

The European ABS Market

Global ABS

All eyes were on Hilton's London Metropole hotel in North West London this week where the European ABS market participants gathered for their annual get together. The conference was well attended and the general mood seemed to be one of buoyancy, at least compared to last year's sombre affair. There were calls for Europe to move towards a more liquid, U.S. style trading environment, calls for market participants to push back against some of the regulatory attempts, as well warnings of clouds ahead with central banks looking to withdraw their support.

In the run up to the event Markit announced their plans to launch their Markit iBoxx ABS index and presented the beta version at the conference. The forthcoming benchmark index generated strong interest and is widely believed to be an important step towards improving transparency in the European ABS market. Along with the beta version of the iBoxx ABS Markit also unveiled the results of their combined efforts with Cairn Capital – the Markit ABS Performance Monitor. The product will combine Markit's ABS surveillance capability with Cairn's expertise in an advanced application that will help users assess the performance of ABS transactions.

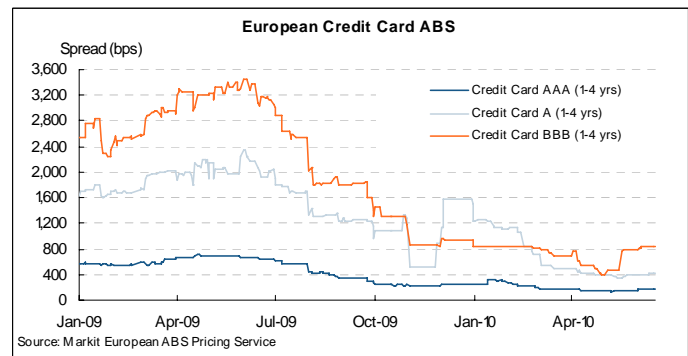
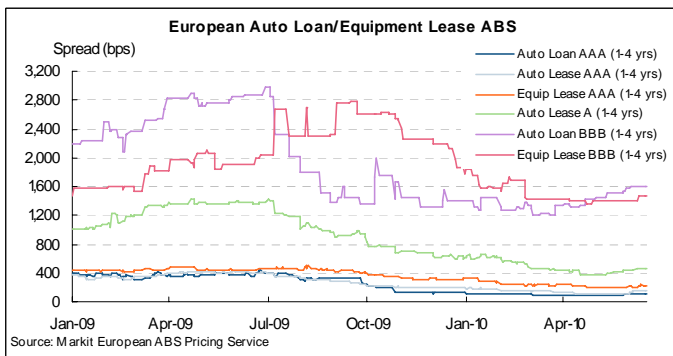
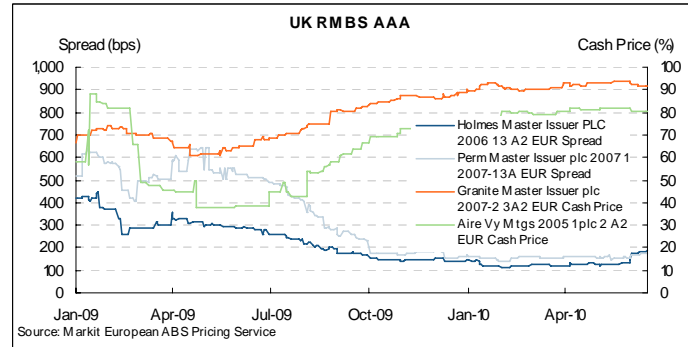
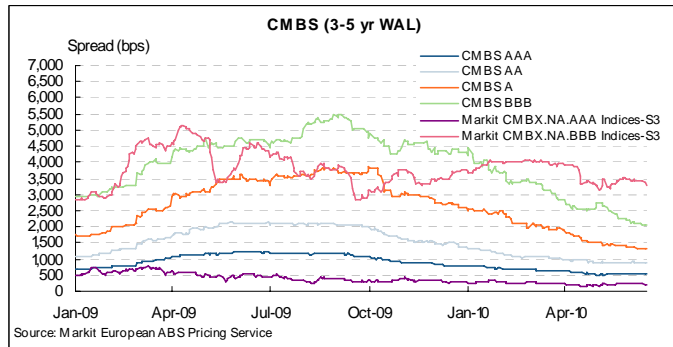
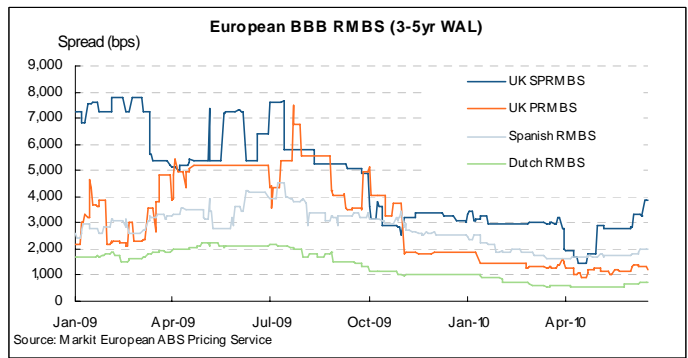
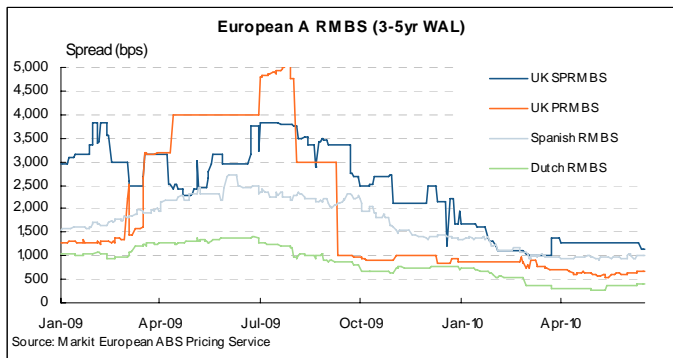
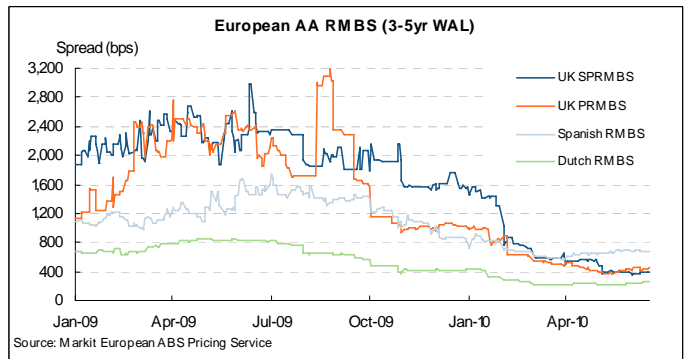
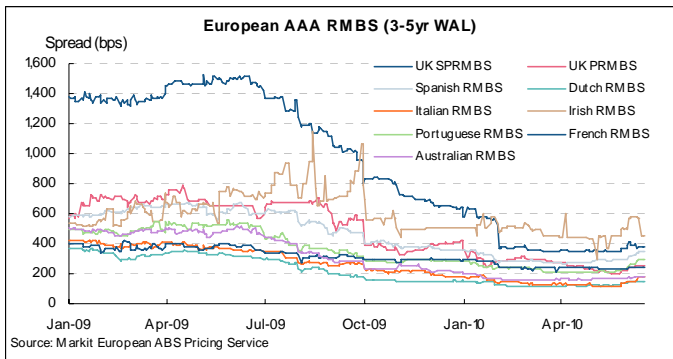
European ABS Pricing and Sectors

The European ABS market continued along a volatile path, becoming increasingly sensitive to the recent developments of the Sovereign debt saga. There is also a growing geographical divide between Northern and Southern Europe (Ireland notwithstanding). Securities backed by assets from North European economies, seen as having sound (and in some cases improving) fundamentals, are performing significantly better than those from the unflatteringly dubbed PIIGS. Senior Dutch and UK Prime paper have seen some widening but are still holding strong on the whole, HERME 14 A2 bouncing in the 150 bps to 170 bps range – now at 165 bps, and ARKLE 2006-1X 5A1 also briefly up at the 180 bps mark is now hovering around the 170 bps, 5 bps up from end of May.

Granite also continued on a volatile path but AAAs have also seen improvements, recovering a point and a quarter from 91 at the start of the 2nd week of June to 92 most recently. Across the board the Granite tranches are now priced as follows AAA at 92, AA at 73, A at 63 and BBB at 43 down across the capital structure from the following levels a month ago: AAA at 92, AA at 77, A at 68 and BBB at 53.

Recent Greek concerns that have led to several spikes in both those countries CDS levels and those of senior financials across Europe have been followed by increasing worries over the situation in Spain and Ireland. This has been reflected in the pricing of ABS from those countries with tranches lower down the capital structure particularly hard hit. For example BCJA 7 C down to as low as 46 cents from high 50s at the end of May, pricing on BPM 2 C fell ten points in two weeks to 56 most recently from 66 at last month end.

The recent announcement of the originator's intentions to call the Celtic Residential Irish Mortgage Securitisation No. 8 transaction has been the one ray of sunshine for Irish RMBS in an otherwise cloudy picture. Other CRSM transactions saw price increases of as much as 10 pts across the capital structure and other Irish RMBS recovered some ground lost since the beginning of the month.



Top 5 Price Movers

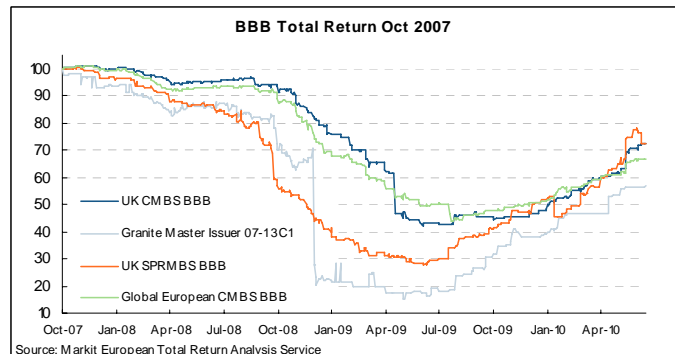
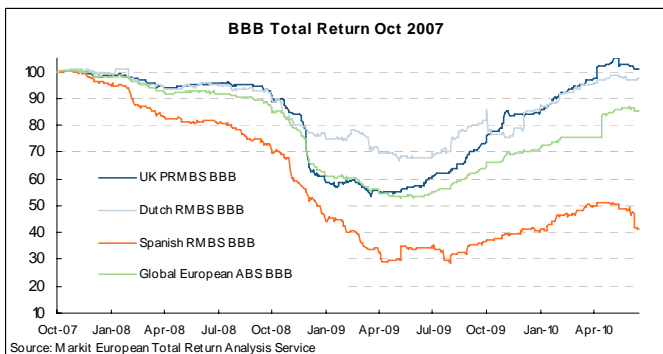
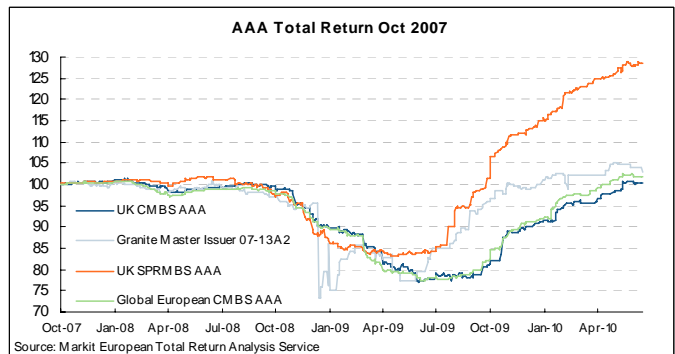
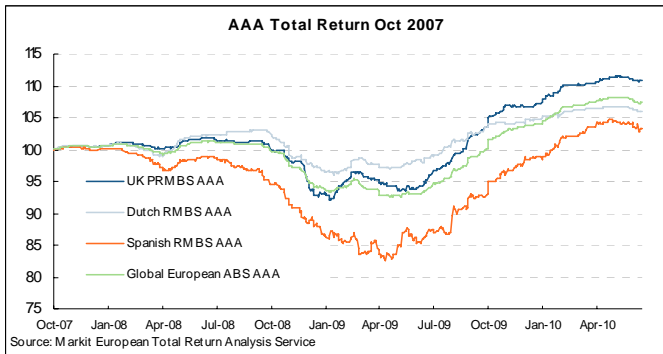
The movers reflect the above mentioned regional split with the deterioration most evident in the mezz tranches of Southern European deals, with Senior UK RMBS as well as Celtic Residential securities showing most improvement.

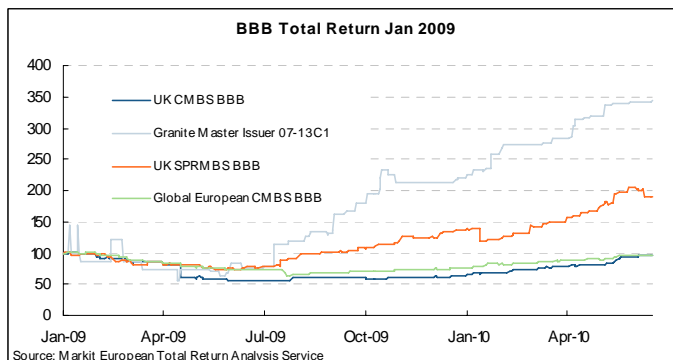
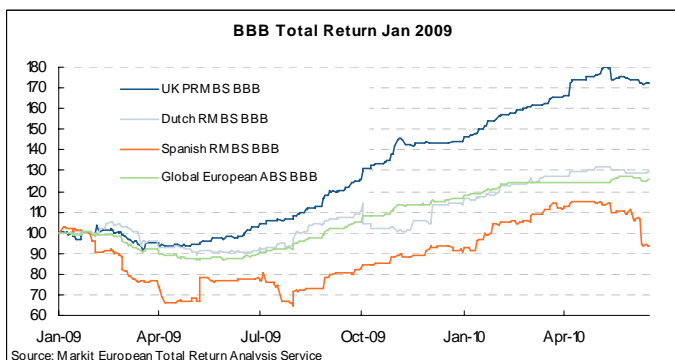
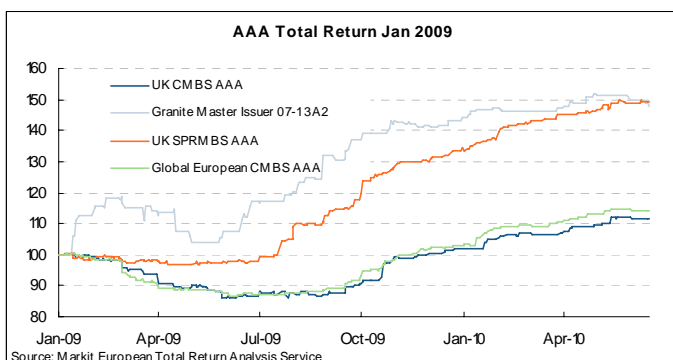
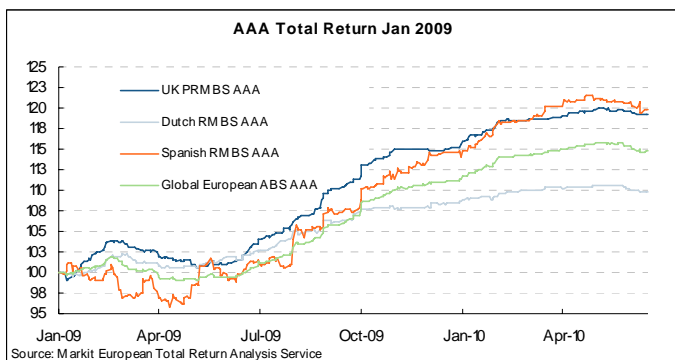
Top 5 ABS Improvers (Source: Markit European ABS Pricing Service)										
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Country	Avg Life(yr)
RMAC 2005 NS3 Plc	2005-N	A2a	GBP	XS0230220443	357	-291.66	AAA	SPRMBS	GBR	5.2
Granite Mtgs 04 2 Plc	2004-2	M	EUR	XS0193216578	321	-152.17	A	PRMBS	GBR	10.1
Newgate Fdg Plc 2006 2	2006-2	A3a	GBP	XS0257991603	255	-67.76	AAA	SPRMBS	GBR	9.0
Lambda Fin BV	2005-1	A2	EUR	XS0237018048	308	-62.78	AAA	Other	ELC	0.9
Granite Master Issuer plc 2006 1	2006-1	M4	EUR	XS0240607720	383	-48.15	A	PRMBS	GBR	10.5

ABS Deteriorators (Source: Markit European ABS Pricing Service)										
Deal Name	Series	Class	Ccy	Isin	Spread (bp)	Change (bp)	Rating	Sector	Country	Avg Life(yr)
Cordusio RMBS Srl	1	C	EUR	IT0003844963	758	315.06	BBB	RMBS	ITA	5.6
Bankinter 11 Fondo de Titul Hipo	11	C	EUR	ES0313714034	2,040	159.34	BBB	RMBS	ESP	8.1
Lusitano Mtgs No 4 plc	1800	A	EUR	XS0230694233	422	140.24	AAA	RMBS	PRT	4.7
Fondo de Titul de Activos UCI 15	2072	A	EUR	ES0380957003	531	139.86	AAA	RMBS	ESP	6.3
Bbva Autos 2 Fondo de Titul de Activos	2	A	EUR	ES0333761007	351	107.56	AAA	Auto Loan	ESP	1.3

European Total Return

The AAA tranches have continued to show some resilience falling slightly, but significant falls across the mezzanine and lower rated tranches especially from the countries most affected by sovereign debt concerns.





European CDS of ABS

European CDS of ABS AAA (Source: Markit European CDS of ABS Service)

Deal Name	Series	Class	Currency	Isin	Levels (12May10)	Levels (17Jun10)	Cash Levels	Basis
Arkle Master Issuer plc Series 2006-2	2006-2	3A2	EUR	XS0277508692	90	95	145	-50
Delphinus 2006-I B.V.	2006-1	A	EUR	XS0256323972	90	95	150	-55
Permanent Master Issuer plc Series 2007-1	2007-1	3A	EUR	XS0288090342	115	130	205	-75
Gracechurch Mortgage Financing plc 2007-1	2007-1	3A2	EUR	XS0302999064	100	110	170	-60
Holmes Master Issuer PLC Series 2007-1	2007-1	3A2	EUR	XS0292750253	85	130	160	-30
Granite Master Issuer plc Series 2007-2 Notes	2007-2	3A2	EUR	XS0298974840	2.5 (%) + 50dm	3.5 (%) + 50dm	91.5	-4.1 (%)
Bankinter 14, Fondo de Titulizacion Hipotecaria	14	A2	EUR	ES0313271019	190	220	260	-40

Primary Market and Rating Actions

Given the current climate of uncertainty it is unsurprising that of the several transactions issued over the last few weeks all but Fosse were either retained or privately placed. Even in Fosse's case the bulk of the issuance was taken up by a few large ticket investors.

Primary Market (Source: Markit European ABS Performance)					
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Felsina Funding Srl	Italian/RMBS	A	AAA	60	217
		B	-	100	30.2
Fosse Master Issuer 2010-2	UK/PRMBS	A1	AAA	143	1475.5
		A2	AAA	140	500
		A3	AAA	140	248
		Z	-	0	297
Hermes XV	Dutch/RMBS	A	AAA	130	1500
		B	AA	60	9.8
		C	A	110	43.7
		D	BBB	180	38.7
		E	BB	975	26.1
Hipocat 20	Spanish/RMBS	A	AAA	30	639
		B	-	-	261
Penarth Master Issuer 2010-1	UK/PRMBS	A1	AAA	85	1201.7
		A2	AAA	85	600.9
		B	A	100	240.3
		C	Baa1	150	274
		D	-	160	240.3
Santander Hipotecario 6	Spanish/RMBS	A	AAA	45	871.5
		B	AA	60	63
		C	A	80	52.5
		D	BBB	175	42
		E	BB	250	21
		F	CCC-	-	210
Storm 2010-2	Dutch/RMBS	A2	AAA	118	950
		B	AA	200	18
		C	A	300	15
		D	BBB+	400	17
		E	Baa3	600	10

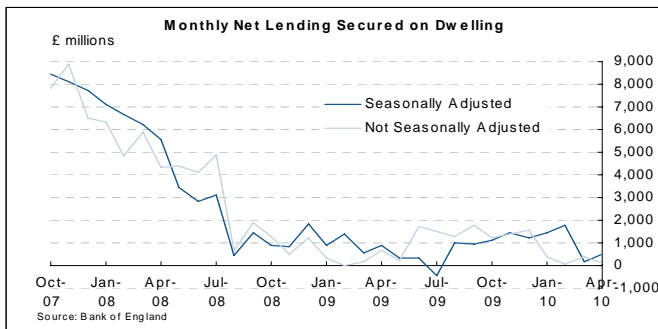
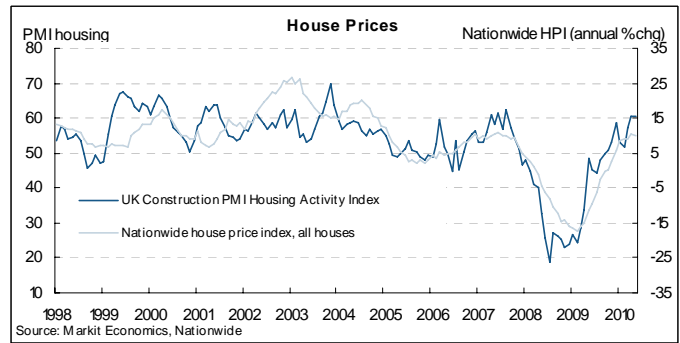
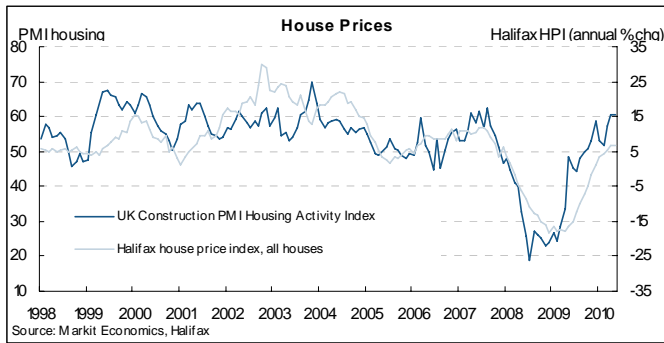
The rating actions are once again predominantly downgrades, and are generally focused on the the Greek / Spanish / Portuguese deals. Several German Auto Loan deals were upgraded, another testament to that countries improving fundamentals.

Deals Affected by Rating Actions (Source: Markit European ABS Performance)		
Deal	Country/Sector	Action
Anaptyxi 2006-1 A	Greek/SME CLO	Downgraded
Aquila (Eclipse 2005-1) C	UK/CMBS	Upgraded
Byzantium Finance A	Greek/RMBS	Downgraded
Chaves SME CLO 1 D, E	Portuguese/SME CLO	Downgraded
Daneion 2007-1	Greek/Consumer Loan	Downgraded
DECO 6 - UK Large Loan 2 A1, A2, B, C, D	UK/CMBS	Downgraded
DECO 7 - Pan Europe 2 B	European/CMBS	Downgraded
Driver Two B; & Four B; & Five B	German/Auto Loan	Upgraded
Ducato Consumer A, B, C	Italian/Consumer Loan	Downgraded
ELOC 26 (Triton) A1, A2, B, C, D, E, F, G, H	UK/CMBS	Downgraded
Emerald Mortgage No. 5 Ltd. B	Irish/RMBS	Downgraded
Estia Mortgage Finance A, B; & II A	Greek/RMBS	Downgraded
FCC Nacrea B	French/CMBS	Downgraded
Foncaixa FTGENCAT 5 D; & 6 D	Spanish/SME CLO	Downgraded
FTA Santander Consumer Spain Auto 07-1 D	Spanish/Auto Loan	Downgraded
Gate SME CLO 2005-1 G; & 2005-2 D, E, F, G; & 2006-1 B, C, D, E	German/SME CLO	Downgraded
Hercules (Eclipse 2006-4) A, B, C, D, E	UK/CMBS	Downgraded
Kion Mortgage Finance A, B	Greek/RMBS	Downgraded
Lithos Mortgage Financing A, B	Greek/RMBS	Downgraded
London & Regional Debt Securitisation No. 2 A, B, C	UK/CMBS	Downgraded
Pisti 2010-1 A	Greek/Credit Card	Downgraded
RMAC Securities No.1 (Series 2006-NS1) M1a, M1c, M2a, M2c, B1c	UK/NC RMBS	Downgraded
Sandwell Commercial Finance No.1 D, E; & No.2 D, E; & No.3 C, D	UK/CMBS	Downgraded
SC Germany Auto 07-1 B, SUB; & 07-2 B, SUB; & 08-1 B, SUB; & 08-2 B	German/Auto Loan	Upgraded
Southern Pacific Securities 05-1 D1c, E	UK/NC RMBS	Downgraded
Talisman Finance 4 A	German/CMBS	Downgraded
TDA 28 A, B, C	Spanish/RMBS	Downgraded
Themeleion Mortgage Finance II A, B; & III A, M; & IV A	Greek/RMBS	Downgraded
Titan Europe 2006-1	European/CMBS	Downgraded
Unique Pub Finance A2N, A3, A4, M, N	UK/Whole Business	Downgraded
Victoria Funding (EMC-III) E	UK/CMBS	Downgraded
Windermere VIII A2, A3, B, C, D	UK/CMBS	Downgraded

Economics Data

The house price indices continue to send mixed signals with Halifax showing an increase in month on month declines from 0.1% seen in April to 0.4% in May. Nationwide on the other hand is stating that prices continue to rise at an all be it lower rate of 0.5%. The former see softening in employment figures as well as an increasing supply of properties to the market contributing to the continued decline whilst the latter continue to see "thin transaction volumes" and "relative scarcity of properties for sale". Nationwide's annual growth rate is back down to single digits at 9.8%, whilst Halifax (despite the increase in the month-on-month declines) is showing a higher annual growth rate of 6.9% up by 0.3% from April's figure.

Other indicators are painting a slightly improving landscape of the UK housing market with Bank of England's seasonally adjusted net lending secured on dwellings as well as Markit's/CIPS' Construction

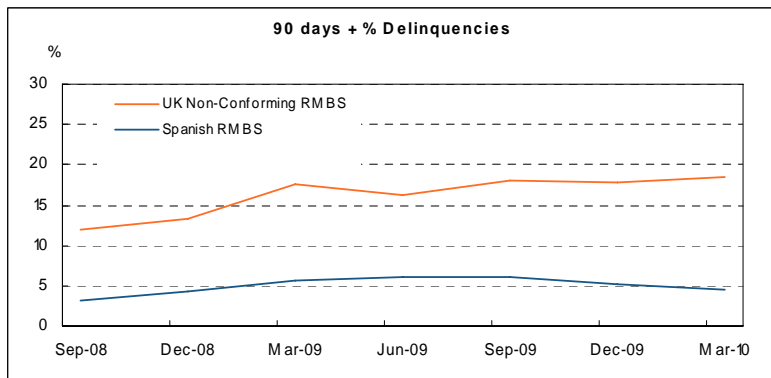


ABS Performance Highlight: Spanish and Non-Conforming UK RMBS

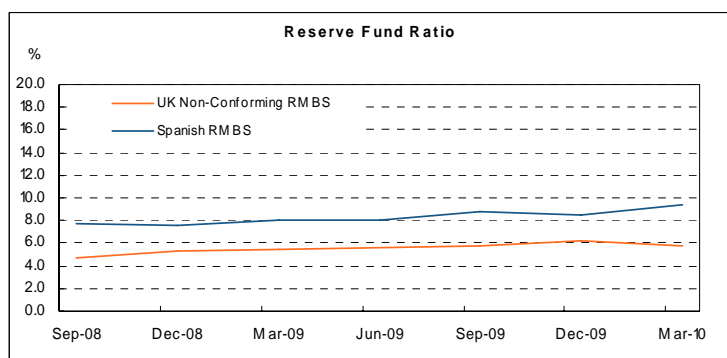
After the Greek economy and its recent collapse, Spain is one of the most problematic countries in the Eurozone, with an unemployment rate close to 20%, a negative GDP growth and a depressed housing market.

Spanish RMBS has shown an improvement in their performance over time, with lower arrears and decreasing CPR. However, the concern around the condition of the Spanish economy remains considerable, pointing to the possibility that RMBS performance might be negatively affected by the distressed economy.

Northern European countries, on the other hand, seem to have suffered less due to the situation surrounding Greece. The UK housing market has shown some signs of improvements and UK Non-Conforming RMBS seem to be maintaining stable performance. In the following analysis, we will look at the overall performance of the Spanish RMBS and UK Non-Conforming RMBS sectors as a whole; comparing the two sectors for any signs of distress.



The reserve fund ratio for the UK Non-Conforming RMBS sector has slightly decreased from January 2010 to March 2010, from 6.21% to 5.82%, and the 90 days + delinquencies have increased, from 17.91% to 18.47%. The Spanish RMBS sector in the same period from January 2010 to March 2010 has seen the reserve fund ratio has increase, from 8.43% to 9.40% and 90 days + delinquencies have decreased from 5.23% to 4.44%.



From the graphs above, the UK Non-Conforming RMBS sector seems to have higher delinquencies than the Spanish RMBS one. Therefore, to have a better picture of the magnitude of the losses in the two sectors, we can take the ratio between the cumulative losses at March 2010 and the outstanding balance of the seven biggest deals, in terms of size. The outstanding balance of the seven biggest Spanish RMBS is EUR 11,525,537,443.53 as at March 2010 and the cumulative loss ratio is 4.76%. The seven biggest UK non-conforming RMBS deals have a total outstanding balance of GBP 204,355,470,913.69 with a cumulative loss ratio of 0.19%. The cumulative loss ratio shows that the percentage of losses in the UK Non-Conforming RMBS sector is less than the percentage of the losses in the Spanish RMBS sector.

Our analysis points to the fact that UK Non-Conforming RMBS is performing better than Spanish RMBS. Going forward, the outlook of the Spanish economy combined with the weaknesses of the Spanish banking system, might cause a further decline in the RMBS performances and reduce the appetite of the investors for these deals. In UK, despite slightly positive signals from the housing market, the level of unemployment and a possible LIBOR drop might impact negatively the UK Non-Conforming RMBS sector.

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