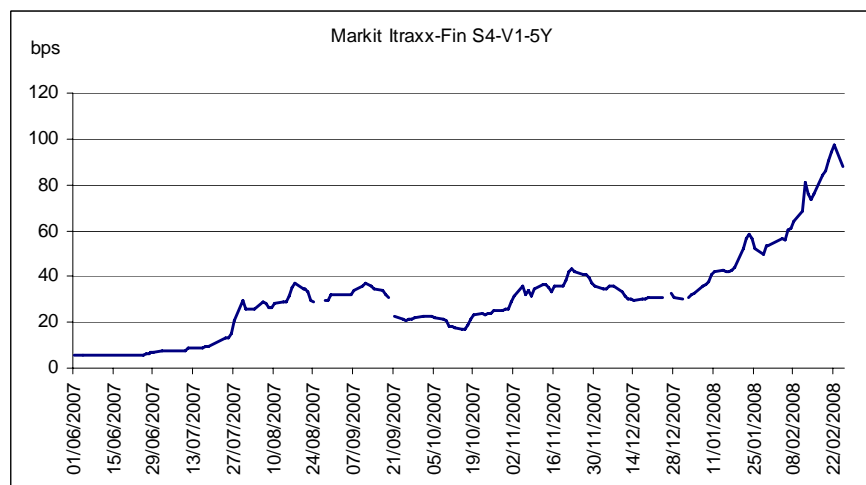


The UK PRMBS Market

A Week in Review: 19 – 26 February 2008

Financial institutions dominated the news last week, with Northern Rock's Granite mortgages taking centre stage. Widespread concern was voiced over the possibility of only low-quality mortgages remaining on Northern Rock's balance sheet with prime mortgages going to their Granite SPV. UBS and HSH also made the headlines over a CDO investment that turned sour, a case that could very well open the floodgates for other investors to sue originators. In addition, Credit Suisse announced losses stemming from discrepancies in pricing ABCDS instruments.

Unsurprisingly, the spreads of financial institutions widened on the back of the news as illustrated by the Markit iTraxx Financials graph below:



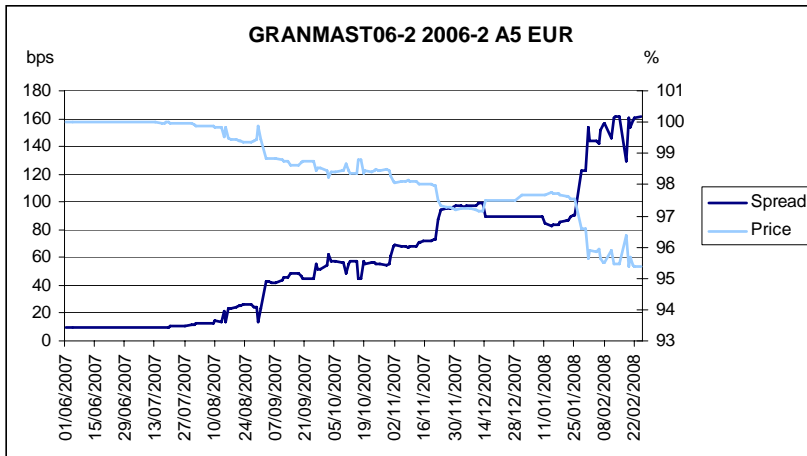
Spreads in the ABS markets are also widening, driven by the single name ABCDS market despite liquidity conditions improving in the cash market. Once again, there were no gainers last week. The five worst performers were:

ABS Losers							
Short Name	Name	Isin	Spread	Change	Rating	Sector	Avg Life
HERMES12 XII A EUR	Holland Mtg Backed Ser Hermes XII BV	XS0271028838	83.011	8.96	AAA	RMBS	4.92
BANCAJ10 10 A2 EUR	BANCAJA 10 Fondo Titul Activos	ES0312872015	136.091	8.25	AAA	RMBS	4.614
IMCAJA4 4 A EUR	IM Cajamar 4 Fondo de Titul de Activos	ES0349044000	122.256	7.95	AAA	RMBS	5.782
GRANMAST06-2 2006-2 A5 EUR	Granite Master Issuer plc 2006 2	XS0252421499	158.604	6.09	AAA	PRMBS	3.268
GRANMAST05-4 2005-4 A6 GBP	Granite Master Issuer plc 2005 4	XS0229614465	151.793	3.92	AAA	PRMBS	4.486

Liquidity is improving in the ABCDS market, especially the UK prime market and securities from programmes such as Granite, Permanent and Arkle. Investor interest currently hinges on shorting the ABS market and ABCDS provides investors with an efficient way to take two-way positions and execute trades without the need for huge cash outlays (if there is no shortfall or write-down regarding the protection seller).

Due to the theoretical correlation between cash and synthetic ABS, spreads in the cash market are being driven to record levels despite no negative rating outlooks or unusual delinquencies on these deals.

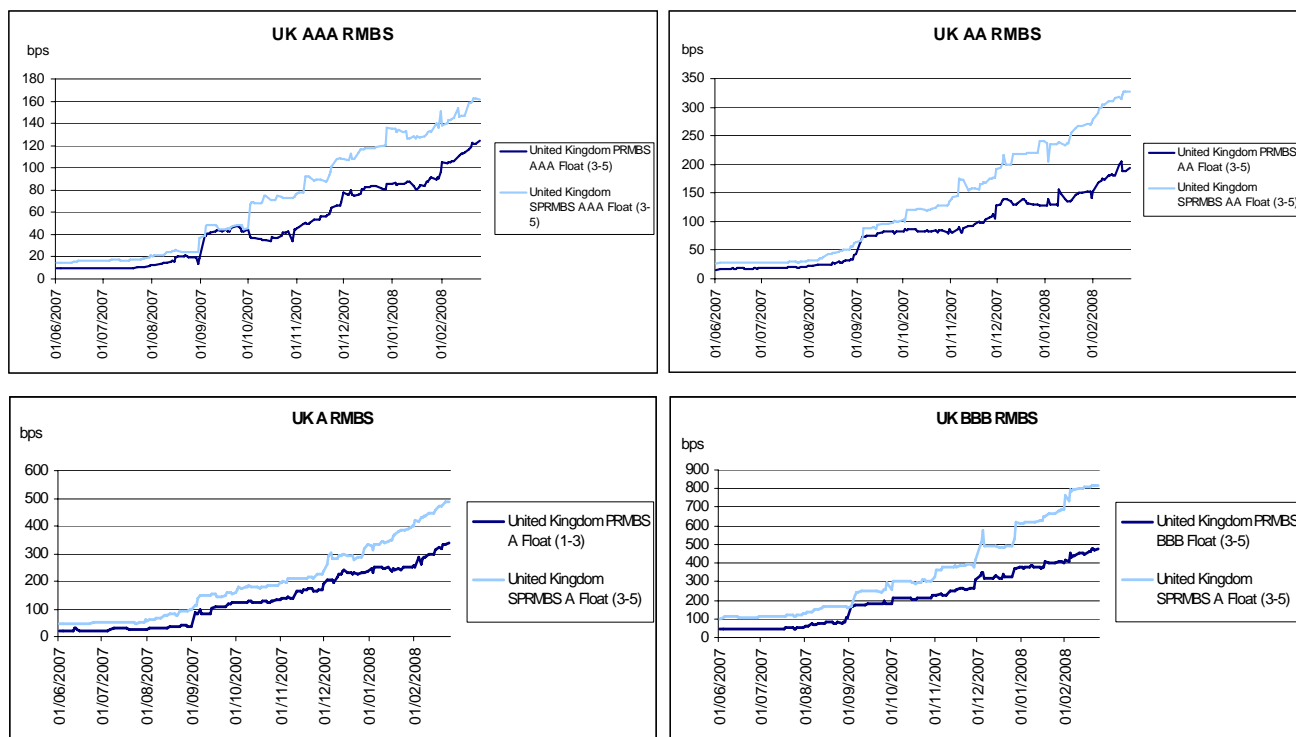
In terms of clean price, it is now possible to take cash exposure to AAA UK Prime ABS at 95% value of the principal with a credit enhancement of around 14% for this level.



As of December 2007, the credit enhancement within the Granite Master Trust for the senior tranches was greater than that requested by the rating agencies:

Class	Current Subordination (%)	Requested Subordination (%)
A	12.48	11.6
B	9.15	8.3
M	5.76	5.11
C	1.78	1.85
Programme reserve required amount		1.78
Excess spread during last period	0.08	

We note that spreads on the UK prime and sub-prime markets as a whole have been widening dramatically since the beginning of the year:



Only two deals were priced and publicly placed last week:

Driver One (UK collateral), the second so far for Volkswagen Financial Services this year; and

E-Mac Program III with Compartment NL 20081-1 (Offering Circular available on www.markit.com):

E-MAC Program III NL 2008-I	Amount (mn)	Margin (bps)
A1	72.5	89
A2	160	110
B	7.5	200
C	3.9	250
D	6.1	450
E	3.4	
Driver UK One	Amount (mn)	Margin (bps)
A1	265	70
A2	296	70
B1	20	160
B2	28.5	160
Reserve Fund	53	
Driver Four (Priced in Januray 2008)	Amount (mn)	Margin (bps)
A	1,214	58
B	40.6	140
Reserve Fund	26	

The improvement of activity on the primary market and of liquidity on the secondary market could be seen as an improvement for the ABS industry compare to January where the activity has been at its lowest for years.

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