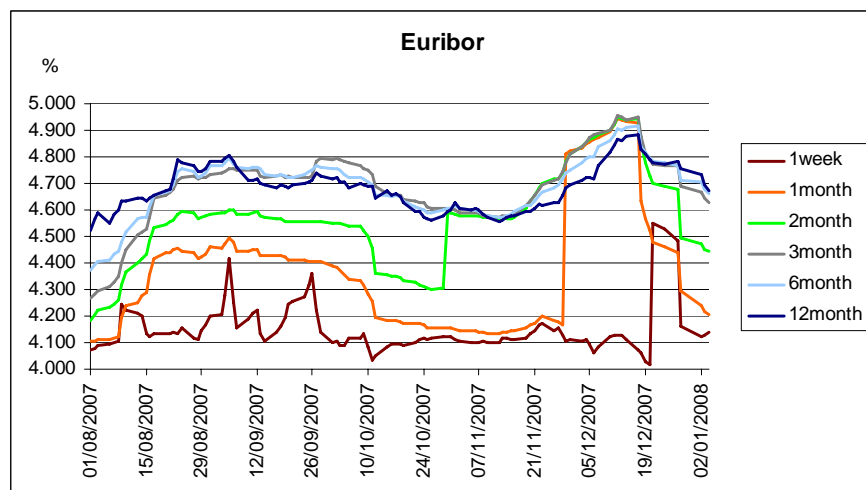


The UK Prime RMBS Market

A Week in Review: 02 – 09 January 2008

Inflation has become the most talked-about macro-economics issue of the moment. With hindsight, the limited amount by which the Bank of England and the European Central Bank decreased their rates appears to have been the best strategy to adopt, especially since the shrinking difference between the inter-banks rate and the central banks main rate is relieving pressure on the liquidity situation. Thanks to the strategies they adopted last year, European central banks have a number of options opened to them to manage inflation in the coming months.



In the UK property market, the commercial property sector is in the spotlight for all the wrong reasons. 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. In London, the value of transactions fell by £5.7bn during the same period. The lack of cheap financing on the securitisation market is obviously partly to blame. Also to blame are the lack of demand for residential properties and the poor results from housebuilders such as Persimmon, Redrow, Bovis and Bellway.

In Spain, Colonial, a highly leveraged property developer, lost half of its market capitalisation during the Christmas break because of the credit turmoil. Two other Spanish developers, Astroc Mediterraneo and Llanera, saw their capitalisation dramatically reduced at the end of last year. This situation is putting direct pressure on the Spanish property market in terms of house prices and financing for both homeowners and private companies.

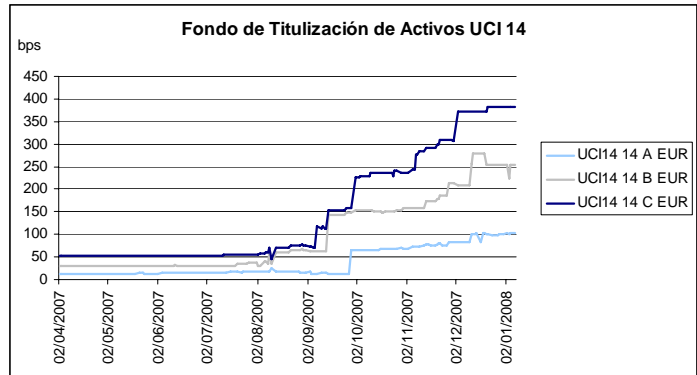
ABS Deteriorators							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
GRANMORT04-3 2 A2 EUR (2)	Granite Mtgs 04 3 Plc	XS0201483228	78.508	6.71	AAA	PRMBS	1.068
PERMAN7 3 A EUR	Perm Fing NO 7 PLC	XS0215348896	62.5	4.82	AAA	PRMBS	2.057
UCI14 14 A EUR	Fondo de Titul de Activos Uci 14	ES0338341003	100.487	4.47	AAA	RMBS	3.599
HOLMMAST07-2 2007-2 3A2 EU	Holmes Master Issuer PLC 2007 2	XS0302983068	62.378	2.67	AAA	PRMBS	3.535
PMIP06-1 2006-1 4B EUR	Perm Master Issuer plc 2006 1	XS0270510810	119.568	1.71	AA	PRMBS	3.772
ABS Improvers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
ARRANRES2 2 A3c EUR	Arran Residential Mtgs Fdg No 2 plc	XS0267362266	59.938	-0.27	AAA	PRMBS	3.053
FOSM07-1 2007-1 A3 EUR	FOSSE MASTER ISSUER PLC SERIES 20071	XS0312388548	66.229	-0.05	AAA	PRMBS	4.463
FOSM 2006-1 A3 EUR	Fosse Master Issuer plc	XS0274289759	63.176	-0.04	AAA	PRMBS	3.538
HOLMMAST06-1 3 A2 EUR	Holmes Master Issuer PLC 2006 1	XS0275492683	58.249	-0.04	AAA	PRMBS	2.778
HOLMMAST07-1 2007-1 3A2 EU	Holmes Master Issuer PLC 2007 1	XS0292750253	64.265	-0.03	AAA	PRMBS	3.274

Despite the very low trading activity during the Christmas period, our Top 5 is still representative of the market with only a limited number of improvers and a more important number of deteriorators. The presence of Fondo de Titulización de Activos Uci 14 in our deteriorators gives us the opportunity to analyse briefly where is the Spanish market.

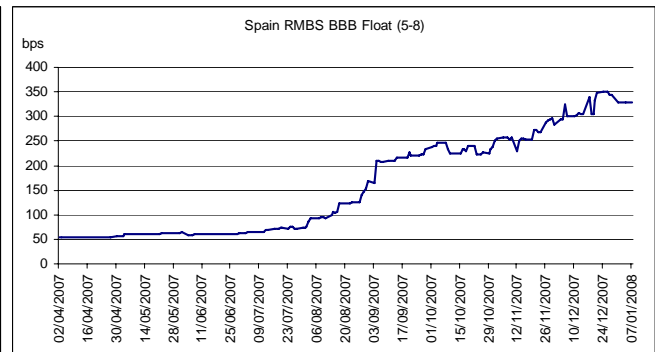
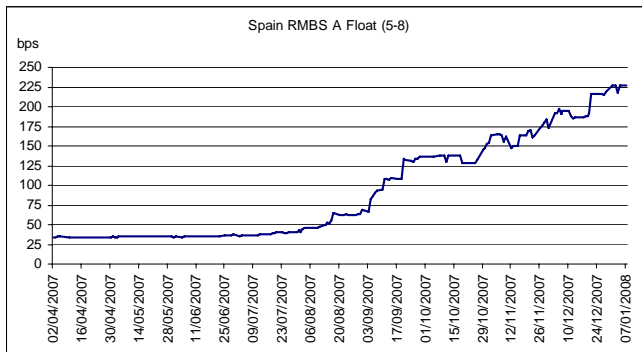
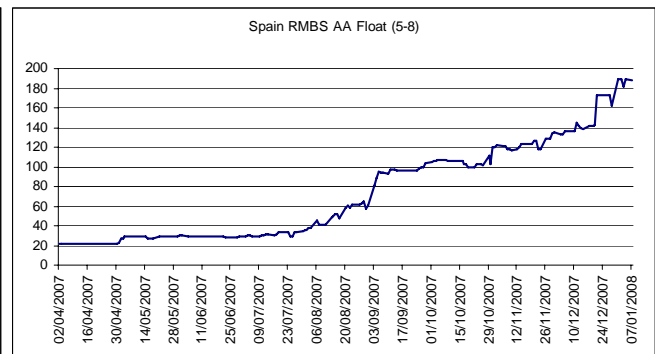
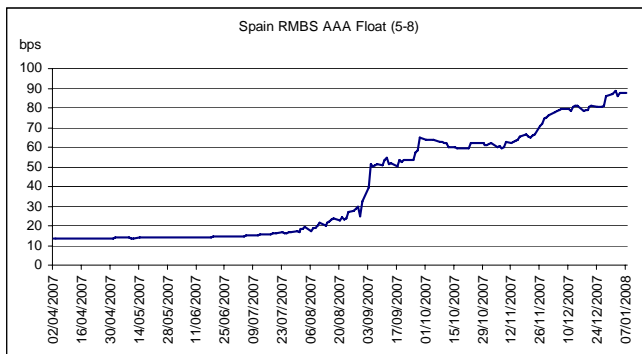
Despite its important portfolio diversification, 11,800 mortgages and a very low LTV at 65%, the three securities from this issuance are now traded at much wider levels than before.

The AAA notes have, for example, a spread twice as wide as the BBB notes at the time of the issuance:

	Coupon	Sector	AVRATING
UCI14 14 A EUR	15	RMBS	AAA
UCI14 14 B EUR	29	RMBS	A
UCI14 14 C EUR	58	RMBS	BBB



From a sector perspective, all the Spanish tranches saw a jump during the Christmas break mainly because of the current worrying state of the Spanish property market. Despite the fact that so far only property developers have been impacted by the slowdown, it is feared that a large number of households could suffer the same effects.



According to the Halifax House Price Index published today, house prices increased by 1.3% in December following three successive monthly falls. This will only be of limited comfort to ABS investors. Indeed, the annual increase of 5.2% for 2007 makes it only the second year since 2001 when prices have risen by less than the long-term average of 8%.

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