

# The European ABS Market

## A Week in Review: 03 – 10 December 2009

### European ABS Sectors

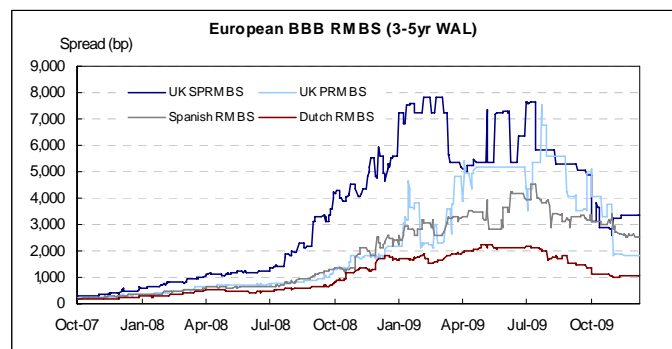
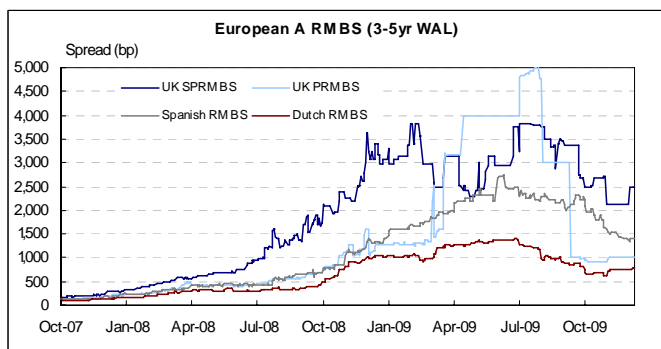
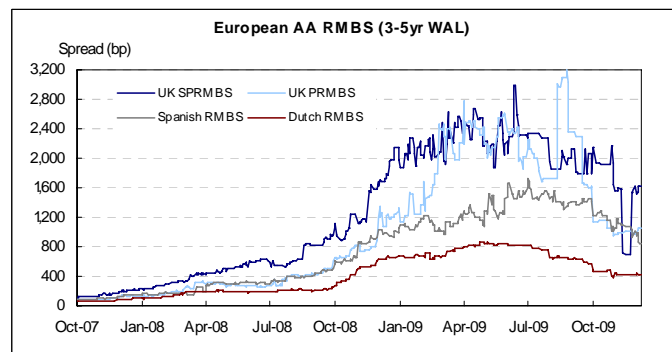
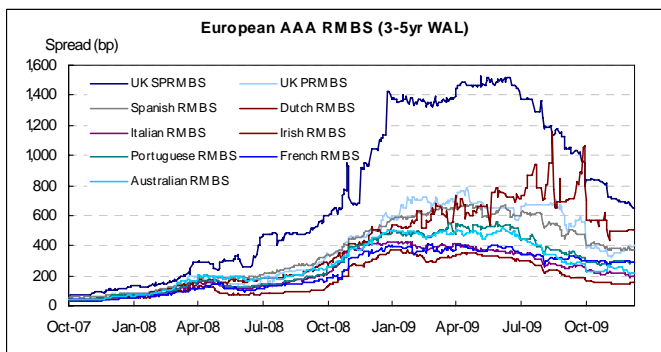
Following the call of Leek 14 three weeks ago, last week Fortis decided to call Delphinus 2003-1 and 2004-2 and Beluga 2006-1 A1. Fortis's decision was an interesting move and was not expected. A similar call was cancelled a month and a half ago. Directly after this call, all of the other Delphinus deals tightened and were priced to call by most dealers.

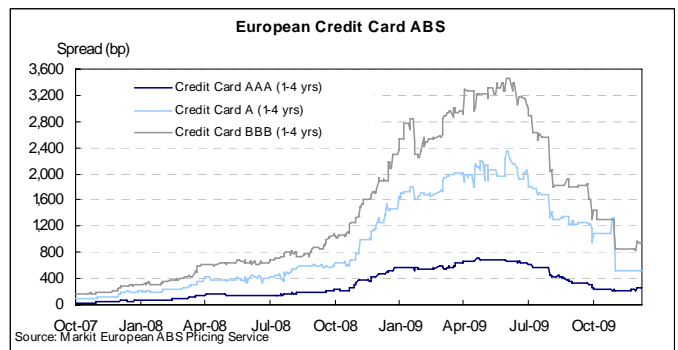
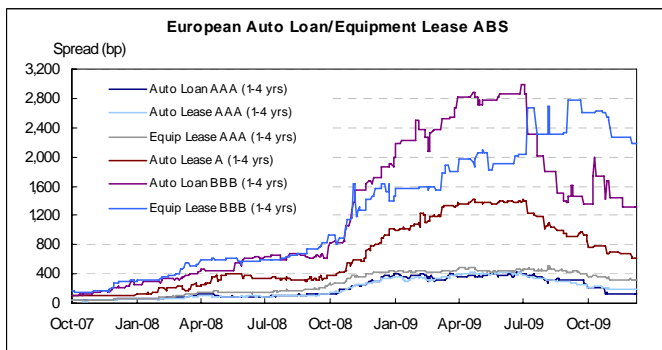
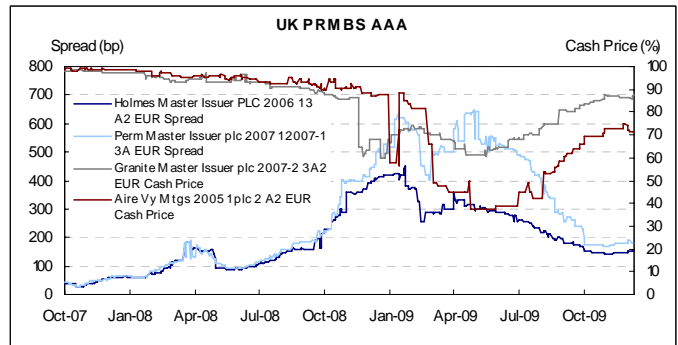
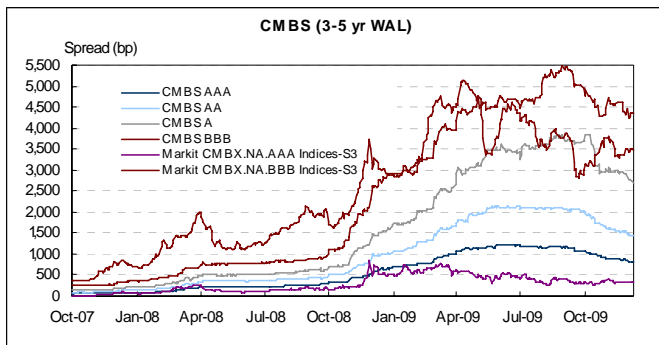
With the public issuance of the senior tranche (A1, A2) of Arena 2009-1, the Dutch RMBS market remained at the centre of attention. This issuance was a success since the A1 and A2 tranches were priced at 110 and 140 basis points, respectively, and then tightened rapidly to 100 and 130 basis points, respectively.

Granite saw some improvement as its cash price increase by 2 cents over the last two weeks from 86 to 88 cents.

The Dutch and UK Prime RMBS tightened from a global point of view.

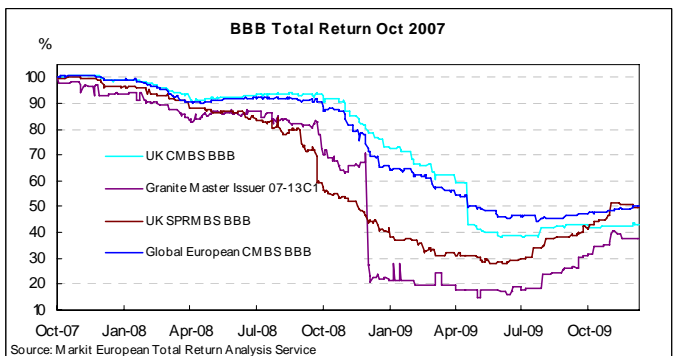
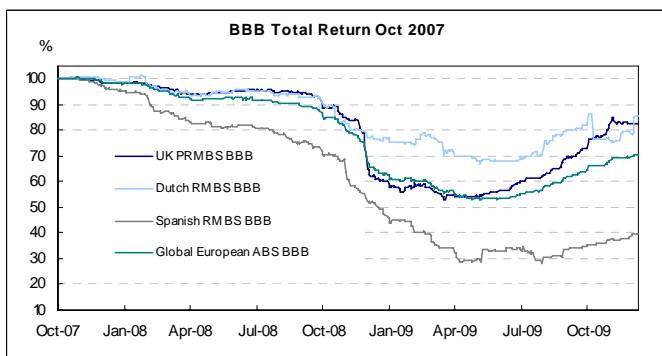
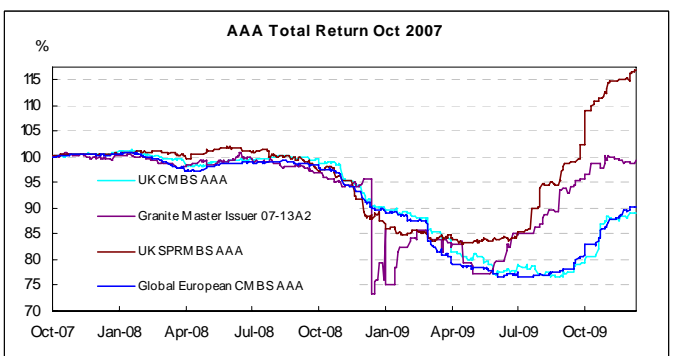
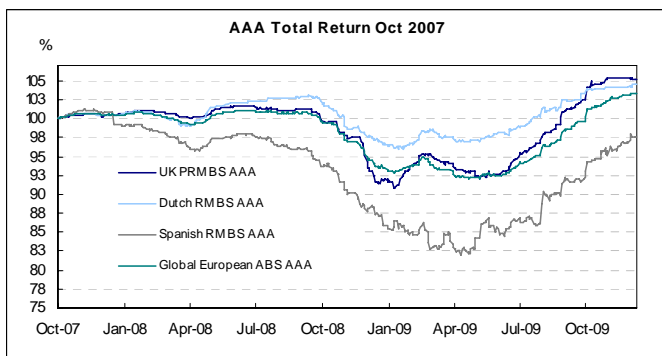
The main analytical challenge for 2010 will not be predicting whether the housing and commercial property market will recover, as we have already seen some rebound, but analysing the balance sheets of issuers. Are the issuers financially strong enough to call or initiate tender offers regarding their associated deals, especially if the securities targeted are currently priced at significant discounts or distressed levels?

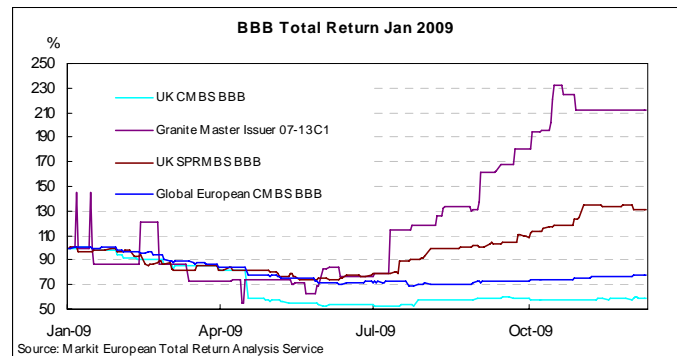
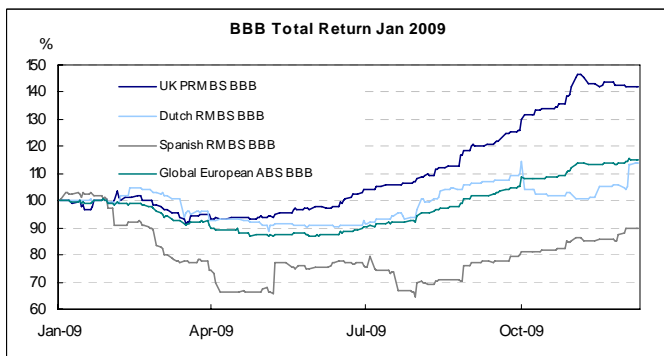
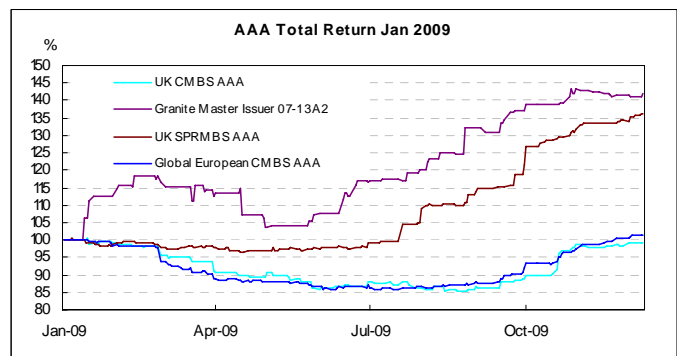
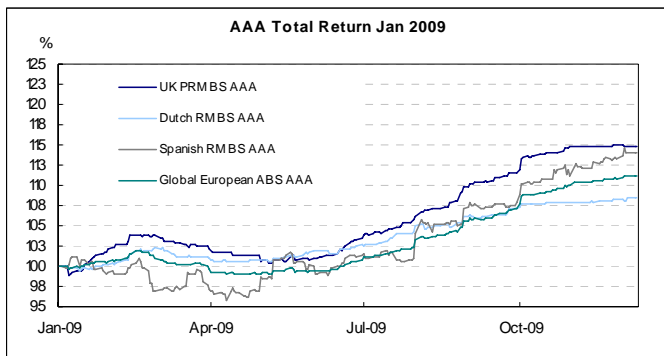




## European Total Return

The global cash price improvement over the last two weeks is clearly still outperforming the deterioration of the underlying assets.





### European CDS of ABS

Despite the focus on the cash market, we are still seeing activity on the European CDS of ABS market. Among the most liquid are UK Prime and Dutch RMBS, 30 basis points negative basis is still the average.

Granite Triple As recovered by 1.5 cents from 4.5 to 3 cents PUF. Even by adjusting the Granite cash coupon to the 50 basis points running fee of the CDS, the difference between cash and synthetic levels on this name remains significant.

Deal Name	Series	Class	Currency	Isin	Levels (24Nov09)	Levels (10Dec09)	Cash Levels	Basis	Duration	WAL
Arkle Master Issuer plc Series 2006-2	2006-2	3A2	EUR	XS0277508692	100	90	140	-50	1.66	1.87
Delphinus 2006-1 B.V.	2006-1	A	EUR	XS0256323972	100	90	140	-50	2.22	2.53
Permanent Master Issuer plc Series 2007-1	2007-1	3A	EUR	XS0288090342	130	120	165	-45	2.32	2.66
Gracechurch Mortgage Financing plc 2007-1	2007-1	3A2	EUR	XS0302999064	100	115	150	-35	2.51	2.76
Holmes Master Issuer PLC Series 2007-1	2007-1	3A2	EUR	XS0292750253	100	80	125	-45	1.81	2.00
Granite Master Issuer plc Series 2007-2 Notes	2007-2	3A2	EUR	XS0298974840	4.5 (%) + 50dm	3 (%) + 50dm	88 (%)	-8 (%)	2.83	1.91
Bankinter 14, Fondo de Titulizacion Hipotecaria	14	A2	EUR	ES0313271019	180	160	320	-160	3.59	4.46

### Biggest Movers

We are set to end 2009 with only improvers. The real question is: Will we enter 2010 with a similar positive atmosphere for long investors?

Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)
Leek Fin No Sixteen PLC	1	A2b	USD	XS0232825934	638	-12.50	AAA	SPRMBS	1.7
Leek Fin No Sixteen PLC	1803	A2a	GBP	XS0232823483	638	-12.50	AAA	SPRMBS	1.7
Intesa Sec 3 Srl	3	A3	EUR	IT0004180292	137	-12.02	AAA	RMBS	4.8
Perm Fing NO 7 PLC	3	A	EUR	XS0215348896	157	-6.28	AAA	PRMBS	0.3
Cordusio RMBS 3 UBCasa 1 Srl	3	A2	EUR	IT0004144892	154	-6.09	AAA	RMBS	5.0

## Primary Market and Rating Actions

As previously mentioned, Arena 2009-1 A1 and A2 tranches were publicly placed. This brings the number of publicly placed deals during this quarter to four, following Permanent 2009-1, Silverstone 2009-1 and VCL 11. These issuances were all successful since the publicly placed tranches of these deals are still traded at a premium. For many investors the re-opening of the primary market during the last quarter of 2009 is a stronger sign that the European ABS market is recovering than the tightening trend experienced since May of this year.

Primary Market (Source: Markit European ABS Performance)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Arena 2009-1	Dutch RMBS	A1	AAA	110	189
		A2	AAA	140	644
		B	AA	240	23
		C	AA	340	21
		D	A	440	18
		E	BBB	490	5
		F	n.r	540	5
BAA Funding	UK/ABS	A	A -	285	259
Goldfish Master Issuer 2009-V	Dutch/RMBS	A1	AAA	72	550
		A2	AAA	65	1,002
		A3	AAA	72	550
SC German Auto 2009-1	German/Auto Loan	A	AAA	90	945
		B	A	140	55
TDA Empresas 1	Spanish/SME CLO	A	AAA	30	215
		B	B	150	61
Wolfhound Funding 2 Ltd	Irish/RMBS	A	AAA	12	2,821
		B	n.r	80	279
Vela Mortgages 2	Italian/RMBS	A	AAA	30	2,010
		B	AA	50	64
		C	BBB	110	64

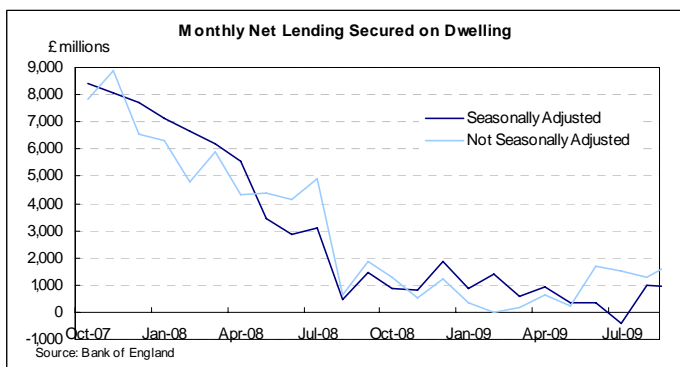
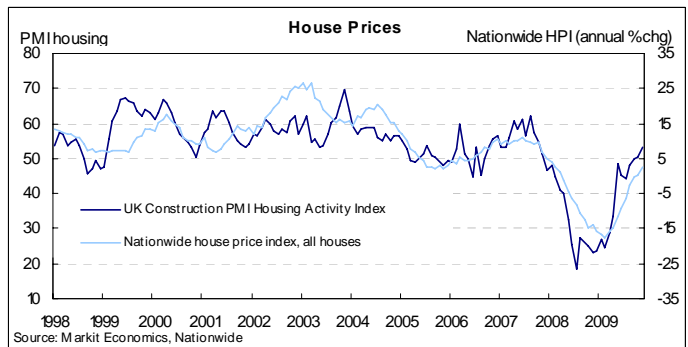
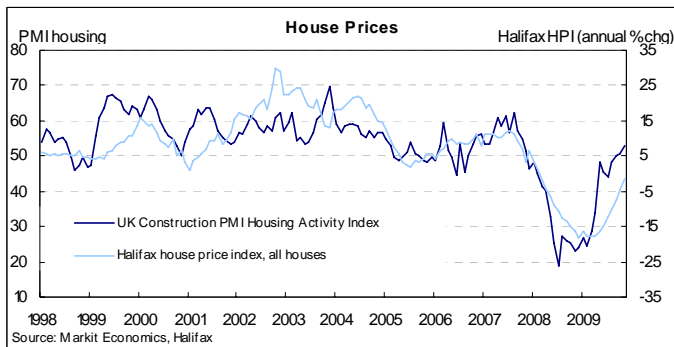
Deals Affected by Rating Actions (Source: Markit European ABS Performance)		
Deal	Country/Sector	Action
BBVA Leasing 1	Spanish/ABS	Downgrade
Celtic Residential 12	Irish/RMBS	Downgrade
Cornerstone Titan 2005-1	UK/CMBS	Downgrade
DECO 5	UK/CMBS	Downgrade
DECO 9 Pan Europe 3	UK/CMBS	Downgrade
European Loan Conduit 22, 24	UK/CMBS	Downgrade
Immeo Residential Finance 2	German/CMBS	Downgrade
Leek Finance 19	UK/SPRMBS	Downgrade
Ludgate Funding Series 2006	UK/SPRMBS	Downgrade
MESDAG	UK/CMBS	Downgrade
Newgate Funding 2006-1, 2006-2, 2006-3	UK/SPRMBS	Downgrade
Talisman Finance 1, 5	UK/CMBS	Downgrade
TDA 24	Spanish/RMBS	Downgrade
TDA CAM 5, 6, 7, 8, 9, 10	Spanish/RMBS	Downgrade
Titan Europe 2006-2	UK/CMBS	Downgrade
Windemere VIII CMBS	UK/CMBS	Downgrade

## Statistic

The Nationwide year-on-year Housing Index is now showing growth of 2.7% as the month-on-month Housing Index reached 0.5% in November. The Halifax year-on-year Housing Index remains negative at -1.6%, but we saw a 1.4% jump regarding the month-on-month index in November. At this rate, both indices should show a positive year-on-year growth in December and close the year with a positive note.

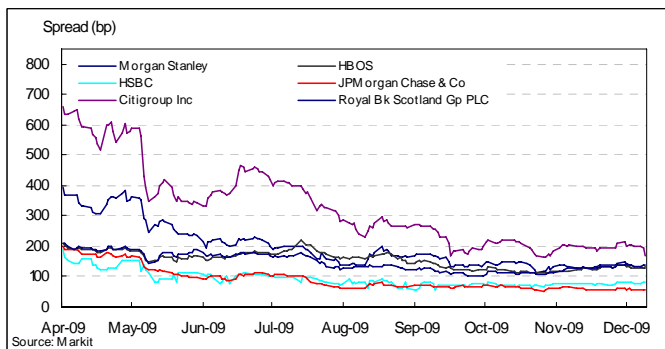
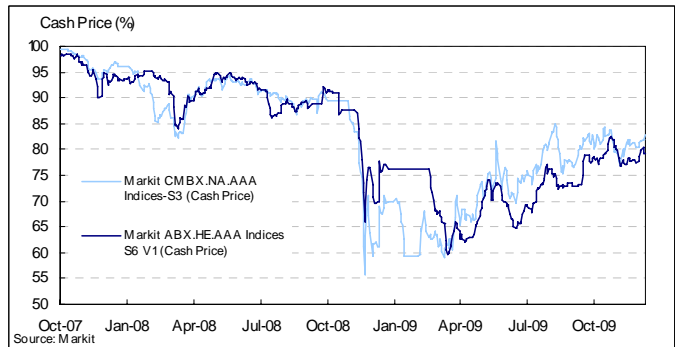
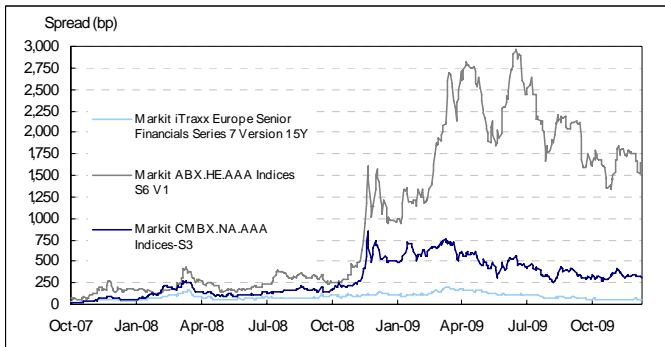
The Markit Construction PMI Index deteriorated in November to 47.0; however, the commercial and housing activities are still driving the index up. The commercial construction sub index is at 46.1 while the housing construction sub-index is showing a significant improvement at 53, which is the third consecutive month over the neutral point of 50.

Finally, for October 2009 the total net monthly lending secured on dwelling was £1.25 billion, while the seasonally adjusted figure reached £922 million, according to the BoE Monetary and Financial Statistics report.



## Financials and the US ABS Market

Despite no major announcements on the U.S. housing market, but better than expected payroll numbers for November, Markit ABX and CMBX have both improved slightly over the last two weeks. CDS on financials were also stable until this week's announcement by the UK Chancellor to increase taxes on bonuses. Ironically, the bank whose CDS has been the most affected by this action is RBOS, which is almost wholly-owned by the UK government.



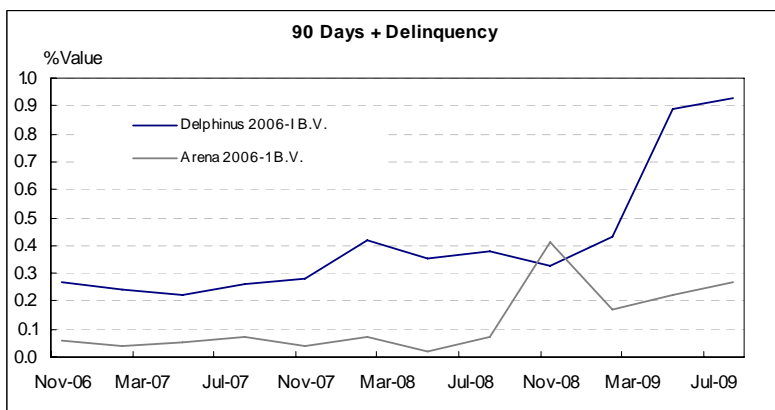
## ABS Performance Highlight: Dutch RMBS

Some well received good news across the securitisation markets came out over the last week, in this instance from Holland. First, Fortis Bank announced the redemption of a number of bonds within the Delphinus and the Beluga structures. This was followed by news of another public issuance coming in the form of Arena 2009-1, a €904.5 million deal with two tranches offered publically.

More general news in Holland saw the government raise the expectations for the economy. The Dutch central bank now predicts the economy to grow 0.7% in 2010<sup>1</sup>, different from the previously forecasted contraction for 2010. With this improved forecast coming out of Holland, we review the performance of two deals from the structures mentioned above.

Delphinus 2006-1 was issued in September 2006 for a value of €3.3 billion and an initial LTV of 102.38 percent.

Arena 2006-1 was issued in March 2006 for a value of just over €1 billion and an initial LTV of 90.20 percent.



<sup>1</sup> <http://www.rttnews.com/Content/EuropeanEconomicNews.aspx?Node=B2&Id=1150695>

Delinquency levels when compared to the rest of Europe are very small, we see that Delphinus has had a steady increase over time and a recent larger jump. However, with the level as of the August report date at 0.93 percent, it is not of great concern. Arena has had a very low level of delinquencies over time and with the current rate of 0.265 percent as of the August report date, it does not look like it is increasing significantly.

The reserve fund for Delphinus still lies at €29,700,000 which is 0.92 per cent of the outstanding balance of the pool, so there is still a good layer of credit protection to losses, which have only amounted to €2,629,558 to date. Protection from the reserve fund for Arena lies at €5,000,000, equating to 0.55 percent of the outstanding balance of the pool, which up to now has been sufficient enough cover for a deal which has only had €71,755 in losses.

The performance of the Dutch mortgage loans continue to show that of good credit quality. They continue to outperform when compared to other European regions and this is further shown in the interest of new Dutch issuance. The main concern for investors has been the possible extension risk with some issuers not being able to call the notes. However, the news from Fortis may go a way to allay these fears.

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