



ESF Securitisation

Data Report

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European Securitisation Volume Surges to Record First Quarter of €125.7 billion; RMBS, CMBS and CDO Sectors Lead the Way

Highlights

- European securitisation issuance reached a first quarter record of €125.7 billion, nearly double the €64.2 billion in the first quarter of 2006. The volume was 29.0 percent lower than the €169.7 billion record fourth quarter set in 2006. The fourth quarter has consistently been the highest volume quarter of the year.
- European securitisation is on track to surpass the full-year issuance record of €440 billion set in 2006 based on the first quarter issuance level and considering the fact that, historically, the first quarter has accounted for less than a fifth of the total annual volume.
- RMBS was the largest issuing sector, accounting for 61 percent of total first quarter issuance. Mortgage-related markets, including RMBS and CMBS, accounted for 70.2 percent of total securitised issuance.
- CDO issuance was the second ranking product sector, with the volume more than three times the volume in the first quarter of 2006 and higher than the fourth quarter of 2006.

Economic and Market Environment

Economic Conditions

- Stronger economic growth, investment and consumer spending expansion, housing market trends and historically low interest rates have supported rising issuance volumes and favourable credit quality indications.
- The European economic growth outlook remains solid for 2007, although the consensus view is that the growth rate is expected to moderate from the above trend growth of 2.75 percent in 2006.
- The outlook will be affected by interest rates edging up. The monetary tightening cycle is expected to be close to its completion. Based on a view of sustainable economic growth, the European Central Bank (ECB) in December tightened or raised rates for the seventh time to 3.75% which is still considered accommodative.
- European market participants are actively monitoring the performance of UK and continental European RMBS backed by non-conforming subprime mortgages. Although there is little evidence to date that the European subprime market is experiencing any material problems, the ESF is actively monitoring credit performance and market activity.

Market Conditions

- New securitisation issuance supply continues to be well absorbed. Despite the growing volume, spreads were stable for much of the first quarter.
- Investors have found European securitisation market credit quality, available yields and liquidity attractive. A pick up in global financial market volatility from historically low levels and the associated effect on risk tolerance could affect spread differentials between high investment grade and more credit exposed tranches.
- Average indicative AAA spreads to benchmark generally remained flat at historically tight levels for the quarter across product sectors, with average spreads slightly tighter than a year ago. Looking at specific country of collateral spreads in the secondary market, five-year floating rate AAA Irish (approximately 2 basis points) and German RMBS (approximately 3 basis points) tightened slightly while five-year Spanish spreads widened somewhat (about 3 basis

points) over the last year. Certain lower investment rated tranches have tightened more than more senior tranches such as 5-year “BBB” rated CMBS and 10-year managed CLO “A” and “BBB” rated paper.

- Nonconforming U.K. 5-year RMBS secondary spreads have remained stable during the quarter. Lower investment grade nonconforming RMBS spreads are slightly wider compared to a year ago. New issue nonconforming RMBS pricing appears to have been stable to tighter during the quarter. Recent deals in March had 15 to upper teens basis point spreads in the AAA tranche.

Collateral Sectors

- Residential mortgage-backed securities (RMBS) continued to be the leading issuance sector with €76.4 billion and 60.8 percent of the total securitised volume. RMBS issuance was more than double the volume compared to the first quarter last year but 23.4 percent lower than the fourth quarter of 2006 which, as already noted, is historically the strongest issuance quarter of the year.
- Collateralised debt obligations (CDO) reached a quarterly record of €29.4 billion, slightly higher than the previous record of €27.6 billion issued in the fourth quarter of 2006 and more than three times the volume of the first quarter a year ago. While collateralised loan obligations (CLO) continue to be a dominant product in the sector, there is increasing CDO sector collateral diversity, including CRE (commercial real estate) CDO, CDO of ABS and a growing interest in structures supported by non-credit risk exposures such as commodities, equities and foreign exchange.
- Commercial mortgage-backed securities (CMBS) was the third largest sector with €11.9 billion, up 58.7 percent from the €7.5 billion issued in the first quarter of 2006.
- Auto loan backed ABS issuance rose sharply to €2.3 billion compared to approximately €700 million in the first quarter of 2006.
- Issuance of credit card receivables was only €87.6 million, a decline from the €1.6 billion issued in the first quarter of 2006.

Country of Collateral (excluding CDO)¹

- Issuance of securities supported by collateral originated in the UK accounted for 55.9 percent of overall volume in the first quarter at €53.8 billion, higher than the €36.1 billion in the first three months of 2006. UK RMBS totaled €43.7 billion, accounting for 57.2 percent of the total RMBS volume, slightly lower than the 60.9 percent share in the first quarter of 2006. The UK also provided most of the collateral for the first quarter CMBS volume at €9.2 billion or 77.3 percent of the total CMBS volume.
- Securities with Spanish collateral totaled €17.2 billion, more than three times the issuance during the same period in 2006. The strong first quarter was buoyed by the largest Spanish RMBS deal in history of €5 billion. RMBS issues accounted for all of the Spanish originated collateral volume and Spanish issuance accounted for the second largest share of the RMBS market.
- Securitisation backed by Italian collateral more than doubled to €6.7 billion in the first quarter, compared to €3.0 billion in the same period of 2006. Most of the Italian collateral backed issuance was RMBS with €4.2 billion, and the remaining issues were categorised as securitised leases and loans. In January of 2007, the Italian government issued a new law which includes a provision that abolishes prepayment penalties on new mortgages for the purchase of a primary residence.
- Dutch issuance reached €6.4 billion in the first three months of the year, slightly lower than the €6.9 billion issue in first quarter of 2006.
- Issuance backed by German collateral increased to €3.5 billion in the first quarter, nearly four times the volume of the €900 million in the same period of 2006. German CMBS issuance continues to build, totaling €1.5 billion in the quarter. Both German auto loans and lease securitisation volumes reached €1.0 billion.
- Issuance volumes of collateral from Ireland, Portugal and France increased in the first quarter, totaling €3.0 billion, €2.8 billion and €1.3 billion, respectively.
- Kazakhstan supported collateral in the first quarter was €0.1 billion, following the first ever Kazakhstan deal in the fourth quarter of 2006. Danish collateral supported issuance made a return to the market after being absent in 2006.

¹ Covered bond issuance data is available at the European Covered Bond Council's web site, <http://ecbc.hypo.org/Content/Default.asp>.



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Historical Issuance

	Q1	Q2	Q3	Q4	Total
2000	14.1	16.4	21.4	26.3	78.2
2001	20.5	43.2	22.7	66.2	152.6
2002	24.3	42.6	35.7	55.1	157.7
2003	43.3	51.9	39.7	82.4	217.3
2004	55.8	59.0	53.2	75.5	243.5
2005	47.8	94.4	41.5	143.3	327.0
2006	66.1	105.4	110.3	177.1	458.9
2007	125.7				125.7

Issuance by Collateral

	2007:Q1	2007:Q2	2007:Q3	2007:Q4	2007 TOTAL
Auto Loans	2.3				2.3
C. Cards Rec	0.1				0.1
CDO ¹	29.4				29.4
CMBS	11.9				11.9
Leases ²	1.7				1.7
Loans ³	3.9				3.9
Receivables ⁴	-				0.0
RMBS	76.4				76.4
Other	-				0.0
Total	125.7	0.0	0.0	0.0	125.7

	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL
Auto Loans	0.7	1.0	3.2	6.8	11.7
C. Cards Rec	1.6	1.0	0.2	0.6	3.4
CDO ¹	9.6	18.3	14.1	27.6	69.6
CMBS	7.5	9.6	22.0	21.0	60.1
Leases ²	0.4	1.0	0.3	4.2	5.9
Loans ³	1.5	5.3	2.9	6.0	15.7
Receivables ⁴	0.5	1.5	3.6	0.4	6.0
RMBS	37.6	49.3	58.0	99.7	244.6
Other	4.8	13.8	2.1	2.8	23.5
Total	64.2	100.8	106.4	169.1	440.5

¹ CDO securities issued in Euros

² Includes leveraged, commercial, consumer, corporate and other loans

³ Includes equipment and other leases

⁴ Includes account, health care, insurance, utility and other receivables

Issuance by Country of Collateral (Excluding CDO⁴)

	2007:Q1	2007:Q2	2007:Q3	2007:Q4	2007 TOTAL
Austria	-				-
Belgium	-				-
Denmark	0.2				-
France	1.3				1.3
Germany	3.5				3.5
Greece	-				-
Ireland	3.0				3.0
Italy	6.7				6.7
Kazakhstan	0.1				0.1
Netherlands	6.4				6.4
Portugal	2.8				2.8
Russia	-				-
Spain	17.2				17.2
Sweden	-				-
Turkey	-				-
UK	53.8				53.8
Ukraine	0.1				0.1
Multinational	1.2				1.2
Total	96.3				96.1

	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL
Austria	-	-	-	0.6	0.6
Belgium	-	-	-	2.3	2.3
Denmark	-	-	-	-	0.0
France	0.6	0.7	4.1	2.3	7.7
Germany	0.9	11.2	18.4	7.2	37.7
Greece	-	2.0	1.0	0.6	3.6
Ireland	0.4	2.5	3.3	4.5	10.7
Italy	3.0	12.5	4.2	10.5	30.2
Kazakhstan	-	-	-	0.2	0.2
Netherlands	6.9	6.0	3.6	12.1	28.6
Portugal	-	-	4.9	0.9	5.8
Russia	1.0	-	0.1	0.6	1.7
Spain	5.7	13.2	4.9	20.2	44.0
Sweden	-	0.2	-	-	0.2
Turkey	-	0.7	-	1.2	1.9
UK	36.1	31.7	47.0	77.4	192.2
Ukraine	-	-	-	-	-
Multinational	-	1.8	0.8	0.9	3.5
Total	54.6	82.5	92.3	141.5	370.9



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Collateral Type by Country of Collateral (Excluding CDO¹)

2006:Q1 YTD

	Auto Loans	CMBS	C. Card Rec	Leases ²	Loans ³	Receivables ⁴	RMBS	Other	TOTAL
France	-	-	-	-	-	-	-	0.6	0.6
Germany	-	0.9	-	-	-	-	-	-	0.9
Ireland	-	0.4	-	-	-	-	-	-	0.4
Italy	-	-	-	-	0.6	0.2	2.1	-	2.9
Netherlands	-	-	-	-	-	-	6.9	-	6.9
Russia	-	-	-	0.4	0.3	0.3	-	-	1.0
Spain	-	-	-	-	-	-	5.7	-	5.7
UK	0.7	6.2	1.6	-	0.5	-	22.9	4.3	36.2
Total	0.7	7.5	1.6	0.4	1.4	0.5	37.6	4.9	54.6

2007:Q1 YTD

	Auto Loans	CMBS	C. Card Rec	Leases ¹	Loans ²	Receivables ³	RMBS	Other	TOTAL
Denmark	-	-	-	-	-	-	0.2	-	0.2
France	1.3	-	-	-	-	-	-	-	1.3
Germany	1.0	1.5	-	-	1.0	-	-	-	3.5
Ireland	-	-	-	-	-	-	3.0	-	3.0
Italy	-	-	-	1.7	0.8	-	4.2	-	6.7
Kazakhstan	-	-	-	-	-	-	0.1	-	0.1
Netherlands	-	-	-	-	1.3	-	5.1	-	6.4
Portugal	-	-	-	-	-	-	2.8	-	2.8
Spain	-	-	-	-	-	-	17.2	-	17.2
UK	-	9.2	0.1	-	0.8	-	43.7	-	53.8
Ukraine	-	-	-	-	-	-	0.1	-	0.1
Multinational	-	1.2	-	-	-	-	-	-	1.2
Total	2.3	11.9	0.1	1.7	3.9	0.0	76.4	0.0	96.3

¹ CDO issuance in 2006 totaled €69.6 billion and €29.4 billion in 2007:Q1. Only CDO issued in Euros are included.
A substantial percentage of CDOs are backed by multi-jurisdictional collateral.

² Includes leveraged, commercial, consumer, corporate and other loans

³ Includes equipment and other leases

⁴ Includes account, health care, insurance, utility and other receivables

Sources: Thomson Financial, Dealogic, JP Morgan, Merrill Lynch, Structured Finance International, Bloomberg