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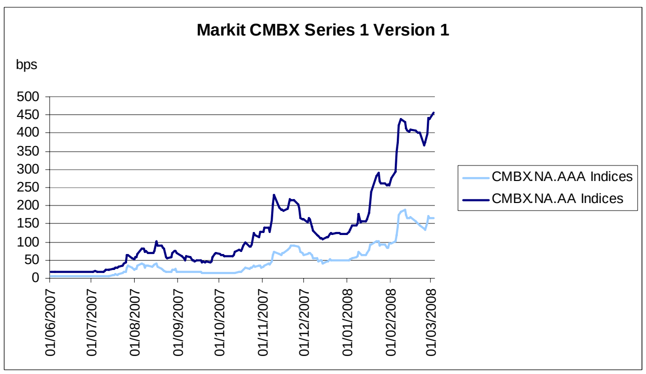
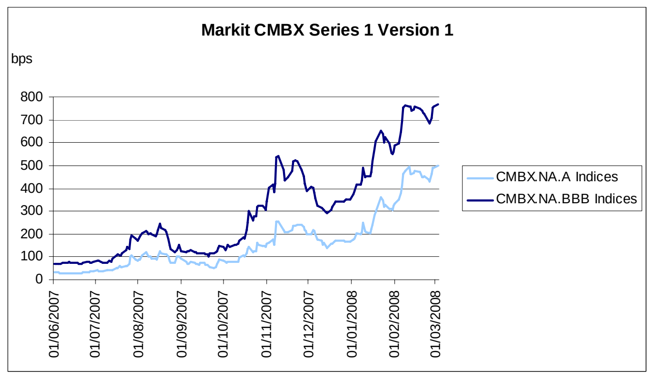
The French RMBS Market

A Week in Review: 26 February – 05 March 2008

Last week did not bring much in the way of an improved outlook for the ABS markets.

Goldman Sachs' forecast that the U.S. commercial property market - which has already lost around 5% of its value in the last year - would lose a further 21% to 26% of its value over the next two years caused CMBX spreads to widen sharply. Each of the indices are now back at their peak levels in January this year and have reached new wides in most cases:





In the UK, Nationwide said house prices fell by 0.5% in February - the fourth consecutive monthly decline - bringing the annual rate of house price growth down to 2.7%. It is widely believed that we are approaching a year-on-year growth of 0%.

In the European ABS secondary markets, there have been few improvers over the last month. Amongst the deteriorators this week, there are a number of Spanish securities:

ABS Losers

Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
BANKINTER10 10 A2 EUR	Bankinter 10 Fondo de Titul de Activos	ES0313529010	166.106	44.18	AAA	RMBS	5.64
BANCAJA8 1 A EUR	BANCAJA 8 FONDO Titul ACTIVOS	ES0312887005	164.465	40.72	AAA	RMBS	5.544
BER5 6 A2 EUR	Berica 6 Residential MBS Srl	IT0004013790	124.065	27.54	AAA	RMBS	5.264
TDA-CAM7 7 A2 EUR	TDA CAM 7 Fondo de Titul de Activos	ES0377994019	128.405	27.29	AAA	RMBS	5.692
SAGRES-DOURM1 1 A EUR	SAGRES Sociedade Titularizacao Creds SA Douro Mtg 1	XS0236179270	124.73	25.62	AAA	RMBS	4.535

The following deals came to market this week:

Name	Country	Sector
European Loan Conduit no 29	Pan European	CMBS
Madrid Activos	Spain	CLO
Themeleion V Mortgage Finance	Greece	RMBS
UCI 18	Spain	RMBS

If we look at the French securitisation market, it is clear it is increasingly affected by the current real estate crisis. According to the Fédération Nationale de l'Immobilier (FNAIM), the number of mortgages provided by banks has decreased dramatically in the last couple of months despite the fact that French banks are not turning to securitisation techniques for residential mortgages – unlike other European countries. Prices for both houses and flats decreased by 0.8% in January with the latter bearing the brunt of the decrease. Year-on-year growth is currently estimated at 3.4%. If this turns out to be the case, it would be by far the lowest year-on-year growth since the beginning of 2002:

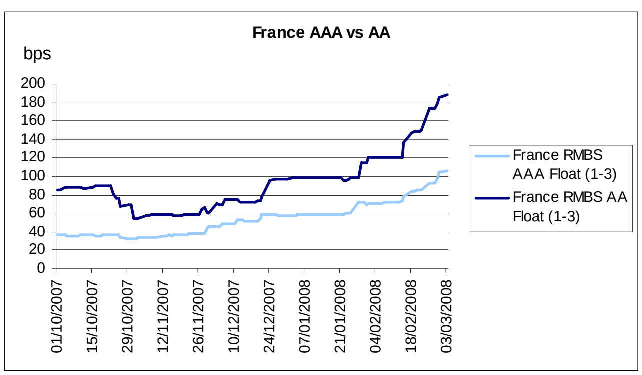
	Appartment (y-o-y in %)	House (y-o-y in %)	Total (y-o-y in %)
2003	16.4	11	14
2004	17.8	12.5	15.5
2005	11.1	10.5	10.9
2006	7.2	7.2	7.2
2007	3.1	4.3	3.6
Jan-08	2.9	4	3.4

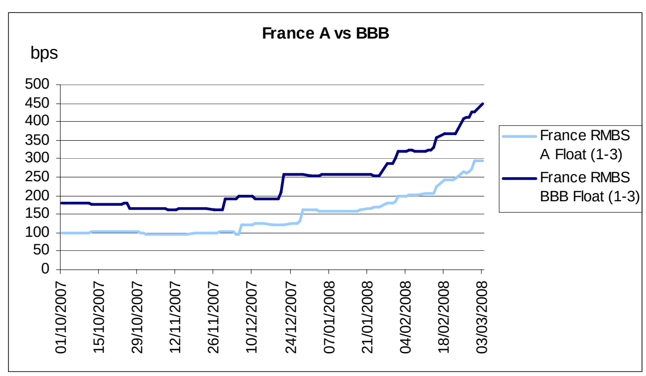
Few RMBS deals have been priced in France in recent years. Of those that were priced, the majority were issued from the French Residential Assets programme which Calyon lead manages. From 2004 to 2006, five transactions were issued totalling €1.3bn.

The most active French issuers are listed below:

Issuer	
AMAREN	French Residential Asset PLC
Carlyle Europe Real Estate Partners	Hexahome plc
Domos	MASTERDOMOS
ELECTRA 1	Powerhouse Fin
FCC LOGGIAS	Provide Mtg Lns France plc
FCC Minotaure	TITRILOG
France Titrisation Domos FCC	

Mortgage lenders in France lend primarily to low risk households which explains why the delinquency rates within securitised deals have been some of the lowest in Europe. This is reflected in current French RMBS spreads which remain among the tightest in Europe, despite the recent widening,





The current credit crisis may stem from US residential delinquencies, but a second wave of bad news is now washing over us in the form of negative data relating to personal debt (credit cards/student loans) and corporate debt (commercial properties).

If US delinquencies continue to increase, there is no question that the credit markets will remain volatile and further losses may push the global economy into recession. The Fed's recent rate cuts could potentially help lift the financial markets out of the present slump, but only time will tell how long it will be before these actions have a positive impact.

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