

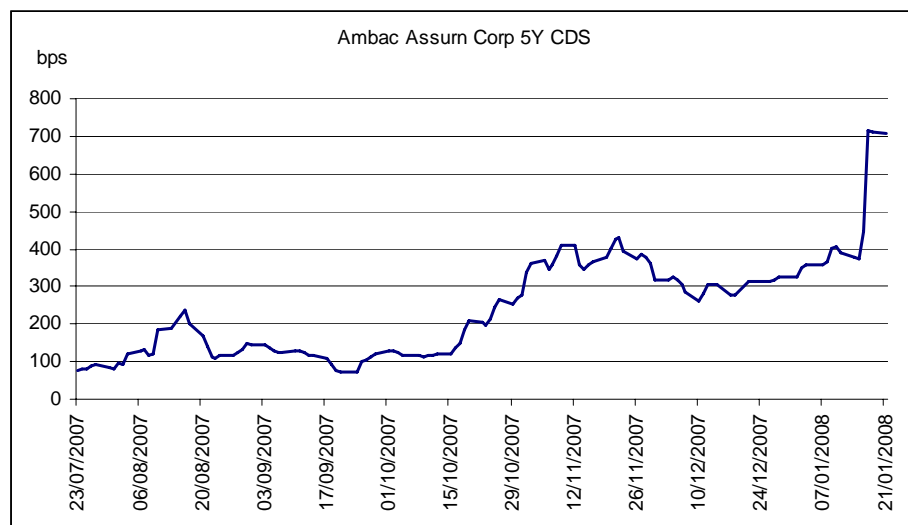
# The European CMBS Market

## A Week in Review: 16 – 23 January 2008

The credit crisis is now having a dramatic effect on the worldwide equity markets. The 21st of January will be remembered as the day when all stock markets were in turmoil apart from one - the NYSE was closed.

This fall came as markets digested the disappointing fiscal stimulus package announced by President Bush last Friday. The Fed's rate cut on the 22nd January prompted the equity markets to rebound but they remain in turmoil.

As to the monolines, the crisis reached a new low when Fitch downgraded AMBAC last Friday. The rating agency action had a direct impact on ABS transactions wrapped by the monoline insurer, for example RMAC where many senior notes were put on negative outlook.



Our top deteriorators this week are all Northern Rock securities with improvers comprising UK PRMBS, Dutch and auto loan securities.

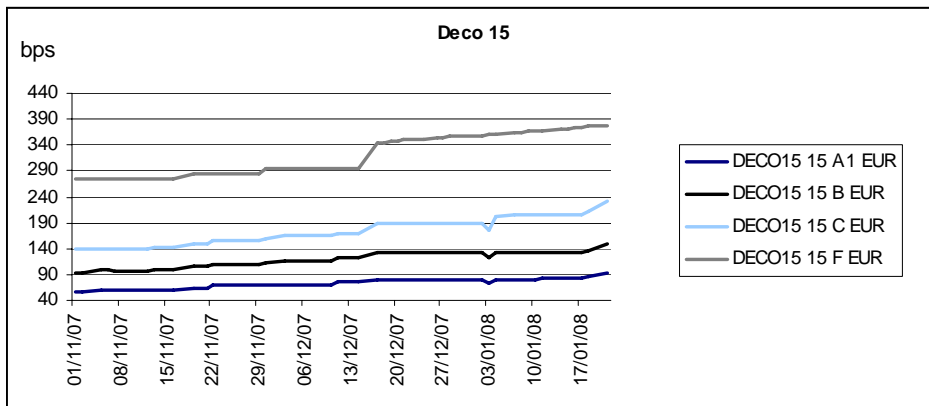
ABS Losers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMAST06-3 2006-3 C3 EU	Granite Master Issuer plc 2006 3	XS0268039699	464.273	20.34	BBB	PRMBS	4.777
GRANMAST07-1 2007-1 3A2 EU	Granite Master Issuer plc 2007 1	XS0284071908	109.218	12.63	AAA	PRMBS	3.591
GRANMORT04-1 3 A GBP	Granite Mtgs 04 1 Plc	XS0184565249	95.41	8.46	AAA	PRMBS	1.053
GRANMORT04-2 3 A GBP	Granite Mtgs 04 2 Plc	XS0193218350	97.263	3.7	AAA	PRMBS	3.409
GRANMORT04-3 3 A1 GBP (2)	Granite Mtgs 04 3 Plc	XS0201486320	96.391	3.7	AAA	PRMBS	3.135
ABS Gainers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
HOLMMAST07-2 2007-2 3A2 EU	Holmes Master Issuer PLC 2007 2	XS0302983068	57.653	-6.44	AAA	PRMBS	3.494
LOTHMORTMAST 2006-1 A2 EU	Lothian Mtgs Master Issuer PLC	XS0254003725	56.713	-6.41	AAA	PRMBS	2.824
CAALF 2006-1 A1 EUR	Cars Alliance Auto Lns France FCC	FR0010385625	56.563	-5.81	AAA	Auto Loan	3.57
FOSM 2006-1 A3 EUR	Fosse Master Issuer plc	XS0274289759	58.598	-5.24	AAA	PRMBS	3.5
HERMESV 1 B EUR	HOLLAND EURO DENOMINATED Mtg BACKED Ser HE	XS0157784074	93.012	-4.98	AA	RMBS	3.018

The auto loan sector remains constant with all ABS investors waiting to see where the new Driver deal (Driver 5) will price in the coming days. By way of background, Driver 4 comprised 85,854 loan receivables resulting from vehicle loans extended to corporate and private clients by Volkswagen Bank in Germany.

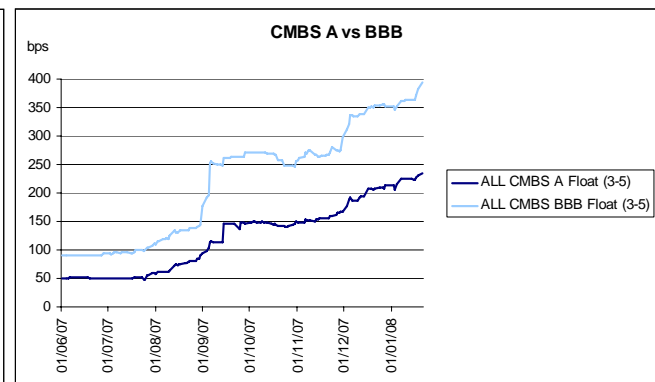
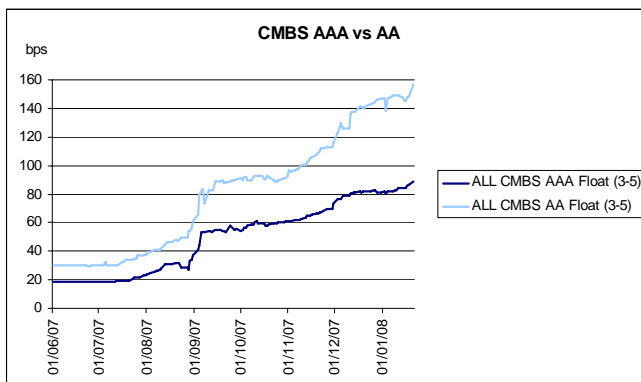
Despite the lack of activity in the primary market, Deco 17 Pan European 7 is being remarketed. This deal was first priced first at the end of December 2007:

DECO 17 Pan Europe 7 Ltd				DECO 15 Pan Europe 6 Ltd			
Notes	Rating	Amount (€M)	Margin (bps)	Notes	Rating	Amount (€M)	Margin (bps)
A1	AAA	750	55	A1	AAA	698.5	16
A2	AAA	212	85	A2 + A3	AAA	449	20
B	AA	88	125	B	AA	87.8	30
C	A	104.6	175	C	A	89.3	50
D	BBB	44	185	D	BBB	57.55	80
E	BBB	19	210	E	BBB	21.75	85
F	BBB	18	295	F	BBB	21.95	130
G	BB	13.53		G	BB	19.5	325

The last Deco deal was issued in June 2007 and the most senior tranche was priced at 16 bps. The new deal, despite a margin of 55 bps for the most senior AAA, has a massive credit enhancement of 40 %. Spreads for Deco 15 were much wider than the remarketed levels:



Sector analysis shows that spreads are reflective of potential defaults in the CMBS sector. As highlighted in previous weeks, the value of commercial property has decreased sharply over the last four months. According to Property Data, the value of commercial property transactions fell from £15bn in the third quarter of 2007 to £5.5bn in the fourth quarter. In London, the value of transactions fell by £5.7bn during the same period.



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Markit CMBX remains a good indicator of the US CMBS market. The spread widening we have seen since the beginning of the year may well impact European spreads in the coming weeks.

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