

# ESF Securitisation

## Data Report

Summer 2007

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### Market Outstanding Volume is €1.28 Trillion as of 30 June 2007; European Securitisation Issuance Reaches €280.6 Billion in the First Half of 2007

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#### Highlights

- For the first time, the European Securitisation Forum (ESF) is publishing the outstanding volume for the European securitisation market.<sup>1</sup> As of 30 June 2007, the European securitisation market outstanding stood at €1.28 trillion. The European outstanding estimates provide a measure of the size of the European structured market and enables investors to compare their portfolios against the European universe. It is also an important from a financial stability perspective as it represents the amount of risk that is transferred via securitisation versus other financial instruments.
- European securitisation issuance reaches €280.6 billion through the first half of 2007, nearly 70 percent higher than the €168.0 billion issued during the same period in 2006. Second quarter volume totaled €146.9 billion, a 9.9 percent increase over the first quarter and a 44.0 percent increase over the second quarter in 2006. The global credit market repricing and reduced market liquidity will slow second half volumes.
- Residential mortgage-backed securities (RMBS) was the largest issuing sector, accounting for 56.9 percent of total issuance in the first half of the year.
- Collateralised Debt Obligation (CDO) issuance was the second highest ranking product sector, contributing €53.9 billion — an increase of nearly 75 percent on the amount issued in the first half of 2006. Second quarter issuance increased to €23.0 billion, up from €19.5 billion a year ago; however, issuance was 25.6 percent lower than the volume issued in the first quarter, reflecting the onset of weakened global credit market conditions. CDO demand has dropped since quarter-end on greater investor risk sensitivity.
- Commercial mortgage-backed issuance more than doubled to €36.9 billion in the first half of the year. Combined, mortgage-related markets, including RMBS and commercial mortgage-backed securities (CMBS), accounted for 70.0 percent of total securitised issuance.

#### Economic and Market Environment

##### *Economic Conditions*

- Sustained economic growth, investment and consumer spending expansion, higher corporate profits and historically low interest rates have supported rising issuance volumes.
- While “headline” inflationary data have moderated, central bank policies are sensitive to inflationary pressures from such sources as bottlenecks arising as the economy approaches full capacity on the supply side and rising consumer spending on the demand side. The Euro currency appreciation serves to ease inflationary pressures.

<sup>1</sup> Outstanding volume is calculated by the principal balance outstanding on all structured product transactions, including public, private, rated, unrated, listed and unlisted securities, with European assets or liabilities as reported by Bloomberg. Current outstanding volume is calculated using either the current or original pool factor, as adjusted for the expected weighted average life at the time of transaction pricing for each tranche.

Consistent with securitisation issuance calculations and presentation, outstanding volume is detailed by currency, country of collateral and asset class. The criteria includes all sectors, except CDO, if the collateral originates from a European country regardless of currency. For the CDO sector, only Euro denominated issuance is included regardless of the country of collateral.

- The outlook will be affected by interest rates edging up, as well as global credit market repricing. Based on a view of broad-based economic growth and objective of anchoring inflationary expectations conducive with price stability, the ECB in early June tightened or raised rates for the eighth time to 4.00 percent which is still considered accommodative.

European market participants and the ESF are actively monitoring the performance of UK and continental European RMBS backed by non-conforming subprime mortgages.

## *Market Conditions*

- New securitisation issuance supply had been well absorbed over the last several years and into the first half of the year based on strong investor demand.
- Global credit repricing, increased volatility and reduced liquidity in the third quarter are causing spreads to widen across the credit quality spectrum and are affecting investor risk appetite and contributing to some “flight to quality.” Investors have been showing signs of making greater distinctions among deals and asset classes based on credit risk exposures and between high investment grade and more credit sensitive tranches. Through the first few weeks of the third quarter, implications had been tighter to stable spreads in higher quality deals and relatively softer pricing for the transactions perceived to be more credit exposed during the first half.
- There appeared to be increased tiering as high investment grade credit spreads remained relatively stable during the first half of the year but certain sectors, especially lower investment grade rated tranches, widened.
- As the third quarter progressed, there has been a general trend towards continued spread softening across certain product and credit quality sectors that escalated in late July and into August as liquidity faded and as market-to-market concerns and volatility concerns became more prominent. The situation is likely to remain unchanged until September which should be a telling period regarding market direction.
- Headline risk is likely to remain for some time. Once market conditions stabilise, the clearing prices will take into account the credit quality measures and higher volatility. Longer term buy-and-hold investors will be relatively advantaged and due diligence, transparency and credit quality distinctions will become significant themes.

## **Collateral Sectors**

- RMBS continued to be the leading issuance sector with €159.6 billion and 56.9 percent of overall volume of total securitised volume through the second quarter. RMBS issuance was nearly 60 percent the volume compared to the second quarter last year but lower than the first quarter. An emerging product is European alternative prime which is a product based on expanded lending criteria to prime borrowers. The first pan-European alternative prime RMBS came to market in early July consisting of German and Italian collateral.
- CDO issuance increased nearly 75 percent to €53.9 billion in the first half of the year, though volume in the second quarter slowed to €23.0 billion, down from €30.9 billion in the first quarter.
- CMBS was the third largest sector with €36.9 billion, more than double the €17.1 billion issued in the first half of 2006.
- Auto loans backed ABS issuance rose significantly in the second quarter to total €8.2 billion for the first half of the year, up from the €1.7 billion during the same period a year ago.

## **Country of Collateral (excluding CDO)<sup>2</sup>**

- Securitisation issuance backed by collateral originated in the UK reached €124.6 billion and accounted for 55.0 percent of overall volume in the first half of the year. Issuance in the first half of the year was 83.8 percent higher than the €67.8 billion issued at the same time last year. Second quarter issuance totaled €62.1 billion, nearly double the volume issued in the second quarter last year and only fractionally smaller than the €62.5 billion issued in the first quarter. UK RMBS totaled €96.2 in the first half and accounted for a 60.3 percent share of the overall RMBS sector, compared to 50.5 percent at the same time in 2006. The CMBS sector was also dominated by UK collateral with €22.1 billion, or 59.9 percent of total CMBS issuance. Outstanding securitisation volume with collateral originating in the UK was €496.8 billion, nearly 40 percent of the entire European securitisation market.
- Issuance of securities with collateral based in Spain was €31.0 billion, up from €18.9 billion in the first half of 2006. Spanish volume in the first half of the year was driven by strong RMBS issuance growth through the first quar-

<sup>2</sup> CDO issuance in 2006 totaled €103.6 billion and €72.1 billion through 2007:Q2. Only CDO issued in Euros are included. Covered bond issuance data is available at the European Covered Bond Council's website, <http://ecbc.hypo.org/Content/Default.asp>



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ter. RMBS issuance totaled €22.8 billion in the first half, up from €16.0 billion during the same period last year. Outstanding volume in Spain, one of the largest growing regions, grew nearly 20 percent to €164.4 billion.

- Italian issuance grew to €20.8 billion in the first half of 2007, 34.2 percent higher than the €15.5 billion issued in 2006 with much of that growth coming from RMBS transactions. Italian RMBS issuance totaled €15.2 billion, nearly three-quarters of total Italian securitised issuance. The reduction of the prepayment penalties introduced by the Bersani Decree may be felt during the second part of the year with higher spreads due to the potential increase of prepayments.
- Issuance backed by collateral originated in the Netherlands totaled €16.4 billion, 27.1 percent higher than the first half of 2006. Dutch RMBS volume totaled €11.5 billion through the first six months of this year. CMBS was the second largest Dutch collateral product sector at an issuance volume of €4.2 billion.
- German collateralised issuance volume was €11.7 billion in the first half of the year, with most of that volume coming from the CMBS sector which totaled €7.6 billion.
- Other significant sources of collateral for new issuance were Ireland (€6.0 billion), Portugal (€5.2 billion), France (€3.1 billion), Greece (€1.6 billion) and Russia (€1.0 billion). Switzerland returned to the market with first half issuance of €0.7 billion after being absent in 2006.
- Issuance supported by multinational collateral is becoming more prominent in the marketplace. The multinational collateral backed issuance of €3.2 billion, all of it coming in the second quarter, was nearly as large as the total 2006 volume of €3.5 billion.

European Securitisation Issuance  
€ Billions

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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	66.0	102.0	109.0	175.1	452.1
2007	133.7	146.9			280.6

## Issuance by Collateral

	2007:Q1	2007:Q2	2007:Q3	2007:Q4	2007 TOTAL	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL
Auto Loans	2.2	6.0			8.2	0.7	1.0	3.2	6.8	11.7
C. Cards Rec	0.1	0.4			0.5	1.6	1.0	0.2	0.6	3.4
CDO <sup>1</sup>	30.9	23.0			53.9	11.4	19.5	16.7	33.6	81.2
CMBS	11.9	25.0			36.9	7.5	9.6	22.0	21.0	60.1
Leases <sup>2</sup>	1.7	2.5			4.2	0.4	1.0	0.3	4.2	5.9
Loans <sup>3</sup>	5.1	8.2			13.3	1.5	5.3	2.9	6.0	15.7
Receivables <sup>4</sup>	-	2.9			2.9	0.5	1.5	3.6	0.4	6.0
RMBS	81.8	77.8			159.6	37.6	49.3	58.0	99.7	244.6
Other	-	1.1			1.1	4.8	13.8	2.1	2.8	23.5
<b>Total</b>	<b>133.7</b>	<b>146.9</b>			<b>280.6</b>	<b>66.0</b>	<b>102.0</b>	<b>109.0</b>	<b>175.1</b>	<b>452.1</b>

<sup>1</sup> CDO securities issued in Euros

<sup>2</sup> Includes equipment and other leases

<sup>3</sup> Includes leveraged, commercial, consumer, corporate and other loans

<sup>4</sup> Includes account, health care, insurance, oil, utility and other receivables

## Issuance by Country of Collateral (Excluding CDO<sup>5</sup>)

	2007:Q1	2007:Q2	2007:Q3	2007:Q4	2007 TOTAL	2006:Q1	2006:Q2	2006:Q3	2006:Q4	2006 TOTAL
Austria	-				-	-	-	-	0.6	0.6
Belgium	-	0.2			0.2	-	-	-	2.3	2.3
Denmark	0.2	0.4			0.6	-	-	-	-	-
France	1.3	1.8			3.1	0.6	0.7	4.1	2.3	7.7
Germany	3.5	8.2			11.7	0.9	11.2	18.4	7.2	37.7
Greece	-	1.6			1.6	-	2.0	1.0	0.6	3.6
Ireland	2.9	3.1			6.0	0.4	2.5	3.3	4.5	10.7
Italy	6.7	14.1			20.8	3.0	12.5	4.2	10.5	30.2
Kazakhstan	0.1	0.4			0.5	-	-	-	0.2	0.2
Netherlands	5.8	10.6			16.4	6.9	6.0	3.6	12.1	28.6
Portugal	2.8	2.4			5.2	-	-	4.9	0.9	5.8
Russia	-	1.0			1.0	1.0	-	0.1	0.6	1.7
Spain	16.5	14.5			31.0	5.7	13.2	4.9	20.2	44.0
Sweden	-	-			-	-	0.2	-	-	0.2
Switzerland	0.4	0.3			0.7	-	-	-	-	-
Turkey	-	-			-	-	0.7	-	1.2	1.9
UK	62.5	62.1			124.6	36.1	31.7	47.0	77.4	192.2
Ukraine	0.1	-			0.1	-	-	-	-	-
Multinational	-	3.2			3.2	-	1.8	0.8	0.9	3.5
<b>Total</b>	<b>102.8</b>	<b>123.9</b>			<b>226.7</b>	<b>54.6</b>	<b>82.5</b>	<b>92.3</b>	<b>141.5</b>	<b>370.9</b>

<sup>5</sup> CDO issuance in 2006 totaled €103.6 billion and €72.1 billion through 2007:Q2. Only CDO issued in Euros are included. Historical CDO issuance totals have been revised due to periodic updates of the sector. A substantial percentage of CDOs are backed by multi-jurisdictional collateral.

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

European Securitisation Issuance  
€ Billions

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## Collateral Type by Country of Collateral (Excluding CDO<sup>1</sup>)

### 2006:Q2 YTD

	Auto Loans	CMBS	C. Card Rec	Leases <sup>2</sup>	Loans <sup>3</sup>	Receivables <sup>4</sup>	RMBS	Other
France	-	0.7	-	-	-	-	-	0.5
Germany	1.0	3.2	-	-	-	-	0.5	7.5
Greece	-	-	-	-	-	-	2.0	-
Ireland	-	0.4	-	-	-	-	2.5	-
Italy	-	1.3	-	1.0	1.7	0.6	9.1	1.8
Netherlands	-	-	-	-	-	-	12.9	-
Russia	-	-	-	0.4	0.3	0.3	-	-
Spain	-	-	-	-	2.9	-	16.0	-
Sweden	-	-	-	-	0.2	-	-	-
Turkey	-	-	-	-	-	-	-	0.7
UK	0.7	9.8	2.5	-	1.8	1.1	43.8	8.1
Multinational	-	1.7	-	-	-	-	-	0.1
<b>Total</b>	<b>1.7</b>	<b>17.1</b>	<b>2.5</b>	<b>1.4</b>	<b>6.9</b>	<b>2.0</b>	<b>86.8</b>	<b>18.7</b>

### 2007:Q2 YTD

	Auto Loans	CMBS	C. Card Rec	Leases <sup>2</sup>	Loans <sup>3</sup>	Receivables <sup>4</sup>	RMBS	Other
Belgium	-	-	-	-	-	-	-	0.2
Denmark	-	-	-	-	0.4	-	0.2	-
France	1.3	-	-	-	-	-	1.4	0.4
Germany	2.9	7.6	-	-	1.2	-	-	-
Greece	-	-	-	-	-	-	1.6	-
Ireland	-	1.1	-	-	-	-	4.9	-
Italy	0.9	-	-	1.7	2.5	0.4	15.2	0.1
Kazakhstan	-	-	-	-	-	-	0.1	0.4
Netherlands	-	4.2	-	-	0.7	-	11.5	-
Portugal	-	-	-	-	-	-	5.2	-
Russia	0.3	-	-	-	-	0.3	0.4	-
Spain	2.8	-	-	-	5.4	-	22.8	-
Switzerland	-	-	-	-	0.4	0.3	-	-
UK	-	22.1	0.5	2.5	2.2	1.1	96.2	-
Ukraine	-	-	-	-	-	-	0.1	-
Multinational	-	1.9	-	-	0.5	0.8	-	-
<b>Total</b>	<b>8.2</b>	<b>36.9</b>	<b>0.5</b>	<b>4.2</b>	<b>13.3</b>	<b>2.9</b>	<b>159.6</b>	<b>1.1</b>

<sup>1</sup> CDO issuance in 2006 totaled €103.6 billion and €72.1 billion through 2007:Q2. Only CDO issued in Euros are included. CDO issuance totals have been revised due to periodic updates of the sector. A substantial percentage of CDOs are bank jurisdictional collateral.

<sup>2</sup> Includes equipment and other leases

<sup>3</sup> Includes leveraged, commercial, consumer, corporate, small business and other loans

<sup>4</sup> Includes account, oil, health care, insurance, utility and other receivables

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



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European Securitisation Outstanding  
€ Millions

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## Outstanding by Collateral

	Dec 06	Jun 07	% Change
Auto	23,036.6	29,149.1	26.5%
CDO <sup>1</sup>	218,075.8	240,556.3	10.3%
CMBS	118,404.8	144,645.1	22.2%
Consumer Loans	19,254.7	20,983.0	9.0%
C. Cards Rec	35,015.3	33,842.6	-3.3%
Leases <sup>2</sup>	26,088.6	26,606.6	2.0%
Other	75,666.4	72,281.9	-4.5%
RMBS	570,218.6	673,113.9	18.0%
Student Loans	1,405.0	910.9	-35.2%
WBS	42,503.9	40,628.4	-4.4%
<b>Total</b>	<b>1,129,669.7</b>	<b>1,282,717.9</b>	<b>13.5%</b>

<sup>1</sup> CDO securities issued in Euros

<sup>2</sup> Includes equipment and other leases

## Outstanding by Country of Collateral

	Dec 06	Jun 07	% Change
Austria	3,870.1	3,718.7	-3.9%
Belgium	4,376.6	3,985.9	-8.9%
Denmark	112.2	371.5	231.1%
France	28,181.8	28,183.8	0.0%
Germany	62,532.7	71,796.2	14.8%
Greece	8,428.9	8,937.2	6.0%
Hungary	75.0	75.0	0.0%
Multinational	174,821.5	199,948.8	14.4%
Ireland	16,187.3	19,977.7	23.4%
Italy	110,970.4	122,101.3	10.0%
Netherlands	113,973.6	127,193.2	11.6%
Portugal	27,210.3	28,073.2	3.2%
Russia	2,689.9	2,721.4	1.2%
Spain	137,094.4	164,379.5	19.9%
Sweden	2,339.5	1,368.5	-41.5%
Switzerland	1,904.0	-	-100.0%
Turkey	3,057.4	3,127.2	2.3%
UK	431,844.5	496,759.0	15.0%
<b>Total</b>	<b>1,129,669.7</b>	<b>1,282,717.9</b>	<b>13.5%</b>

Sources: Bloomberg