

The European ABS Market

A Week in Review: 02 – 14 January 2010

European ABS Sectors

The European cash ABS levels remained stable through the end of 2009. Many investors were waiting to see how 2010 would start before taking action. So it is not surprising that the two first weeks of 2010 have been very active. Furthermore, almost all securities, no matter the asset class, rating or country have tightened.

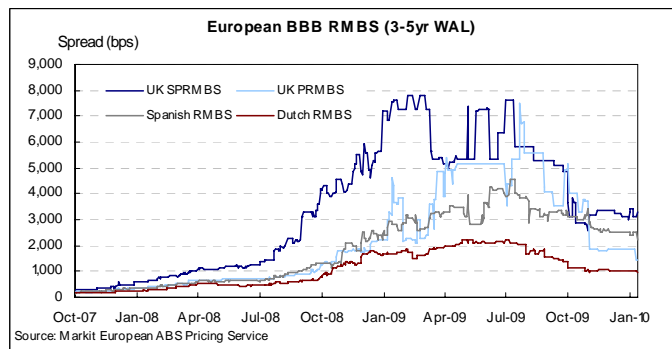
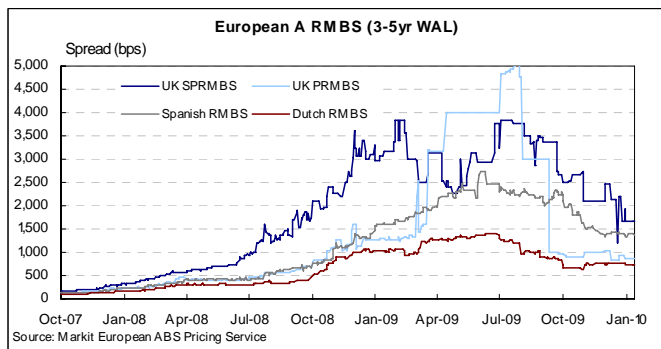
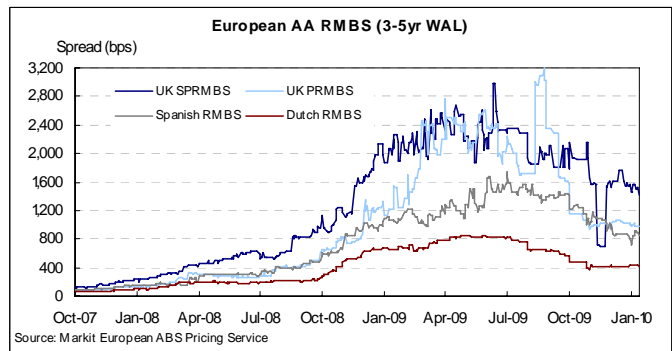
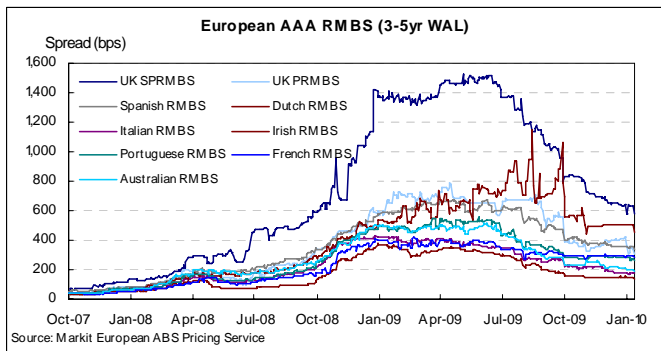
Granite AAA's, for example, are now priced at 92.00 which corresponds to a spread of ~250 basis points; which is almost 4 points higher than for mid-December 2009.

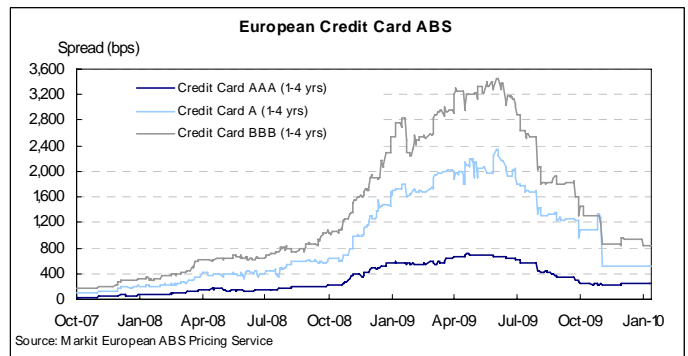
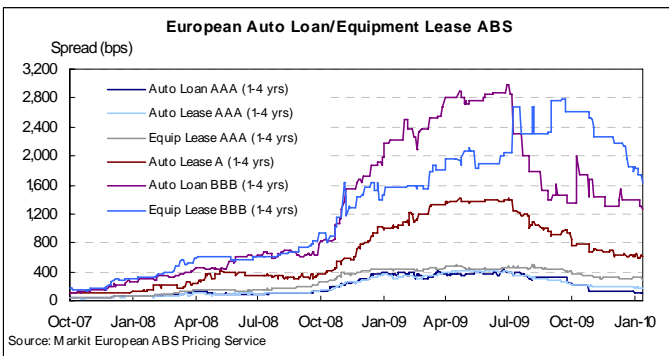
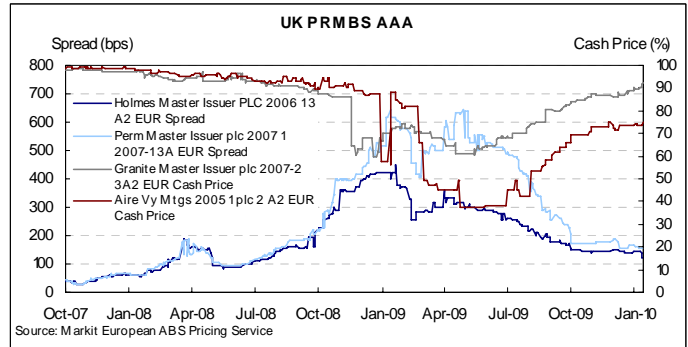
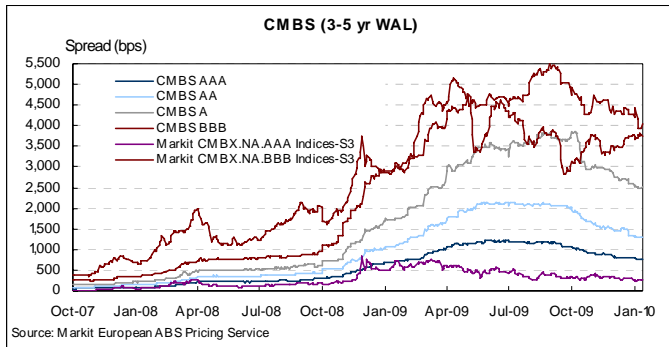
UK Prime securities, such as Arkle or Holmes Master Issuer AAA's, are now trading at 90 basis points, which is below the symbolic 100 basis points barrier. Permanent Master Issuer AAA's are now at 120 basis points.

Owing to the increased demand for UK Prime; Dutch RMBS AAA's have also tightened to the same level as Arkle and Holmes, or just slightly wider at 95 basis points.

Auto ABS such as VCL 11 A have reached 80 basis points. Such levels have not been seen that tight since the end of December 2007!

Additionally, CMBS, UK non-conforming RMBS and Spanish RMBS are all recovering. Finally, BNP Paribas' recent tender made during December on various UCI bonds priced from 80.00 for the ones with the longest WAL to 95.00 for the ones with shortest WAL.





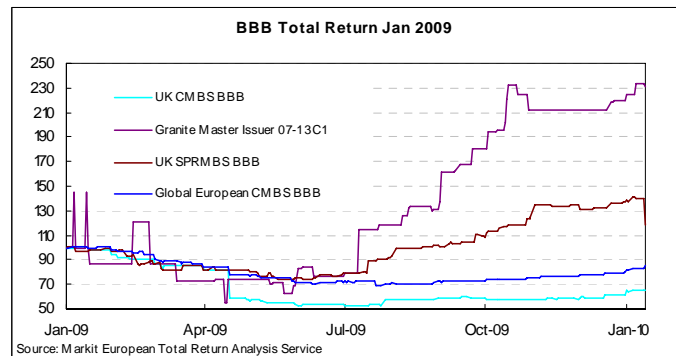
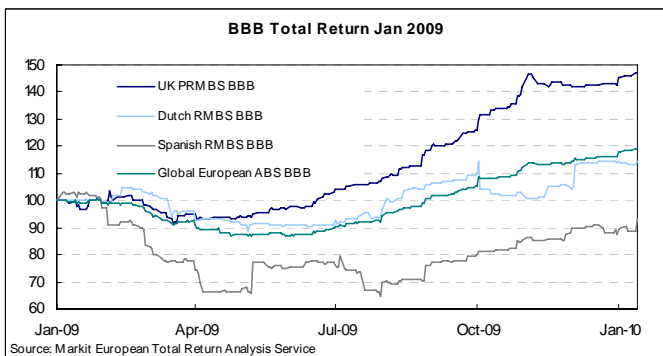
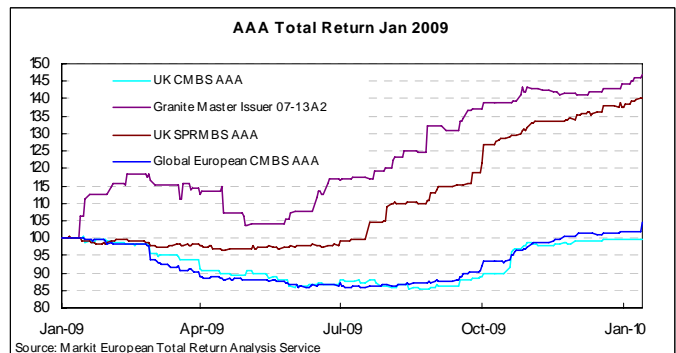
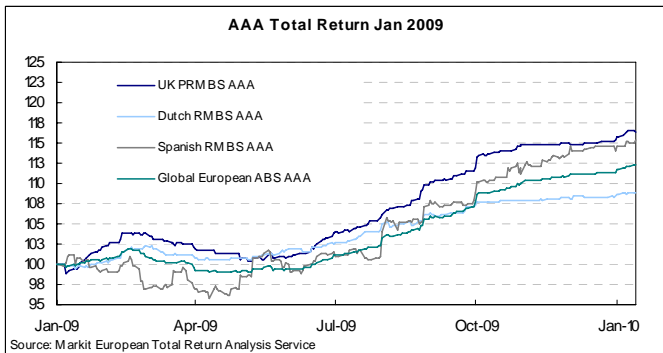
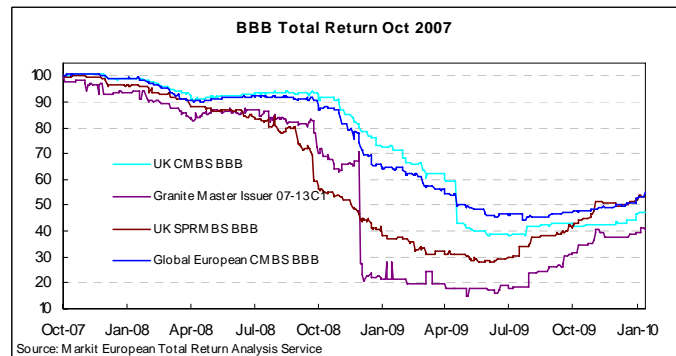
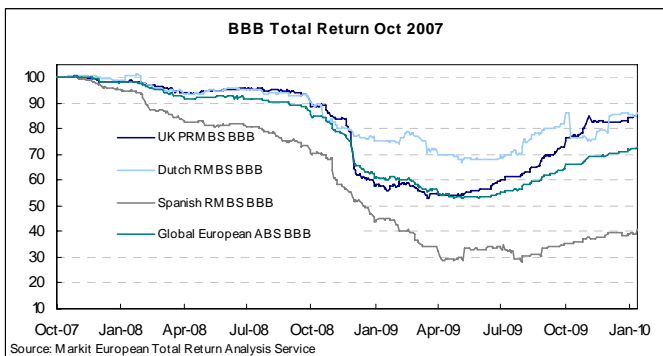
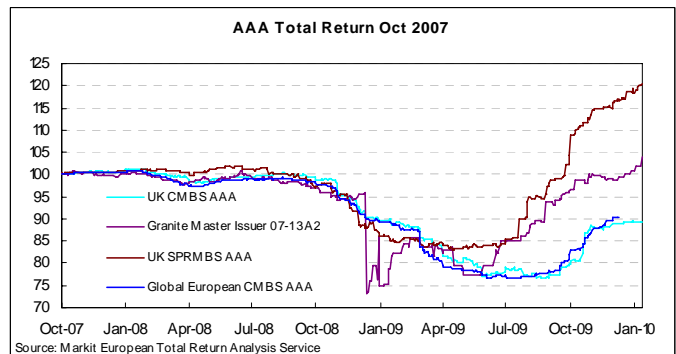
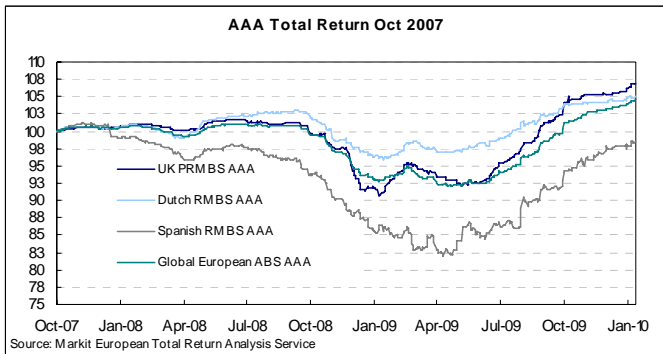
Biggest Cash ABS Movers

There were no deteriorators within the cash ABS market throughout the first two weeks of 2010. The table below displays our Top 5 improvers.

| Top 5 ABS Improvers (Source: Markit European ABS Pricing Service) | | | | | | | | | |
|---|--------|-------|-----|--------------|-------------|-------------|--------|--------|--------------|
| Deal Name | Series | Class | Ccy | Isin | Spread (bp) | Change (bp) | Rating | Sector | Avg Life(yr) |
| Granite Master Issuer plc 2006 2 | 2068 | A5 | EUR | XS0252421499 | 298 | -147.28 | AAA | PRMBS | 3.4 |
| Delphinus 2001 1 BV | 1 | A1 | EUR | XS0131470196 | 148 | -45.17 | AAA | RMBS | 1.2 |
| Perm Fing NO 7 PLC | 4 | A | GBP | XS0215352906 | 167 | -20.86 | AAA | PRMBS | 0.6 |
| Perm Fing No 8 PLC | 4 | A | EUR | XS0220348550 | 162 | -17.43 | AAA | PRMBS | 0.8 |
| ARENA 2004 II BV | 1 | A | EUR | XS0199708339 | 136 | -10.83 | AAA | RMBS | 2.4 |

European Total Return

We still see price improvement overcoming performance deterioration in our total return curves and we do not expect to see the opposite until these bonds approach par pricing.



European CDS of ABS

The CDS of ABS market in Europe was the first to reflect the New Year's optimistic feeling. Prior to year end, some dealers were already marking UK Prime AAA's, such as Arkle or Holmes, at 50 basis points which is 40 basis points tighter than the current cash spread.

Granite AAA's Priced Up Front ("PUF") moved back to 2.50 which represent a spread of 170 basis points, 80 basis points tighter than the cash spread or 5 points lower compare to the cash price when adjusting the running fee to the coupon.

| European CDS of ABS AAA (Source: Markit European CDS of ABS Service) | | | | | | | | | | |
|--|--------|-------|----------|--------------|------------------|------------------|-------------|---------|----------|------|
| Deal Name | Series | Class | Currency | Isin | Levels (10Dec09) | Levels (14Jan10) | Cash Levels | Basis | Duration | WAL |
| Arkle Master Issuer plc Series 2006-2 | 2006-2 | 3A2 | EUR | XS0277508692 | 90 | 50 | 90 | -40 | 1.66 | 1.87 |
| Delphinus 2006-I B.V. | 2006-1 | A | EUR | XS0256323972 | 90 | 60 | 95 | -35 | 2.22 | 2.53 |
| Permanent Master Issuer plc Series 2007-1 | 2007-1 | 3A | EUR | XS0288090342 | 120 | 90 | 120 | -30 | 2.32 | 2.66 |
| Gracechurch Mortgage Financing plc 2007-1 | 2007-1 | 3A2 | EUR | XS0302999064 | 115 | 70 | 95 | -25 | 2.51 | 2.76 |
| Holmes Master Issuer PLC Series 2007-1 | 2007-1 | 3A2 | EUR | XS0292750253 | 80 | 50 | 90 | -40 | 1.81 | 2.00 |
| Granite Master Issuer plc Series 2007-2 Notes | 2007-2 | 3A2 | EUR | XS0298974840 | 3 (%) + 50dm | 2.5 (%) + 50dm | 92 (%) | -5.0(%) | 1.80 | 1.91 |
| Bankinter 14, Fondo de Titulizacion Hipotecaria | 14 | A2 | EUR | ES0313271019 | 160 | 140 | 200 | -60 | 3.59 | 4.46 |

In line with the cash ABS market, all sectors within the synthetic ABS market have tightened. Analysing both markets over the last 6 months, it is interesting to note that the current European CDS of ABS levels can be seen as a good indicator of where the cash ABS market could be in one month.

Primary Market and Rating Actions

In contrast to the secondary, the primary market remained very quiet during the first two weeks of 2010. Only Global Drive 2008-B A tranche, which was originally retained by FCE bank (Ford), was publicly offered at 165 basis points.

However, with the current environment, we expect to see an increased amount of publicly placed deals during the first quarter, especially for sectors which are recovering faster than expected, such as UK Prime RMBS and Auto ABS.

| Primary Market (Source: Markit European ABS Performance) | | | | | |
|--|----------------|-------|-----------|-------------|---------------|
| Deal | Country/Sector | Class | Av Rating | Spread (bp) | Amount (€ mn) |
| BBVA Consumo 4 | Spanish/ABS | A | AAA | 30 | 938 |
| | | B | A | 80 | 162 |
| Globaldrive Auto Receivables 2008-B | Auto/ABS | A | AAA | 165 | 300 |

The Auto ABS market has developed over the last ten years largely in response to the declining fortunes and subsequent rising borrowing costs of US automakers such as Ford Motor Co. and General Motors Corp. As their credit ratings declined, these manufacturers found it was cheaper to fund production with ABS backed by car loans and leases than with traditional corporate bonds.

Securitisation became increasingly popular in Europe as well. Firms such as Renault, Peugeot-Citroën, Volkswagen and Porsche embraced this new source of cheap financing. These automakers established new financing arms to manage the assets within securitisation programmes; and the large amounts they securitised actually ranked them among the top national banks.

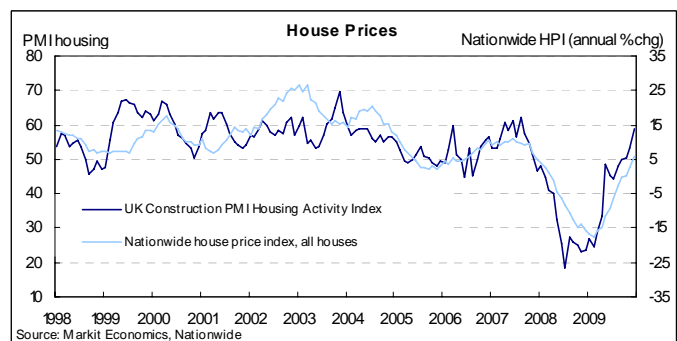
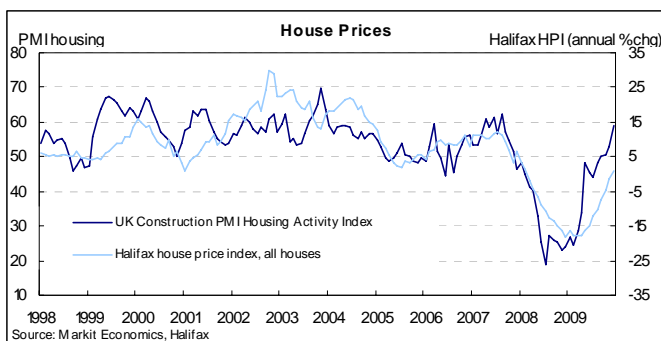
As with home loans, the auto loan securitisation process involves the creation of a special purpose vehicle (SPV) to manage transactions. Bonds are typically structured with senior (AAA) and junior (A) notes that pay investors varying premiums above the one-month interbank rate based on seniority. Consumers generally choose between two types of auto finance: loans and leases. Loans, along with their prepayment options, are comparable to home mortgages. At the end of a lease, however, consumers can either buy the vehicle outright or return it to the manufacturer, who will then typically sell it in the used car market. Both can be compared to a prepayment option, but the latter typically creates a residual value that is generally unknown and can impact, either positively or negatively, on the cash flow characteristics of Auto ABS

In term of rating actions, it is interesting to note that some senior Leek Finance securities have been downgraded and all the Granite securities below the AAAs were downgraded during December.

| Deals Affected by Rating Actions (Source: Markit European ABS Performance) | | |
|--|-----------------|-----------|
| Deal | Country/Sector | Action |
| Deco 17 Pan Europe 7 | UK/CMBS | Downgrade |
| Euro Master 2007-1 V | UK/SPRMBS | Downgrade |
| Gracechurch Mtgage Funding | UK/PRMBS | Upgrade |
| Granite Master Issuer | UK/PRMBS | Downgrade |
| Leek Finance 15, 16, 17 | UK/SPRMBS | Upgrade |
| Lusitano Mrtgage 3, 4, 5, 6 | Portuguese RMBS | Downgrade |
| Money Partners 1, 3, 4 | UK/SPRMBS | Downgrade |
| Soutern Pacific Sec 05-1, 05-2, 05-3, 05-B | UK/SPRMBS | Downgrade |

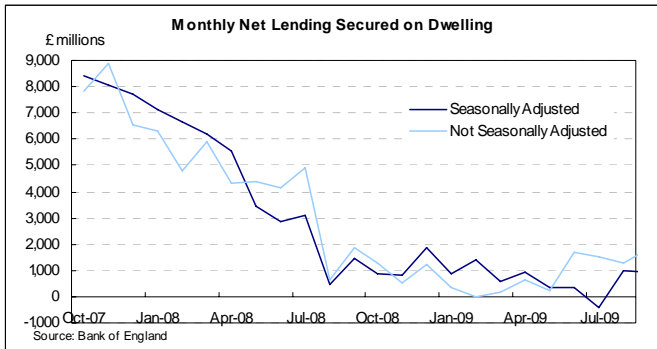
Statistic

The Nationwide year-on-year Housing Index is now showing growth of 5.9% since the month-on-month Housing Index reached 0.4% in December. As expected, the Halifax year-on-year Housing Index is now positive at 1.1% since we saw a 1.0% jump regarding the month-on-month index in December.



The Markit Construction PMI Index deteriorated in December to 47.1. However, this is due to the commercial construction sub index which was 41.1 for December, while the housing construction sub index showed massive improvement at 58.9, which is the fourth consecutive month over the neutral point of 50.

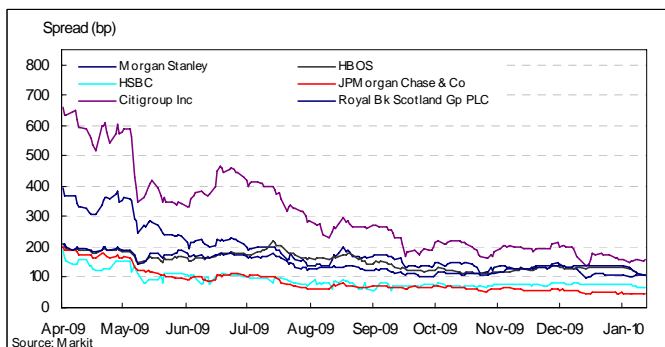
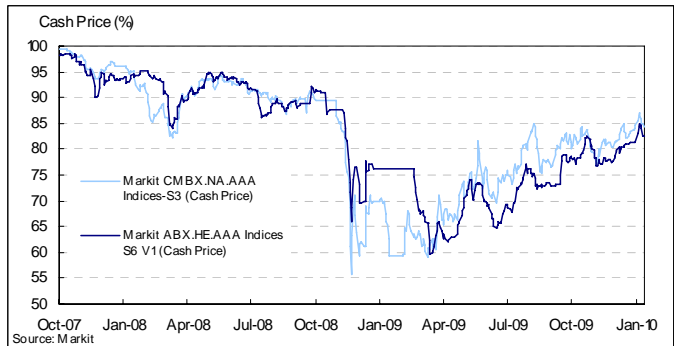
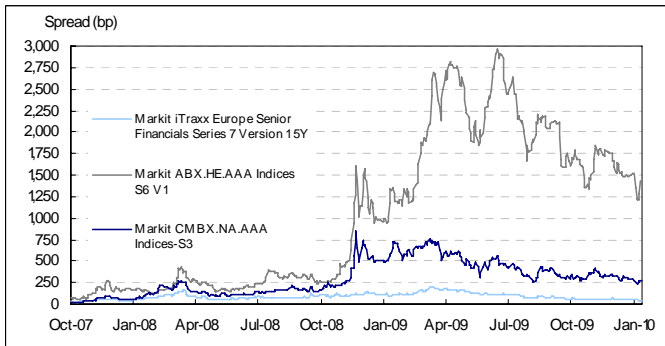
Finally, according to the BoE Monetary and Financial Statistics report for November 2009, the total net monthly lending secured on dwelling was £1.40 billion while the seasonally adjusted figure reached £1.46 billion.



Financials and the US ABS Market

Most of financials' 5 year CDS have remained stable since mid-December. Of the major banks, only RBoS saw a major improvement of its cost of protection from 145 to 105 basis points.

Both Markit ABX.HE and CMBX improved significantly during the last two weeks of December 2009 and reached their highest levels of the year before decreasing during the first two weeks January.

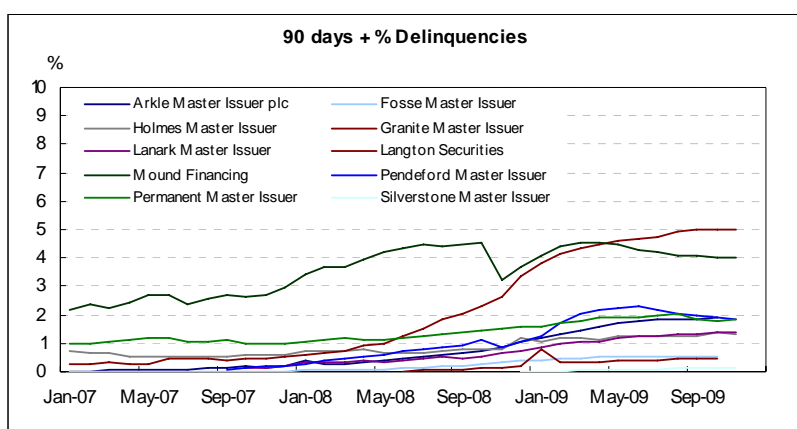


ABS Performance Highlight: UK RMBS Master Trusts

The year ended less grimly than was once expected and even brought some renewed optimism to the housing market, as well as to the securitisation market with a couple of deals publically placed towards the end of the year. The placed tranches were oversubscribed and, with spreads tightening, appetite for ABS could be recovering.

Repossessions are reported to be around 48,000 for the year according to the Council of Mortgage Lenders, which is a great deal lower than the 75,000 estimated at the beginning of the year. House prices rose during the year as Nationwide reported the 8th consecutive month of positive price movement, taking levels to about 6% higher than this time last year.

We will be taking a snapshot of the UK master trust deals to review the performance as the year progresses.



Delinquency levels since the beginning of 2007 have increased steadily with the slightly higher steepness for the Granite curve which has seen delinquencies reach 5.03 per cent as of the latest report. This can also be attributed to a longer seasoning on the trust, as many new trusts, such as Silverstone, Langton, Pendeford and Lanark, do not have as much data going back as far as January 2007.

| Master Trust | LTV | OPR | Reserve Funds as % of Pool | Cumulative Losses | Excess Spread | 90 days + % |
|---------------------------|--------|--------|----------------------------|-------------------|---------------|-------------|
| Arkle Master Issuer plc | 66.70% | 16.69% | 1.68% | 20,754,739 | 0.77% | 1.94% |
| Fosse Master Issuer | 59.50% | 15.44% | 1.39% | 641,131 | 1.08% | 0.52% |
| Granite Master Issuer | 78.69% | 14.68% | 1.24% | 165,207,303 | 0.00% | 5.03% |
| Holmes Master Issuer | 67.68% | 26.08% | 2.51% | 33,832,000 | 0.74% | 1.30% |
| Lanark Master Issuer | 60.45% | 12.10% | 1.88% | 354,115 | 0.42% | 1.40% |
| Langton Securities | 63.03% | 15.66% | 0.93% | 232,647 | 1.05% | 0.48% |
| Mound Financing | 70.58% | 17.48% | 11.75% | 29,511,234 | 1.02% | 4.00% |
| Pendeford Master Issuer | 84.76% | 5.35% | 12.77% | 17,021,755 | 0.94% | 1.85% |
| Permanent Master Issuer | 65.80% | 17.43% | 6.25% | 59,911,883 | 0.38% | 1.82% |
| Silverstone Master Issuer | 62.20% | 12.51% | 3.16% | 322,964 | | 0.13% |

Looking at other key performance fields within the trusts we see that most deals generally have a good level of support. Though Granite has a 0.00 per cent excess spread, this is at the Funding share, at the Funding 2 share the excess spread is roughly 0.24 per cent. All of the trusts still have a good level of support from their reserve funds and even though some show high actual values of losses, we can see that there is enough excess spread in the deals to cover these losses.

As the year progresses we will continue to monitor the performance of the trusts paying heed to one question in particular: Has performance been aided by outside influences such as record low interest rates and calls from the government to be less aggressive on repossessing homes so more people can stay in their home? As people adjust to current market conditions and with many unemployed still struggling to get back work, we are hearing news of people using credit cards to pay off their mortgages. We will have to wait to see whether these factors will start to have a stronger effect on the UK RMBS market.

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