



ESF Securitisation

Data Report

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European Securitization Issuance Sets Record in 2006 at €458.9 Billion, Led By RMBS, CDO and CMBS Sectors

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Highlights

- European securitisation issuance established a record in 2006 with an estimated €458.9 billion, surpassing the previous record of €27.0 billion issued in 2005.
- Issuance in the fourth quarter also established a fourth quarter record with €177.1 billion, 60.6 percent higher than the third quarter and 23.6 percent higher than the fourth quarter of 2005. Historically, the fourth quarter has been the strongest issuance quarter of the year.
- RMBS, CDO and CMBS sectors were the leading growth collateral sectors.

Economic and Market Environment

- The European macroeconomic environment continues to be favorable for the securitised markets.
- Stronger economic growth, the improved employment situation, continued housing sector strength and the associated credit expansion are supportive of both rising issuance volumes and credit quality.
- Investor demand has enabled the record level of issuance to be well absorbed by the marketplace which is characterised by increasing liquidity that shows no sign of abating. The record volume is generally having little effect on pricing, indicative of investor demand relative to the substantial issuance supply, though some tiering is beginning to be seen. There is substantial demand for lower rated issues and more complex structures (for example, rated CDO equity and CPDO) among investors searching for additional yield.
- The recent trends of more securitised product investors, additional collateral classes, and increased number of countries of collateral are continuing and are factors in the market growth.
- Relatively tight spreads appear to be range bound for the more traditional products such as high grade RMBS. AAA Euro (5 year WAL) RMBS spreads were flat for the quarter at about 11 basis points, and about one to two basis points tighter for the year. Spreads have tightened in "yieldier" sectors such as CDO and CMBS, though there is some dispersion depending on the specific deal structure. Leveraged loan AA rated CLO (7 to 10 year WAL) spreads were flat for the quarter at 38 basis points but 7 basis points tighter than a year ago, and A rated CLO (8-10 WAL) were 2 basis points wider for the quarter but about 8 basis points tighter than a year ago.

Collateral Sectors

- Residential mortgage-backed securities (RMBS) was the largest issuance sector once again in 2006 totaling €244.6 billion and accounting for 53.3 percent of the overall European securitisation volume.
- Collateralised debt obligations (CDO) was the second largest asset type at €88.0 billion. Collateralised loan obligations, or CLOs, consisting of leveraged loans and SME collateral, dominated the CDO sector. The fourth quarter saw the first CRE (commercial real estate) CDO issued in Europe and consisted largely of UK and German collateral.
- Commercial mortgage-backed securities (CMBS) ended the year as the third largest sector with €60.1 billion, up 55.7 percent from the €38.6 billion issued in 2005. CMBS credit quality is benefiting from asset revaluations, increased coverage ratios, and rating upgrades exceeding downgrades. A good deal of the growth came from a small number of large German deals and existing conduit demand for financing.



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- Issuance of ABS backed by auto loans totaled €11.7 billion in 2006 compared to €4.1 billion in 2005, while credit card receivable ABS slowed to €3.4 billion compared to €11.7 billion in 2005.

Country of Collateral (excluding CDO)¹

- Securitisation issuance backed with UK collateral reached €192.2 billion in 2006, significantly higher than the €126.4 billion issued in 2005. UK RMBS totaled €138.8 billion in 2006 and accounted for a 56.7 percent share of the overall RMBS sector, compared to 48.8 percent in 2005. The CMBS sector was also dominated by UK collateral with €33.8 billion or 56.3 percent of all CMBS.
- Issuance of securities with collateral based in Spain was €44.0 billion, up 8.6 percent from the 2005 issuance volume. Spain had the second largest RMBS share at 19 percent with €36.4 billion.
- German issuance grew to 37.7 billion in 2006, more than double the €15.5 billion issued in 2005 with much of that growth driven by CMBS transactions. CMBS issuance at €18.8 billion accounted for about half of the German volume. Germany accounted for 31% of the CMBS volume and 41.9 percent of total European auto loan ABS at €4.9 billion. The German issuance is trending toward funding with bank disintermediation on the rise relative to issuance motivated by capital relief. The first German non-performing loan ABS came to market in the fourth quarter.
- Issuance backed by Italian collateral totaled €30.2 billion. Italian RMBS volume was €16.5 billion. Italian lease ABS, which includes equipment and other leases, reached €5.2 billion in 2006, accounted for nearly 90 percent of the entire sector.
- Dutch collateralised issuance was €28.6 billion in 2006 with most of that volume being RMBS at €26.5 billion.
- New issue activity from Ireland, Belgium and Russia increased significantly in 2006, totaling €10.7 billion, €2.3 billion and €1.7 billion, respectively. The first Russian rouble dominated RMBS deals came to market.²

¹Please note that the country of collateral totals exclude CDOs as a substantial volume of CDO deals are multi-jurisdictional.

²Covered 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

Issuance by Collateral

	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL	2005:Q1	2005:Q2	2005:Q3	2005:Q4	2005 TOTAL
Auto Loans	0.7	1.0	3.2	6.8	11.7	-	1.2	0.0	2.9	4.1
C. Cards Rec	1.6	1.0	0.2	0.6	3.4	-	1.2	2.7	7.8	11.7
CDO ¹	11.5	22.9	18.0	35.6	88.0	5.7	14.6	5.3	23.3	48.9
CMBS	7.5	9.6	22.0	21.0	60.1	7.2	8.7	9.1	13.6	38.6
Leases ²	0.4	1.0	0.3	4.2	5.9	1.5	2.1	-	4.6	8.2
Loans ³	1.5	5.3	2.9	6.0	15.7	2.4	8.4	3.2	32.9	46.9
Receivables ⁴	0.5	1.5	3.6	0.4	6.0	1.5	1.6	0.5	0.4	4.0
RMBS	37.6	49.3	58.0	99.7	244.6	26.8	42.5	19.1	56.5	144.9
Other	4.8	13.8	2.1	2.8	23.5	2.7	14.1	1.6	1.3	19.7
Total	66.1	105.4	110.3	177.1	458.9	47.8	94.4	41.5	143.3	327.0

¹ CDO securities issued in Euros

² Includes equipment and other leases

³ Includes leveraged, commercial, consumer, corporate and other loans

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

Issuance by Country of Collateral (Excluding CDO⁴)

	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL	2005:Q1	2005:Q2	2005:Q3	2005:Q4	2005 TOTAL
Austria	-	-	-	0.6	0.6	-	0.3	-	0.4	0.7
Belgium	-	-	-	2.3	2.3	-	-	-	0.5	0.5
Denmark	-	-	-	-	0.0	-	-	-	0.1	0.1
France	0.6	0.7	4.1	2.3	7.7	0.5	2.4	-	4.6	7.5
Germany	0.9	11.2	18.4	7.2	37.7	0.5	9.5	0.4	5.1	15.5
Greece	-	2.0	1.0	0.6	3.6	-	1.5	0.8	-	2.3
Ireland	0.4	2.5	3.3	4.5	10.7	-	-	0.5	-	0.5
Italy	3.0	12.5	4.2	10.5	30.2	2.4	14.9	0.5	14.9	32.7
Netherlands	6.9	6.0	3.6	12.1	28.6	3.4	10.0	6.3	19.5	39.2
Portugal	-	-	4.9	0.9	5.8	0.5	1.6	1.2	4.3	7.6
Russia	1.0	-	0.1	0.6	1.7	-	-	0.0	-	0.0
Spain	5.7	13.2	4.9	20.2	44.0	5.1	14.5	1.8	19.1	40.5
Sweden	-	0.2	-	-	0.2	-	0.3	-	-	0.3
Turkey	-	0.7	-	1.2	1.9	0.4	1.4	0.5	0.4	2.7
UK	36.1	31.7	47.0	77.4	192.2	29.0	23.4	23.1	50.9	126.4
Multinational	-	1.8	0.8	1.1	3.7	0.3	-	1.1	0.2	1.6
Total	54.6	82.5	92.3	141.5	370.9	42.1	79.8	36.2	120.0	278.1

⁴ CDO issuance in 2005 totaled €48.9 billion and €88.0 billion in 2006. Only CDO issued in Euros are included.

A substantial percentage of CDOs are backed by multi-jurisdictional collateral.

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



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Collateral Type by Country of Collateral (Excluding CDO¹)

2005

	Auto Loans	CMBS	C. Card Rec	Leases ²	Loans ³	Receivables ⁴	RMBS	Other	TOTAL
Austria	-	0.3	-	0.4	-	-	-	-	0.7
Belgium	-	-	-	-	-	-	-	0.5	0.5
Denmark	-	-	-	-	-	-	0.1	-	0.1
France	0.5	0.7	-	-	2.1	0.2	4.0	-	7.5
Germany	0.7	3.5	-	0.8	1.4	-	1.1	8.0	15.5
Greece	-	-	0.8	-	-	-	1.5	-	2.3
Ireland	-	-	-	-	-	-	-	0.5	0.5
Italy	1.2	3.0	-	6.9	11.9	1.0	8.2	0.5	32.7
Netherlands	0.7	3.9	-	0.1	9.5	-	25.0	-	39.2
Portugal	-	-	-	-	0.6	-	7.0	-	7.6
Russia	0.0	-	-	-	-	-	-	-	0.0
Spain	1.0	0.3	-	-	10.3	-	27.3	1.6	40.5
Sweden	-	0.3	-	-	-	-	-	-	0.3
Turkey	-	-	0.5	-	-	2.2	-	-	2.7
UK	-	25.7	10.4	-	10.8	0.7	70.7	8.1	126.4
Multinational	-	0.9	-	-	0.2	-	-	0.5	1.6
Total	4.1	38.6	11.7	8.2	46.8	4.1	144.9	19.7	278.1

2006

	Auto Loans	CMBS	C. Card Rec	Leases ²	Loans ³	Receivables ⁴	RMBS	Other	TOTAL
Austria	0.6	-	-	-	-	-	-	-	0.6
Belgium	-	-	-	-	-	-	1.6	0.7	2.3
France	3.1	1.5	-	-	2.2	-	0.3	0.6	7.7
Germany	4.9	18.8	-	0.3	-	-	6.2	7.5	37.7
Greece	-	-	-	-	-	-	3.6	-	3.6
Ireland	-	0.4	-	-	-	-	10.2	-	10.6
Italy	-	1.7	-	5.2	2.8	2.3	16.5	1.7	30.2
Netherlands	-	1.6	-	-	0.5	-	26.5	-	28.6
Portugal	0.5	-	-	-	0.9	-	4.4	-	5.8
Russia	0.2	-	-	0.4	0.3	0.7	0.1	-	1.7
Spain	1.4	-	-	-	6.2	-	36.4	-	44.0
Sweden	-	-	-	-	0.2	-	-	-	0.2
Turkey	-	-	-	-	-	-	-	1.9	1.9
UK	-	33.8	3.4	-	2.4	3.0	138.8	10.8	192.2
Multinational	1.0	2.3	-	0.0	0.2	-	-	0.3	3.8
Total	11.7	60.1	3.4	5.9	15.7	6.0	244.6	23.5	370.9

¹ CDO securities issued in Euros

² Includes equipment and other leases

³ Includes leveraged, commercial, consumer, corporate and other loans

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

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