We note that the AAA sub-indices of ABX.HE and CMBX are showing slight signs of improvement when compared to previous weeks:



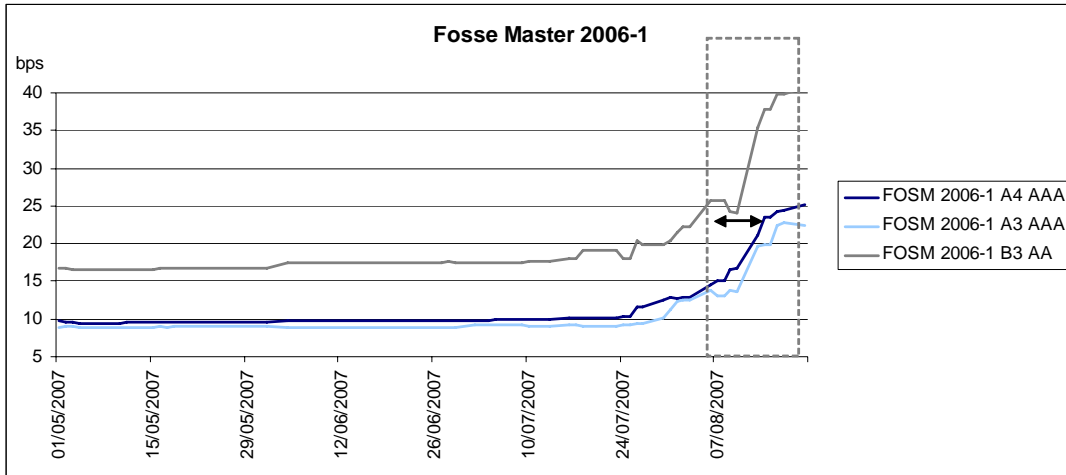
If this persists in the coming weeks, we may see an improvement in the U.S. ABS market, broadly speaking, instead of a mere adjustment.

Meanwhile, the European ABS markets are still volatile, particularly among the top five improvers and deteriorators:

ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMORT03-3 C GBP	GRANITE Mtgs 03 3 PLC	XS0176411071	85.715	37.85	BBB	PRMBS	1.088
DELPHIN03-2 1 C EUR	DELPHINUS 2003 II	XS0176997418	98.506	36.81	BBB	RMBS	1.124
SHERWFUND03-1 2003-1 C EU	Sherwood Castle Fdg Ser 2003 1 PLC	XS0172549106	115.281	34.44	BBB	Credit Card	1.008
PERMANFIN6 3 C GBP	Perm Fing No 6 PLC	XS0205326373	82.942	33.86	BBB	PRMBS	1.078
AIREVALLEY06-1 1 C2 EUR	Aire Vy Mtgs 2006 1 plc	XS0264192716	144.512	29.91	BBB	PRMBS	2.1
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
MOUNDFIN3 1 M2 EUR	Mound Fing NO 3 PLC	XS0166574177	30.797	-1.69	A	PRMBS	1.034
LOTHMORT3 3 B GBP	Lothian Mtgs No3 PLC	XS0194865753	21.896	-1.26	AA	PRMBS	3.998
RESMORT20 20 M1a GBP	Residential Mtg Secs 20 Plc	XS0213177214	37.21	-0.55	AA	SPRMBS	1.974
MORT6 1 A2 GBP	Mtgs No 6 plc	XS0206259888	19.104	-0.48	AAA	SPRMBS	1.068
ATLANTIDEFIN 1 A EUR	Atlantide Fin Srl	IT0003693402	48.05	-0.14	A	Trade Receivable	1.229

Three U.K. prime residential mortgage-backed securities are currently in the top five deteriorators even though deal fundamentals suggest it is one of the most secure ABS sectors in Europe.

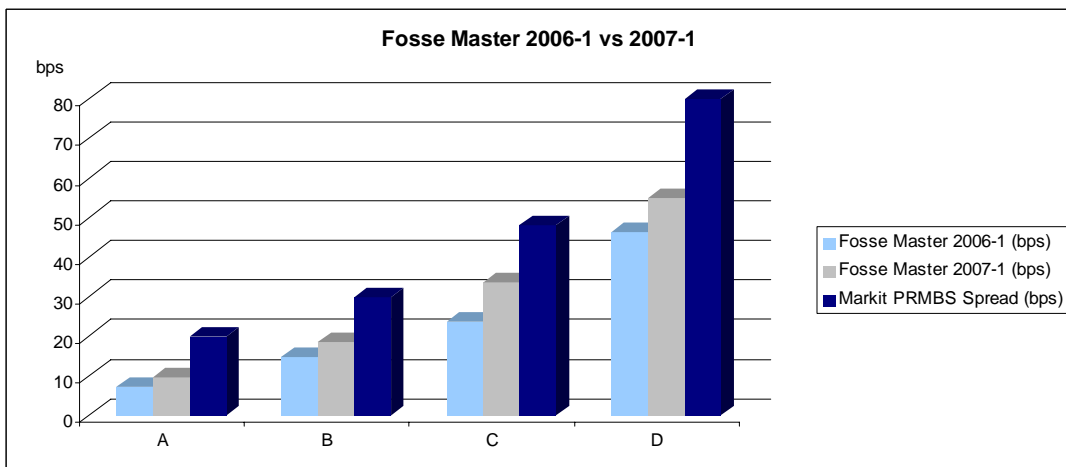
As the graph below shows, the Fosse Master 2006-1 series, issued at the end of November 2006, has been impacted by the credit crisis, despite the quality of the borrowers present in the portfolio:



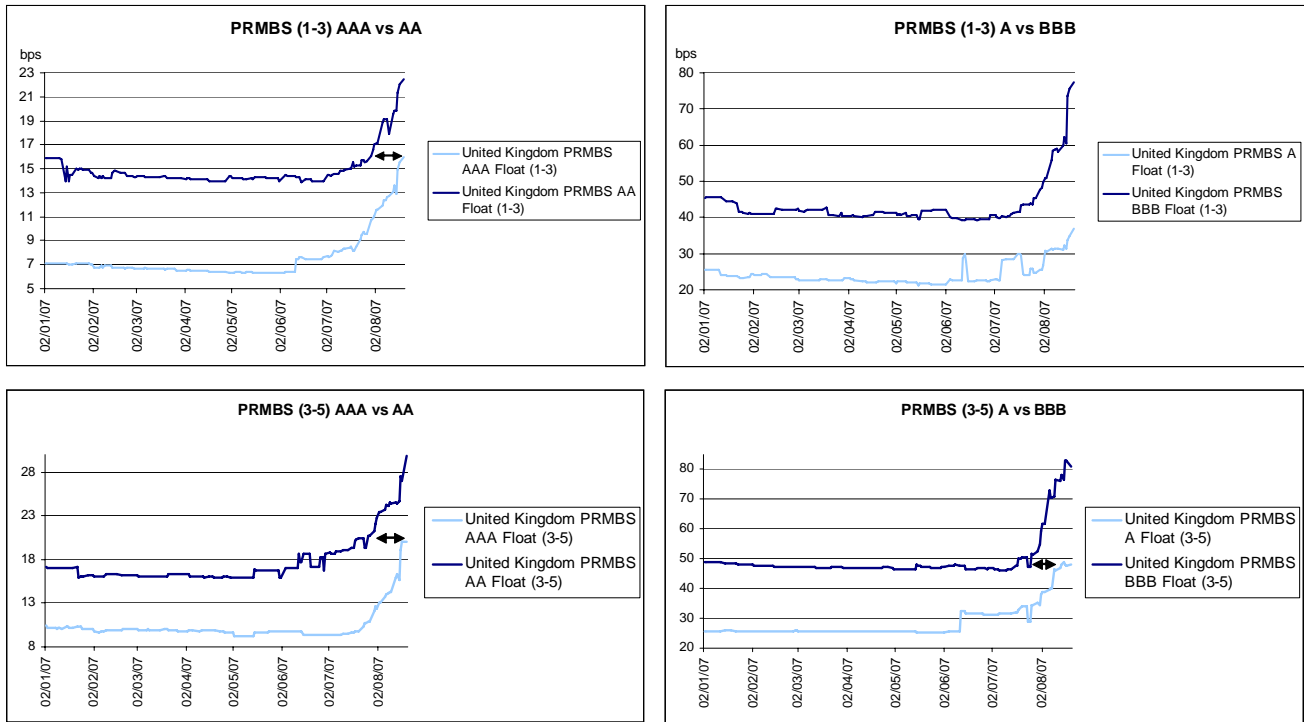
Note that the AAA tranches are now trading at the AA levels seen over the past month.

Spreads in the Fosse Master 2007-1 series, the latest U.K. prime RMBS deal priced, seem tight when compared to the levels requested in the secondary market by investors - despite the large increase in margin compared to the previous series. The weighted average margin of both deals when compared to the actual market spread is a perfect example of this:

Class	Fosse Master 2006-1 (bps)	Fosse Master 2007-1 (bps)	Growth (%)	Markit PRMBS Spread (bps)	Rating
A	7	9.4	34.3	20	AAA
B	14.6	18.5	26.7	30	AA
C	23.8	33.7	41.6	48	A
D	46.2	55	19	80	BBB



Analysis of Markit's sector curves confirms that the majority of U.K. prime RMBS tranches are now priced one rating level below where they were priced a month ago:



The broad U.K. prime RMBS market seems to have been affected by the increase in risk aversion globally, despite the fact that there has been no downgrade from the rating agencies in this sector. The monetary policy of the Fed and ECB in the coming months will have a significant impact on where spreads go from here, and the Fed appears more likely to decrease rates in the near future to contain the subprime crisis. However, more bad news will hinder the market's recovery and spreads could claw back earlier gains.

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