

The European ABS Market

A Week in Review: 12 – 25 March 2010

European ABS Pricing and Sectors

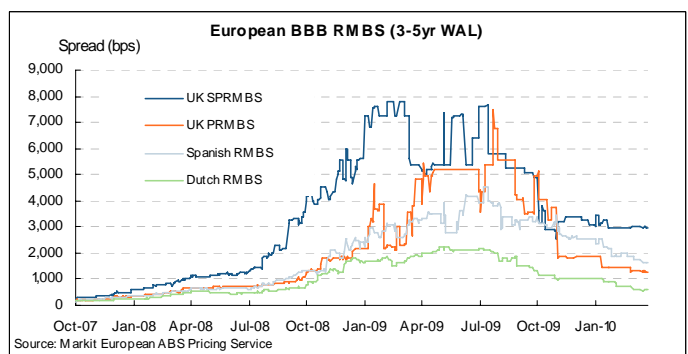
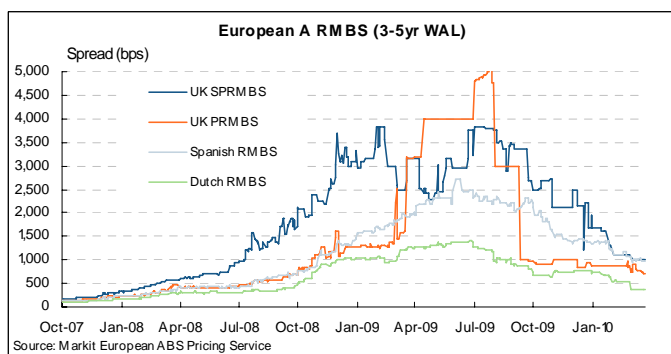
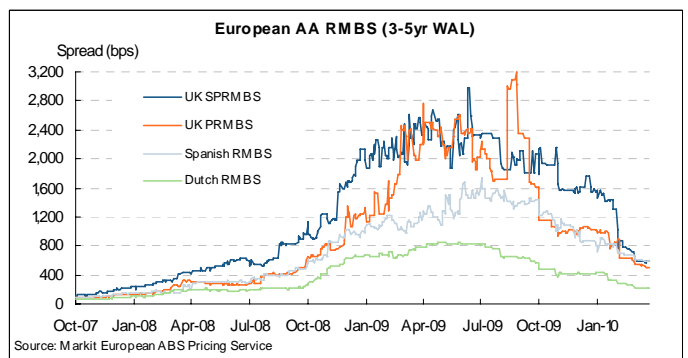
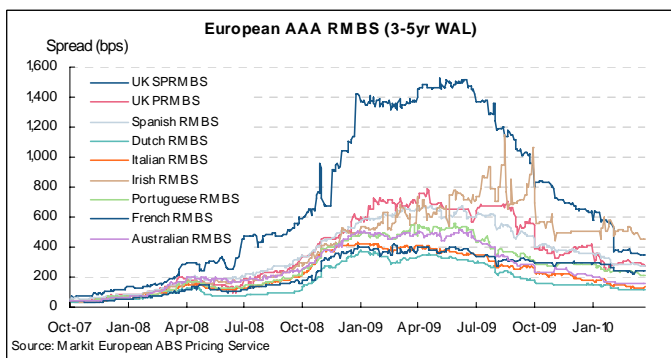
The rally witnessed in the early part of March seems to be gathering breadth, if not speed, with more asset classes seeing tightening across both senior and mezzanine tranches.

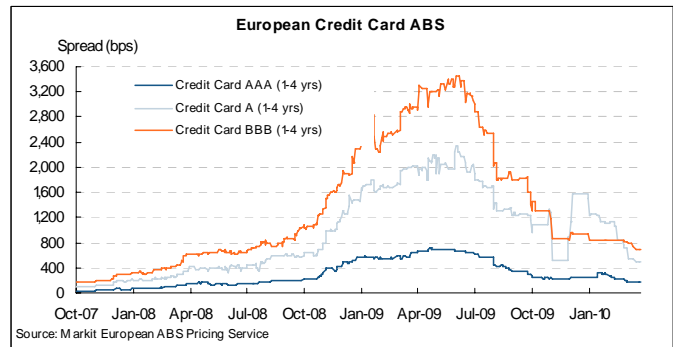
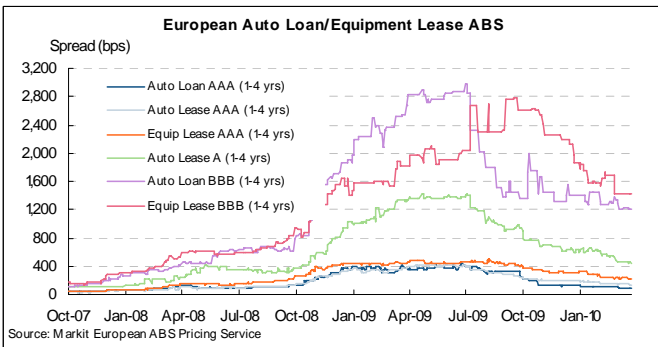
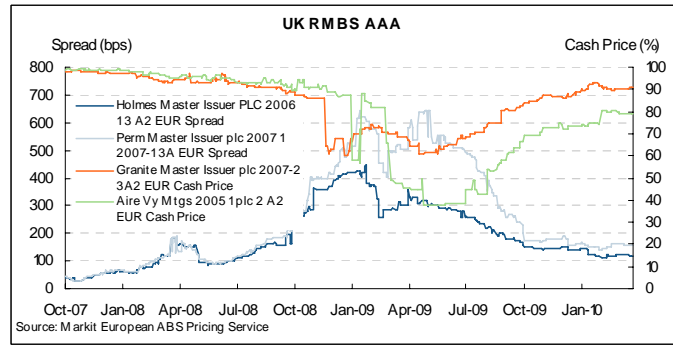
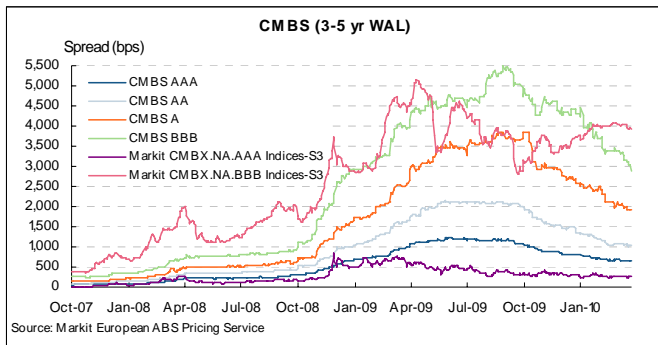
RMBS performed well across most jurisdictions, with the exception of Greece, with Dutch and UK NC RMBS attracting a lot of investor appetite judging by the tightening spreads/rising cash price; DUTCH XIV A tightened significantly to 145 bps (from 160 bps in mid March) and SAEC 4 A was 10 bps lower from last week at 105 bps. In the UK LEEK 18X A2A was also 10 bps lower to 420 bps this week.

Granite cash prices continued rising across the capital structure with AAA, AA, A and BBB which were traded two weeks ago at 91.50, 72, 63 and 38 respectively, are now trading at 92, 73, 63, and 38.5.

Auto Loan and Credit Card transactions continue to perform well with the latter presumably still seeing the benefit of recent originator support. Spreads on AAA tranches have continued contracting; such as DRVTW A down to 68 bps (from mid 70s last week) and CARDS 2004-A1 down 10 bps to 140 bps.

Decrease in cash prices for Greek transactions, especially for lower rated tranches, (such as Themelion B and Lithos B down from low 80s last month to mid 60s and 50s respectively) observed at end of last and beginning of this month has abated as more details about the potential European rescue package are revealed, with some of the more dramatic initial falls partially reversing in the past few days.



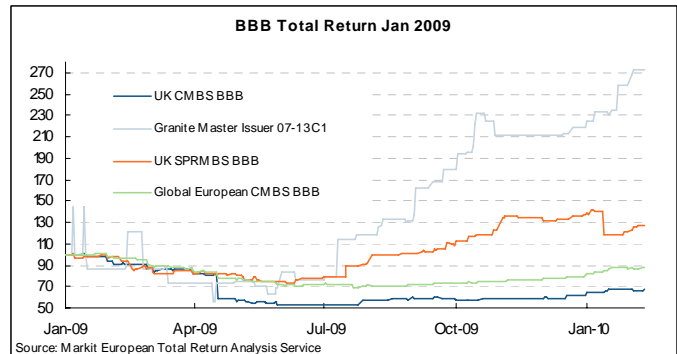
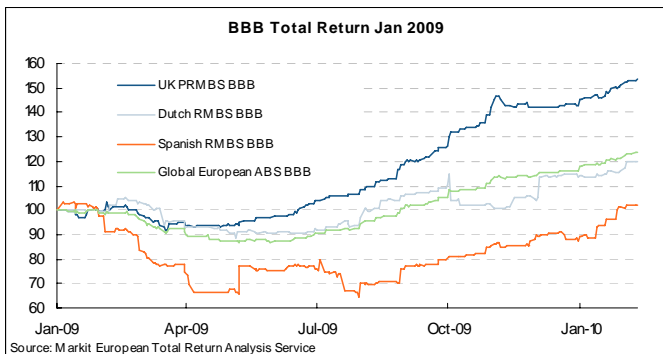
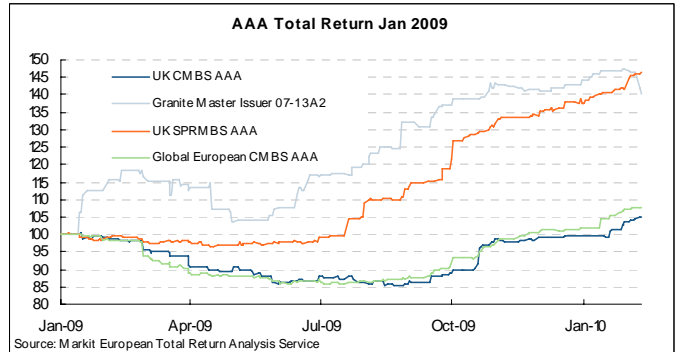
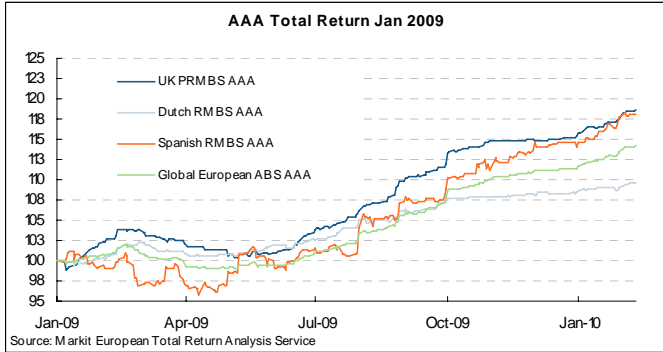
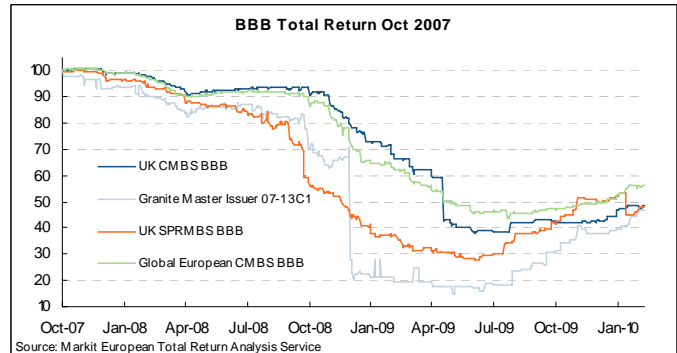
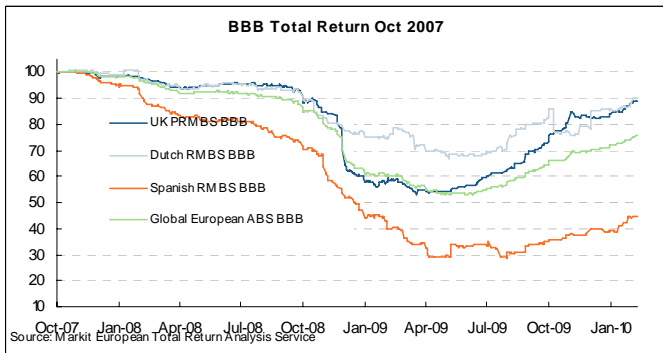
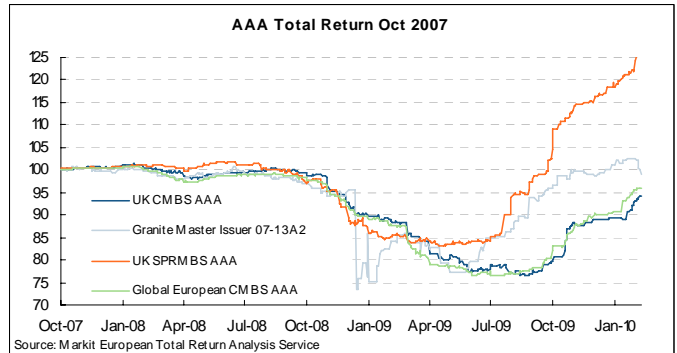
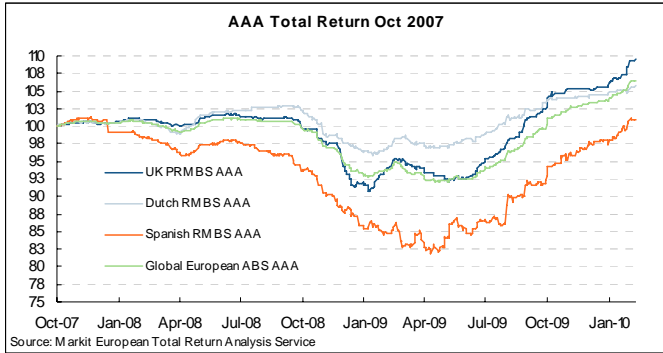


Top 5 Price Movers

Both deteriorators and improvers are again present in this week Top 5:

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)	
Mansard Mtgs 2006 1 Plc	2310	A2a	GBP	XS0272296897	450	-21.33	AAA	SPRMBS	3.4	
Eurosail UK 2007 1NC plc	2007-1N	A2a	EUR	XS0284931267	384	-21.33	AAA	SPRMBS	1.6	
SAGRES Sociedade Titularizacao Creds SA Douro Mtg 2	2234	A2	EUR	XS0269341680	236	-20.75	AAA	RMBS	5.8	
Fondo de Titul de Activos UCI 15	15	A	EUR	ES0380957003	399	-19.54	AAA	RMBS	8.0	
Granite Master Issuer plc 2006 2	2006-2	A6	GBP	XS0252427009	299	-18.17	AAA	PRMBS	3.3	
ABS Deteriorators (Source: Markit)										
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Avg Life(yr)	
Crusade Glob Tr No 1 of 2006	2006	A2	EUR	XS0245228738	186	17.47	AAA	RMBS	3.7	
Chapel 2007 BV	2007	A2	EUR	XS0291271319	556	17.29	AAA	Other Consum	3.7	
Natl RMBS Tr 2004 1	1	A-3	EUR	XS0201752739	178	16.67	AAA	RMBS	1.9	
Paragon Mtgs No11 PLC	1992	A2B	EUR	XS0246902885	1,560	16.67	AAA	PRMBS	1.0	
Ser 2007 1E SWAN Tr	2007-1E	A3	EUR	XS0302448690	178	16.67	AAA	RMBS	2.1	

European Total Return



European CDS of ABS

The ABS synthetic market has been widening as much as 20 bps for the most liquid UK Prime RMBS. Granite triple As Price Up Front are now at 3 which is one point higher than 2 weeks ago. Interestingly, while the cash price of Granite is increasing the cost for its protection is also increasing which is a showing negative correlation in term of PV01.

European CDS of ABS AAA (Source: Markit European CDS of ABS Service)								
Deal Name	Series	Class	Currency	Isin	Levels (10Mar10)	Levels (24Mar10)	Cash Levels	Basis
Arkle Master Issuer plc Series 2006-2	2006-2	3A2	EUR	XS0277508692	65	80	105	-25
Delphinus 2006-I B.V.	2006-1	A	EUR	XS0256323972	75	90	110	-20
Permanent Master Issuer plc Series 2007-1	2007-1	3A	EUR	XS0288090342	100	115	130	-15
Gracechurch Mortgage Financing plc 2007-1	2007-1	3A2	EUR	XS0302999064	85	100	110	-10
Holmes Master Issuer PLC Series 2007-1	2007-1	3A2	EUR	XS0292750253	60	80	100	-20
Granite Master Issuer plc Series 2007-2 Notes	2007-2	3A2	EUR	XS0298974840	2 (%) + 50dm	3 (%) + 50dm	92	-3(%)
Bankinter 14, Fondo de Titulizacion Hipotecaria	14	A2	EUR	ES0313271019	160	190	230	-40

Primary Market and Rating Actions

In the primary market two transactions were received very positively, with over-subscription leading to an upsize of the Driver VII deal to satisfy the higher than expected investor demand, and the senior tranche trading tighter after issuance – at 64 bps down from 70 bps at issuance. Dutch MBS XV was also reportedly over-subscribed leading to spreads tightening in the secondary market trading from 150 bps at origination to as low as 146 bps.

Primary Market (Source: Markit European ABS Performance)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Dutch MBS XV	Dutch/RMBS	A1	AAA	110	182
		A2	AAA	150	530.6
		B	AA+		11.2
		C	A		10.45
		D	BBB		10.4
		E	BB+		1.5
Driver Seven	German/Auto Loan	F			3.75
		A	AAA	70	500
		B	A+	165	19.1
IM Banco Popular MBS 2	Spanish/RMBS	A	Aaa	30	595
		B	Caa1	150	89
Valhalla I	Danish/CLO	A	AAA	35	750

Deals Affected by Rating Actions (Source: Markit European ABS Performance)		
Deal	Country/Sector	Action
Chapel 2003-I, 2007	Dutch/ABS	Downgraded
Chester Asset Receivables Dealings (CARDS) 2001-B, 2003-B	UK/Credit Card	Upgraded
Chester Asset Receivables Dealings (CARDS) 2003-C, 2004-1, 11, 12	UK/Credit Card	Upgraded
Cornerstone Titan 2005-2	UK/CMBS	Downgraded
Douro Mortgages No. 1, 2	Portuguese/RMBS	Upgraded
Empresas TDA CAM 6	Spanish/SME CLO	Downgraded
Epic Opera (Arlington)	UK/CMBS	Downgraded
European Loan Conduit No. 22 (Perseus)	UK/CMBS	Downgraded
EuroProp (EMC) (Compartment 1)	UK/CMBS	Downgraded
Eurosail-UK 2007-1 NC	UK/SPRMBS	Downgraded
Graphite Mortgages 2005-2, 2006-1	UK/PRMBS	Downgraded
Intra Mortgage Finance 1	Italian/RMBS	Upgraded
Monastery 2004-I, 2006-1	Dutch/RMBS	Downgraded
Opera Finance (Uni-Invest)	UK/CMBS	Downgraded
Punch Taverns Finance	UK/Whole Business	Downgraded
Sherwood Castle Funding Series 2003-2, 2004-1, 2004-2, 2005-1, 2006-1	UK/Credit Card	Downgraded
Siena Mortgages 07-5 Ser. 1, 2	Italian/RMBS	Downgraded
Smile 2005 Synthetic	Dutch/SME CDO	Downgraded
SMILE Securitisation Company 2001	Dutch/SME CLO	Downgraded
SMILE Securitisation Company 2007	Dutch/SME CDO	Downgraded
Titan Europe 2006-1, 2007-3X	UK/CMBS	Downgraded
Titan Europe 2006-3	UK/CMBS	Downgraded

Economics Data

In the UK the housing market remains fragile. Whilst the February's higher growth rate in net mortgage lending (as reported by the British Banking Association) has been encouraging, the growth figure still remains below the 6 month average and was 5.2% lower than at the same time last year. However that seems to be a rare ray of sunshine in what seems to be a generally cloudy sky. Since in January we saw the lowest levels of mortgage lending, in February two major housing indices showing month-on-month declines and March continued to bring more concerns with Nationwide changing it's lending criteria – a move seen likely to reduce the amount available to borrow for many potential buyers.

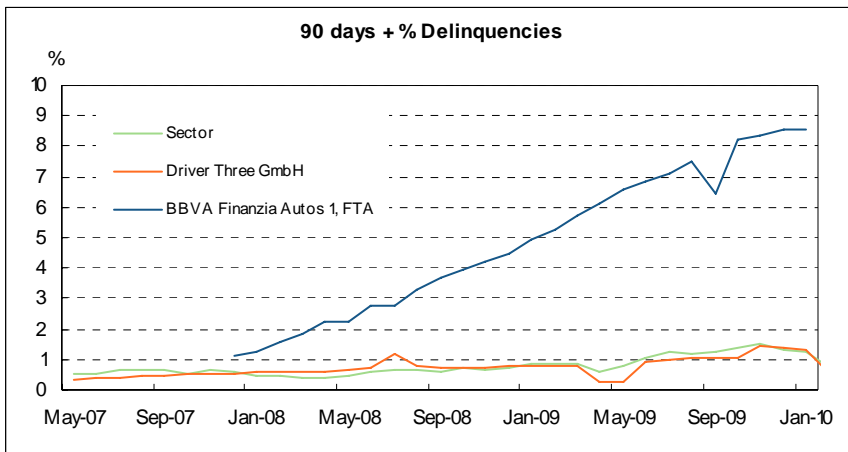
On the other hand, the Council of Mortgage Lending has been vocal in calling on the government to overhaul stamp duty to a more graduated style system (similar to income tax) that, as believed by CML, will encourage more moving. However, with the election in sight and a large deficit to worry about the chancellor has gone for a simpler option of increasing the stamp duty limit to £250K, at the same time raising stamp duty to 5% from 4% on properties valued over a million pounds.

The ECB and BOE have taken centre stage in the European ABS market with the former clarifying changes to its ABS collateral eligibility criteria that have come into effect this month. The latter began last week its consultation regarding loan-level data for securitised products. The jury is still out though on whether this commendable effort to bring about more transparency (BOE will require originators/servicers to make public monthly loan level data) to the ABS market will have a positive impact in terms of restoring the market to its former glory. Many questions remain over practicality, not to mention necessity, of such cumbersome requirements. Observers have pointed out that the US, the epicentre of the subprime crisis, has long had loan level data available for many transactions. Other concerns have been raised over the lack of consistency, with the BOE including Covered Bonds under the securitised products umbrella, whilst the ECB is looking at ABS only.

ABS Performance Highlight: German Auto ABS

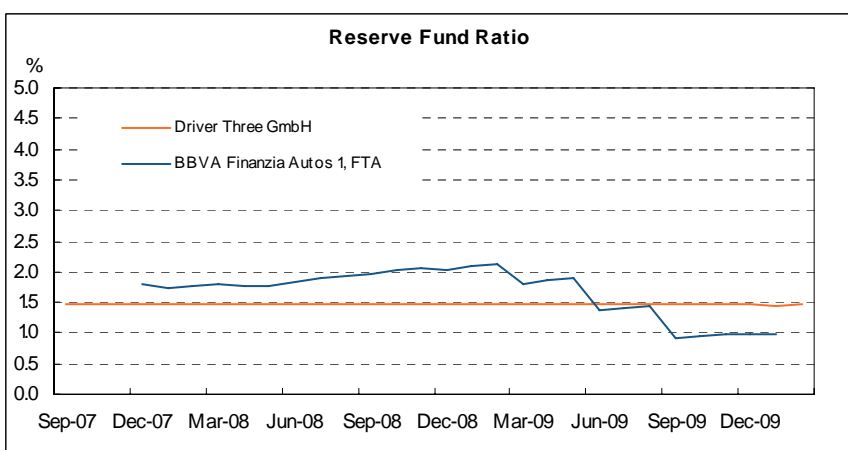
Following the issue of VCL no. 11 in October 2009, Volkswagen Bank has followed up with the issuance of a new deal, Driver Seven. The characteristics of this deal, such as the short duration and the granular nature of the portfolio, has led the transaction to be oversubscribed, indicating a further return of investors' confidence to the ABS market.

By looking at some performance indicators, we give an overview of the German Auto ABS Sector. Moreover, we compare the sector against two deals analysed in the previous report, Driver Three and BBVA Finanzia Autos 1.



The 90+ days delinquency trend, confirms what has previously been observed over the past few months; the delinquency rate of the Spanish deal is more severe than that of the German one and a great deal higher than the German Auto sector average. We also note the overall performance of the Driver Three deal is on par with the underlying sector average.

As of January 2010, the current delinquency rate for BBVA Finanzia Autos 1 was 8.55 per cent, versus 1.32 per cent for Driver Three.



In terms of reserve fund ratio, expressed as ratio between the available reserve fund and the outstanding balance of the pool at the end of the report period, Driver Three showed a ratio of 1.45 per cent in January 2010, for a value of € 12,802,291.30, versus 0.97 per cent for BBVA Finanzia Autos 1, corresponding to a value of € 4,552,870.32. Despite the increase in the credit enhancement for the new issuance, which has seen a rise of 1.50 per cent with respect to Driver Six, the credit support for the most senior bond of the deals with older vintage is still robust. The percentage of current credit enhancement for the most senior bond for BBVA Finanzia 1 Autos is equal to 13.61 per cent and for Driver Three is 5.84 per cent.

The lower delinquency rate for the German Auto ABS Sector can be attributed to better economic conditions in the German economy. However, as shown by the data, the Spanish deal is still offering a good level of credit enhancement.

The sound conditions of the German Auto ABS Sector are reflected by investors' enthusiasm to the new issue.

Alessandra Perosa

ABS Analyst, Structured Finance

Markit

Tel: +44 20 7260 6067

Email: alessandra.perosa@markit.com

Roman Kalyuzhny

ABS Analyst, Structured Finance

Markit

Tel: +44 20 7260 2203

Email: roman.kalyuzhny@markit.com

For more information on Markit's ABS products, please contact: sfsales@markit.com

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