

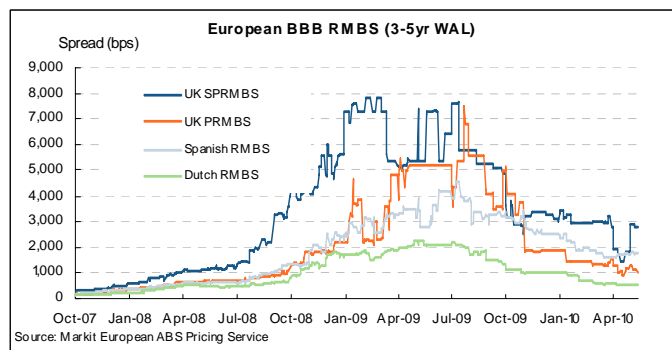
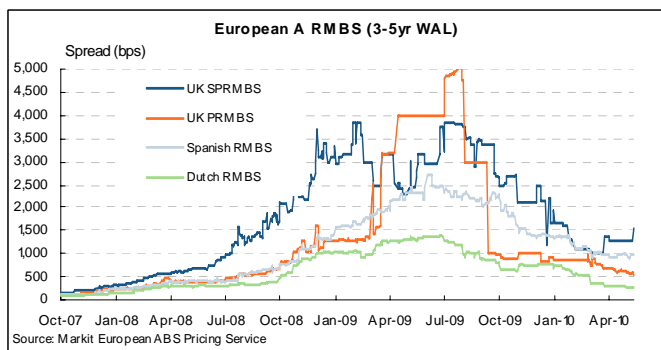
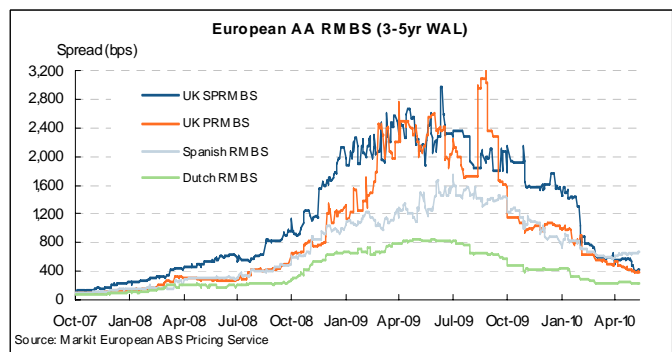
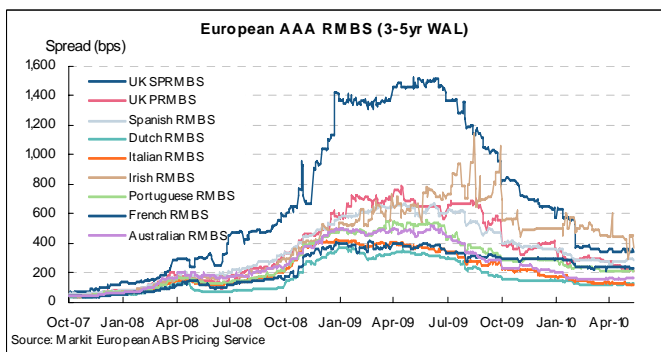
The European ABS Market

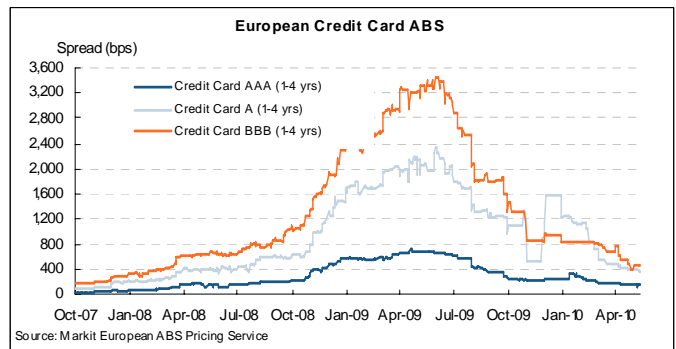
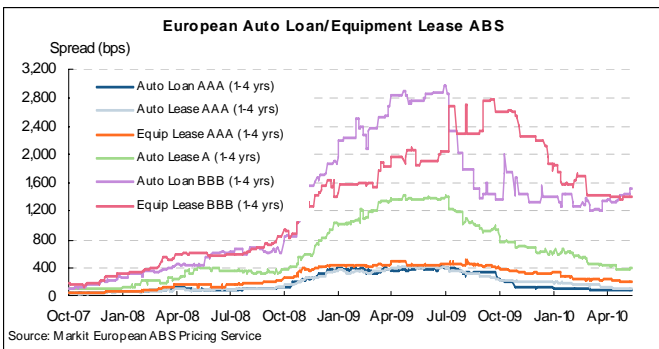
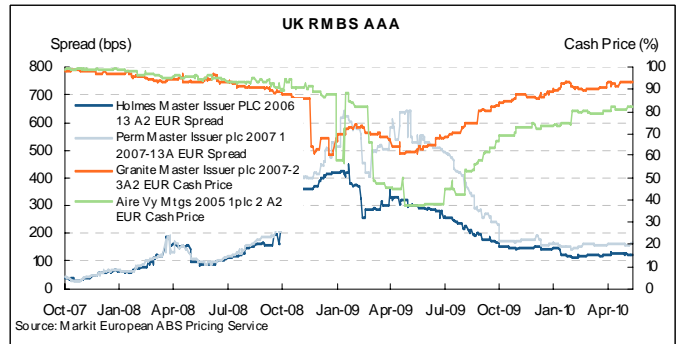
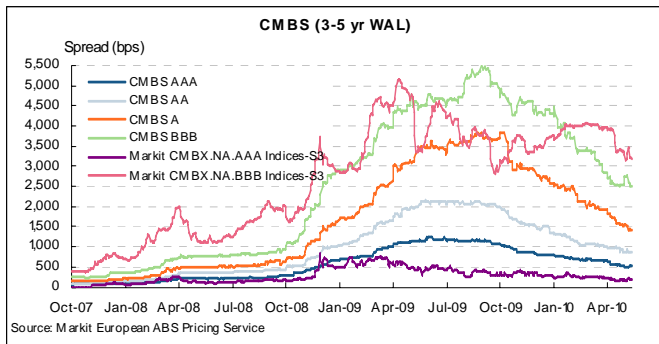
European ABS Pricing and Sectors

It will come as no surprise that the topic dominating the debt capital markets has been the Greek crisis and the bail-out that (eventually) arrived in the form of a huge stability fund. The firming up in the European ABS market witnessed in the 2nd half of April (esp. in the mezzanine tranches UK RMBS) was somewhat reversed at the beginning of May by the increasing worries around the situation in Greece and the uncertainty around the election results in the UK. The latter had significant impact on the UK RMBS market.

However, this week the future looked brighter with an aid package being put in place for Greece and increasing signs of a quick agreement on coalition government in the UK, including the appointment of a new Prime Minister. This sequence of events has been reflected by a “yo-yoing” of prices on the more liquid securities.

For example, Dutch AAA paper that had been priced as low as DM 120 bps towards the end of April widened to as much as DM 160 bps, the first week of May only to tighten this week to DM 135/130 bps. On Granite AAAs even more pronounced fluctuations could be seen. It reached cash price highs of 94 at the April month end only to fall as low as 90 by Friday and then rebounding once more to 92/93 this week. Across the board the Granite tranches are now priced as follows AAA at 92/93, AA at 77/78, A at 68/71 and BBB at 53/58.





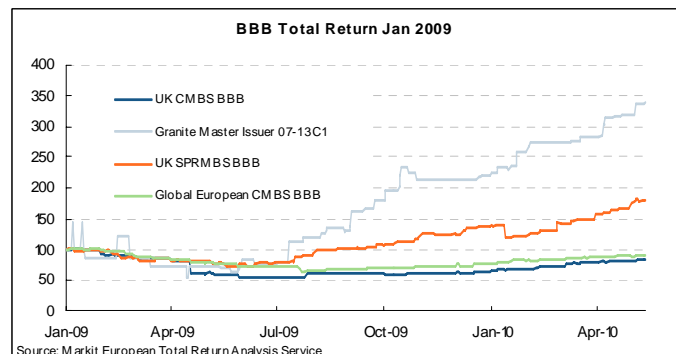
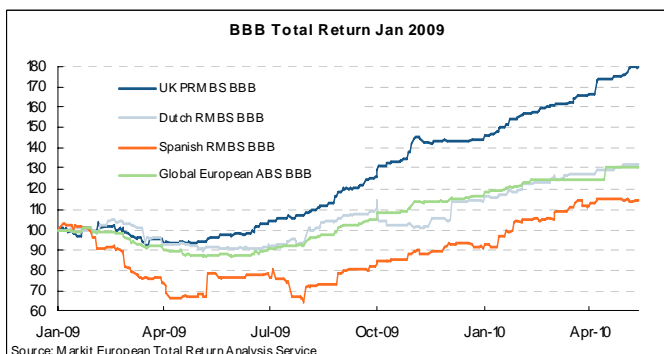
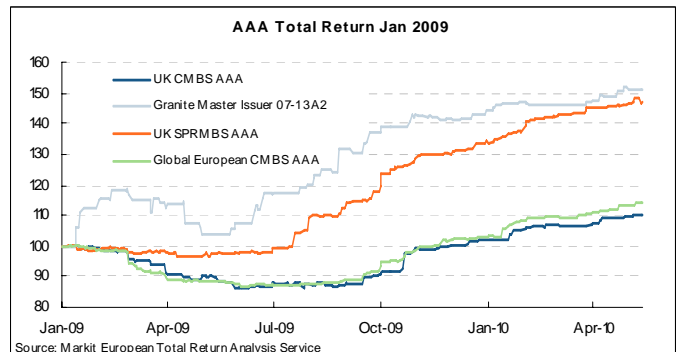
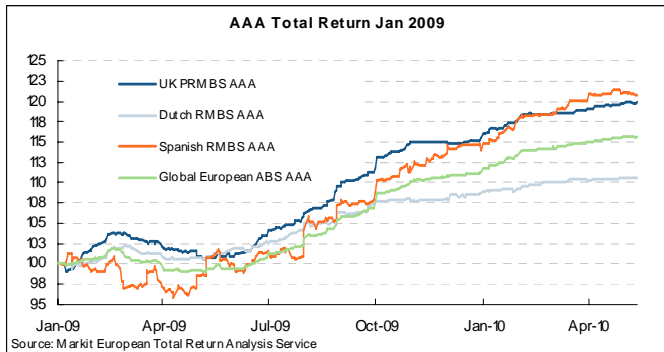
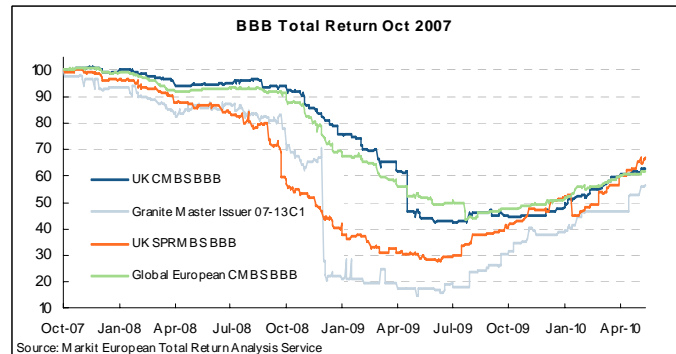
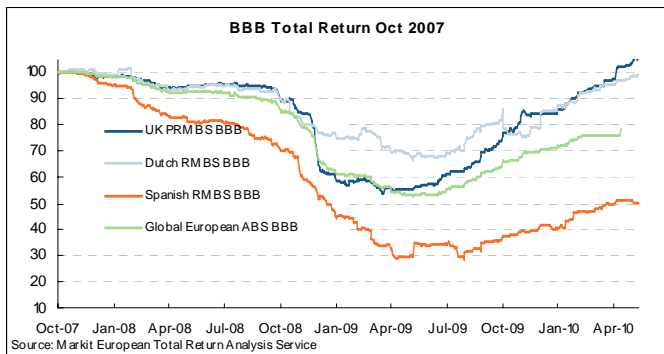
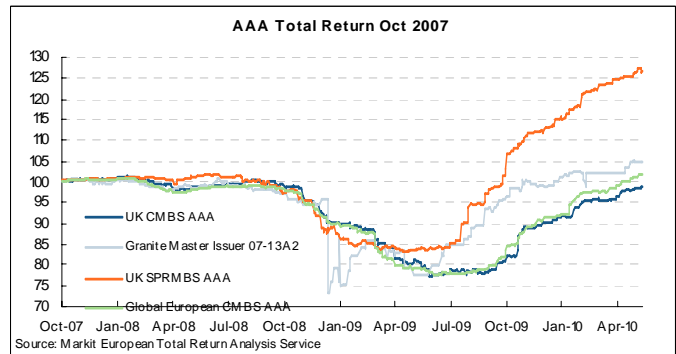
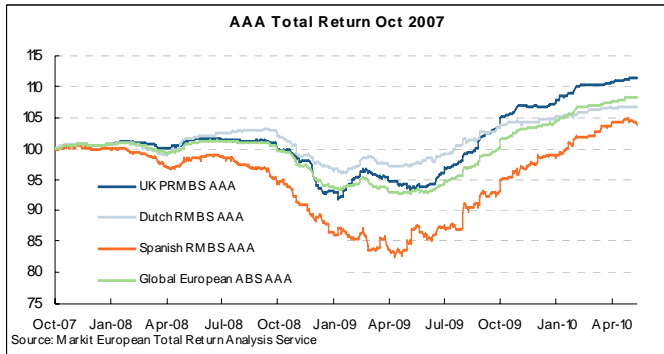
Top 5 Price Movers

We see both improvers and deteriorators over the last two weeks, and there is a clear regional split with the improvers in the mainly in the UK, helped by the quick resolution of the uncertainty over the hung parliament. The deteriorators unsurprisingly coming from Southern Europe, mainly Spain as Greece had already largely been priced in over the last few weeks.

Top 5											
ABS Improvers (Source: Markit European ABS Pricing Service)											
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Country	Avg Life(yr)	
Granite Master Issuer plc 2007 1	2007-1	3C1	EUR	XS0284081618	1,051	-273.51	BBB	PRMBS	GBR	5.9	
Granite Master Issuer plc 2005 4	2005-4	C4	EUR	XS0229615603	1,056	-272.34	BBB	PRMBS	GBR	5.9	
Talisman 5 Fin PLC	5	A	EUR	XS0278333736	1,639	-159.37	AAA	CMBS	ELC	1.8	
Residential Mtg Secs 20 Plc	20	A2a	GBP	XS0213175788	275	-134.17	AAA	SPRMBS	GBR	5.6	
EQUINOX ECLIPSE 2006 1 plc	2006-1	A	GBP	XS0259279585	943	-94.75	AA	CMBS	GBR	3.4	
ABS Deteriorators (Source: Markit)											
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Country	Avg Life(yr)	
THEMELEION Mtg Fin PLC	1	C	EUR	XS0194396072	2,235	200.00	BBB	RMBS	GRC	4.1	
Consumo Bancaja 1 Fondo de Titul de Activos	1	A	EUR	ES0323633000	455	166.67	AAA	Other Consumer Loan	ESP	0.8	
LTR Fin No 6 plc	6	A	EUR	XS0268927240	444	124.45	AAA	Auto Loan	ESP/PRT	1.6	
TDA CAM 9 FONDO DE TITULIZACION DE ACTIVOS	9	A2	EUR	ES0377955010	644	79.49	AAA	RMBS	ESP	5.5	
FINANCIACION BANESTO 1 FTA	1	A	EUR	ES0337648002	417	57.73	AAA	Other Consumer Loan	ESP	1.0	

European Total Return

Volatility on the secondary market is also reflected in our total return curves. Unsurprisingly again gap widens between UK and Netherlands as compared to Spain.



European CDS of ABS

The activity around the synthetic market has risen rapidly over the last couple of weeks with an increasing number of trades being reported.

European CDS of ABS AAA (Source: Markit European CDS of ABS Service)								
Deal Name	Series	Class	Currency	Isin	Levels (15Apr10)	Levels (12May10)	Cash Levels	Basis
Arkle Master Issuer plc Series 2006-2	2006-2	3A2	EUR	XS0277508692	90	90	110	-20
Delphinus 2006-I B.V.	2006-1	A	EUR	XS0256323972	90	90	103	-13
Permanent Master Issuer plc Series 2007-1	2007-1	3A	EUR	XS0288090342	115	115	147	-32
Gracechurch Mortgage Financing plc 2007-1	2007-1	3A2	EUR	XS0302999064	100	100	111	-11
Holmes Master Issuer PLC Series 2007-1	2007-1	3A2	EUR	XS0292750253	85	85	107	-22
Granite Master Issuer plc Series 2007-2 Notes	2007-2	3A2	EUR	XS0298974840	2.5 (%) + 50dm	2.5 (%) + 50dm	93	-3.5(%)
Bankinter 14, Fondo de Titulizacion Hipotecaria	14	A2	EUR	ES0313271019	190	190	215	-25

Primary Market and Rating Actions

The primary market has been mixed. A new ARKLE issue was placed successfully and pricing tighter at the start of May, with shorter WAL tranche down to as low as 112 bps and longer WAL ones down to 120 bps. However, these gains have since reversed on both with DM on latter reaching 130 bps and 125 bps on former.

Santander are said to be pushing on with the upcoming issue of their FOSSE Master Trust vehicle. Unlike VW who, understandably, decided to put their planned Spanish Auto ABS issuance on ice.

Primary Market (Source: Markit European ABS Performance)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Arkle Master Issuer 2010-1	UK/RMBS	1A	F1+	20	375
		2A	AAA	115	1388.6
		3A1	AAA	125	650
		3A2	AAA	125	300.2
		4A	AAA	125	230.5
		5A	AAA	130	461
		5B	AA	12	265.1
		5M	A	12	51.9
		5C	BBB	12	144.1

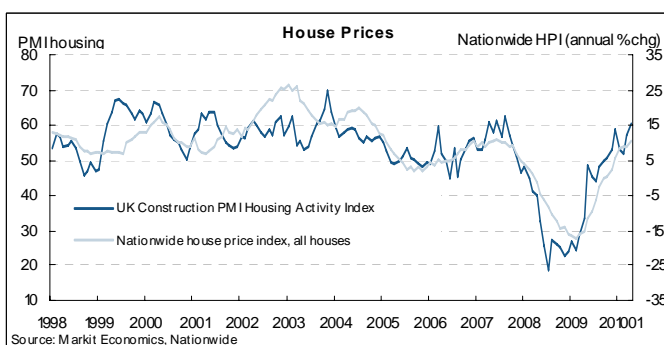
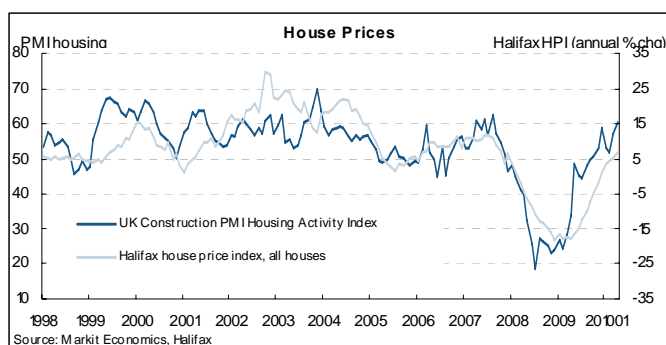
There has been significant amount of rating actions, as one would expect primarily on Spanish and Greek deals, but also a number of European and UK CMBS.

Deals Affected by Rating Actions (Source: Markit European ABS Performance)		
Deal	Country/Sector	Action
Alburn Real Estate Capital 6 - B, C, D, E	UK/CMBS	Downgraded
Anaptyxi SME I - A	Greek/SME CLO	Downgraded
Andromeda Leasing I - A	Greek/Equip. Lease	Downgraded
Axia III Finance - A	Greek/SME CLO	Downgraded
AyT Deuda Subordinada I FTA - A, B, C	Spanish/SME CLO	Downgraded
BBVA 6 FTPYME - C	Spanish/SME CLO	Downgraded
BBVA 7 FTGENCAT - C	Spanish/SME CLO	Downgraded
Broadgate Financing - B, C1, C2, D	UK/CMBS	Downgraded
Comerstone Titan 2006-1 - A, B, C, D, E, F, G, H, I, J	CMBS	Downgraded
Daneion 2007-1 - A	Greek/Consumer Loan	Downgraded
Estia Mortgage Finance II - A	Greek/RMBS	Downgraded
Eterika - A	Greek/SME CLO	Downgraded
Eurohome Mortgages 2007-1 - A, B	RMBS	Downgraded
European Prime Real Estate No. 1 - D	UK/CMBS	Downgraded
Grifonas Finance No. 1 - B	Greek/RMBS	Downgraded
Irida 2009-1 - A	Greek/Equip. Lease	Downgraded
JUNO (Eclipse 2007-2) - D, E	CMBS	Downgraded
Katoikia I Mortgage Finance - A	Greek/RMBS	Downgraded
Kion Mortgage Finance - A, B	Greek/RMBS	Downgraded
Kion Mortgage Finance 2 - A	Greek/RMBS	Downgraded
LTR Finance 5 - B; 6 - A	Auto Loan	Downgraded
Praxis II Finance - A	Greek/Consumer Loan	Downgraded
Punch Taverns Finance - M1, M2(N), B1, B2, B3, C[R], D1; B - B1, B2, C1	UK/Whole Business	Downgraded
Taurus CMBS 2 - E, F	Italian/CMBS	Downgraded
Themelion Mortgage Finance I - B; II - A, B; III - A, B, M; IV - A, B; V - A; VI - A	Greek/RMBS	Downgraded
Titlos - A	Greek/Equip. Lease	Downgraded
Ursus EPC - A, B, C, D, E	UK/CMBS	Downgraded
Windermere XI - A, B, C, D, E	UK/CMBS	Downgraded
Windermere XII - A	French/CMBS	Downgraded

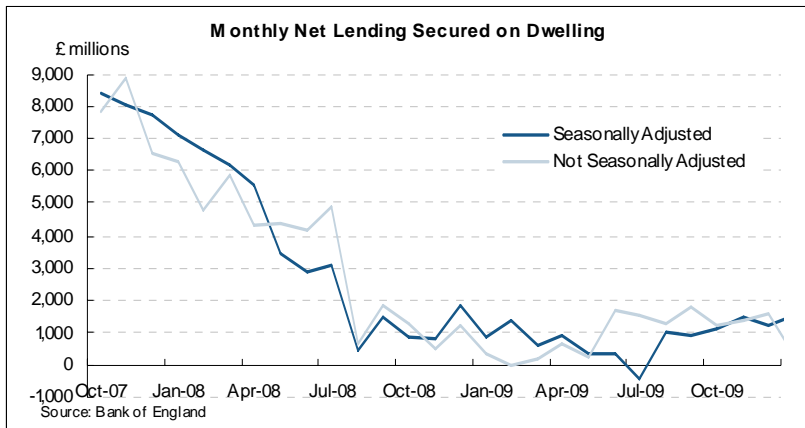
Economics Data

The Halifax and Nationwide House price indices are painting somewhat different pictures for April. The Halifax index registered a 0.1% decline for the month while the figure for the year remained subdued at 6.6%. The Nationwide index on the other hand showed a 1% increase for the month of April proclaiming in their report's title that the annual rate hit double digits (up to 10.5% from 9% last month).

All the while the Markit/CIPS UK Construction PMI index continues to rally strongly with industry jobs being cut at the slowest pace in 20 months and highest level of cost inflation registered since August 2008 according to a report published by Markit Economics.



The Bank of England reported an increase both in terms of number and value of loans approved across the board for March relative to February. The increase is most marked in house purchase figures, the seasonally adjusted value was up by almost 5% month-over-month. M-o-m seasonally unadjusted lending was also up.

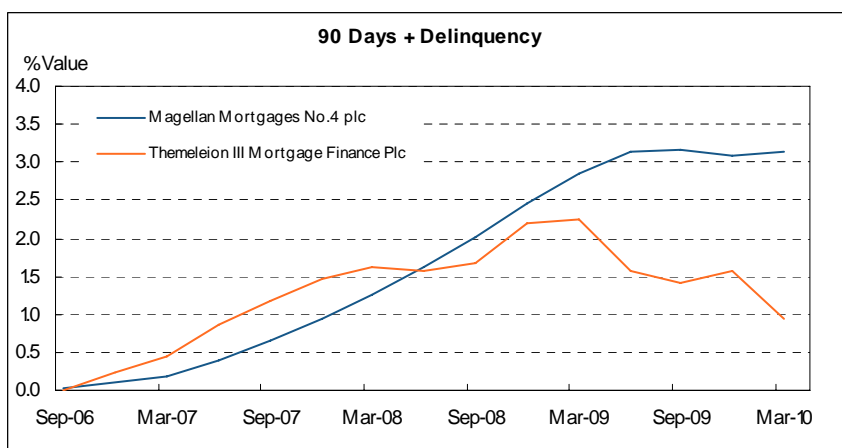


ABS Performance Highlight: RMBS - Portugal and Greece

An agreement on a financial bailout in for the Eurozone has allayed the feeling of disaster for the time being. The financial crisis in Greece has already seen casualties in the downgrading of Greek banks, leading to the downgrading of notes within the Greek RMBS sector.

However, there is positive news from Greece in that the economy is growing more than predicted; the economy grew by 1.0 per cent, which was higher than the forecasted 0.3-0.4 per cent. In addition to the bailout for the Eurozone, austerity measures are a step towards restoring the state of these fragile economies, however tough decisions ahead are still needed in order to return their public finances to good order.

We previously reviewed these two sectors last quarter with deals in each sector showing immediate performance concerns. With the recent crisis as a backdrop, we will again look at the Greek RMBS Themeleion III Mortgage Finance Plc and the Portuguese Magellan Mortgages No. 4 Plc.



Current delinquency levels for both deals do not show any deteriorating performance issues. Magellan Mortgages has a current delinquency level of 3.15 per cent roughly the same level it has been for the past year. Themeleion III has seen delinquency levels drop since its peak last year and its 90 days + level sit at 0.94 per cent.

The other key performance indicators for the deals also continue to indicate positive performance. The reserve fund for Themeleion III is just over €5m which is still at the expected 2 per cent of the outstanding collateral balance. The reserve fund for Magellan Mortgages is €13,500,000, the required value, which is 1.68 per cent of the outstanding collateral balance.

Losses for Magellan have not been high with cumulative deemed principal losses of only €772,339 and cumulative defaults for Themeleion are currently just over €5m. This continues to show performance which does not hold any great cause for concern. However, digging deeper into the Portuguese RMBS we find that the deals are structured differently to provision for losses; non-performing loans have more time to build up before excess spread is used to cover any potential losses. Unlike many other European jurisdictions where delinquency levels are falling, Portuguese RMBS delinquency levels are holding steady meaning that losses could soon start to mount up, and start affecting deal performance.

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