



ESF Securitisation Data Report

Autumn 2007

www.europansecuritisation.com

European Securitisation Issuance¹ Drops in the Third Quarter to €89.5 Billion on Weakened Global Credit Market Conditions; Market Outstanding Volume² Remains Flat at €1.32 Trillion as of 30 September 2007

EUROPEAN SECURITISATION FORUM

St. Michael's House
1 George Yard
London EC3V 9DH
T +44.20.77 43 93 11
F +44.20.77 43 93 01

www.europansecuritisation.com

Rick Watson
Managing Director, Head of ESF
Marco Angheben
Director, ESF

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION

New York
Washington
London
Hong Kong

www.sifma.org

Michael Decker
Senior Managing Director
Head of Research and Public Policy
Steve Davidson, CFA
Vice President and Director of Research
Bryan Gross
Research Analyst

© 2007

[CLICK HERE FOR
downloadable data](#)

Highlights

- For the first time, the European Securitisation Forum (ESF) is publishing the outstanding volume by rating for the European securitisation market. Ratings data provide an up-to-date measure of the rating diversification provided by securitisation and represents the amount of risk that is transferred via various asset classes³.
- As of 30 September 2007, the European securitisation market outstanding stood at €1.32 trillion.
- European securitisation issuance dropped in the third quarter to €89.5 billion compared to €164.8 last quarter and €113.5 billion a year ago. Securitised issuance includes both issues retained by a bank and issues sold to external investors. Based on the strength of a record first half, year-to-date issuance totaled €393.2 billion, a 36.2 percent increase over the first three quarters of 2006. The global credit market repricing and lower market liquidity which commenced in earnest in the third quarter is likely to result in a year-over-year decline in origination activity for the first time since 2000.
- Issuance of residential mortgage-backed securities (RMBS) accounted for the largest sector as volume totaled 54.0 percent of total issuance year-to-date. Third quarter issuance dropped to €52.6 billion compared to €77.8 billion last quarter and €58.0 billion a year ago.
- Collateral debt obligation (CDO) issuance was the second ranking product sector. Third quarter issuance fell to €16.1 billion, down from €21.2 billion a year ago and €40.9 billion in the second quarter, reflecting the onset of weakened global credit market conditions, new challenges for issuers to access the capital markets and de-leveraging in the structured finance investor base.
- Commercial mortgage-backed issuance rose to €42.9 billion year-to-date, up from €40.3 billion a year ago, but totaled only €6.0 billion in the third quarter. Combined, mortgage-related markets, including RMBS and commercial mortgage-backed securities (CMBS), accounted for 64.9 percent of total securitised issuance.

¹ Securitisation issuance includes both public and private issues. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after prior cut-off dates.

² 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 CDOs, 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. Outstanding volume does not include retained transactions or tranches.

³ The estimates for current rating are based on the current rating of the tranche/s of each transaction or on the lowest rating if there are two or more ratings per tranche provided by the agencies.



ESF Securitisation Data Report

Economic and Market Environment

Economic Conditions

- Despite market turmoil, economic growth remains sustained, but is showing signs of moderating as we enter the fourth quarter and as the cycle matures. The outlook will be affected by the appreciating Euro, higher oil prices and the effect of global credit market conditions on the broader economy.
- The moderating pace of growth, along with the appreciating Euro, should ease European inflationary pressures. Although “headline” inflation suggested subdued inflation, and the most recent reading is below the target of 2 percent, central bank policies are sensitive to inflationary pressures from approaching capacity levels and labour price pressures. The Euro currency appreciation to record levels relative to the U.S. dollar serves to ease inflationary pressures.
- In view of global financial market conditions, the European Central Bank (ECB) in September maintained short-term interest rates at 4.0 percent, which is still considered accommodative, after eight consecutive quarter rate increases. During the quarter, the ECB, along with other central banks, added liquidity to ease credit market conditions.
- In response to the current liquidity crisis, the securitisation industry and the ESF are actively working on a number of initiatives to address the current market environment. These initiatives include continue improving transparency in structured finance markets; developing guidelines for consistent disclosure of methodologies to value portfolio holdings and regular reporting of post-issuance information; and clarification of subprime and non-conforming definitions.

Market Conditions

- Reduced investor risk tolerance after a period of high levels of liquidity is at the root of the changed market conditions in the third quarter. The market is going through a period of investor de-leveraging and retrenchment. Affected investors include structured investment vehicles (SIVs) and conduits.
- LIBOR, EURIBOR and overnight bank rates reached historic highs in the quarter. Money market rates started to ease in September following central bank actions.
- A combination of U.S. subprime contagion, global credit repricing, increased volatility and low liquidity in some products reduced investor demand, leading to the lower issuance. Issuance volumes are likely to remain subdued for the balance of the year as funding costs have risen. One effect is the slowing of the bank disintermediation trend which had been supported if not driven by the growth in the securitisation market. Some issuers have recently retained securitised assets perhaps for repo financing during the current period of significantly higher long-term securitisation costs. Other issuers are waiting for tightening of spreads before issuing new securities while simultaneously considering other sources of funding.
- Another implication is the likely trend towards higher quality collateral in lower leveraged and less complex transaction structures.
- The changed market conditions have led to a “flight to liquidity” and much higher credit spreads across rating and product sectors to levels not seen in a number of years and, in some cases, without precedent in the secondary market. The wider spreads were an important factor in the reduced issuance volumes in the quarter. For example, during the quarter: 5-year AAA UK prime RMBS widened by 45 basis points to 55 basis points; and AAA 5-year UK non-conforming widened by 85 basis points to 105 basis points. In continental Europe, the AAA 5-year Dutch prime AAA RMBS spread widened by 30 basis points to 40 basis points, while Italian paper widened by 42 basis points to 55 basis points as a clear indication of generally weaker credit market conditions and divergent investor views on the mortgage markets across Europe. Even within certain sectors, the differentiation among deals has become greater and there is increasing focus on collateral and loan level information for securitised assets. In the CDO sector, AAA CLO spreads widened by 30 basis points to 55 basis points and BBB CLO spreads widened by 200 basis points to 375 basis points. CMBS spreads also widened in the quarter, with Eurozone AAA spreads moving out by about 75 basis points during the quarter to 140 basis points at quarter-end, and BBB spreads widened by over 100 basis points in the quarter to 195 basis points.
- The market has clearly repriced. The spreads appear to be driven more by liquidity than fundamental credit quality considerations. While the current liquidity levels make it difficult to assess secondary market pricing trends, at quarter-end, there were some signs of recovery in terms of secondary market transaction flows and spreads in the safest and highest quality products including prime AAA UK and Dutch RMBS issues where spreads came in by 10-15

basis points between the second half of September and the first week of October. Spreads across many market sectors appear to be stabilising toward the end of the quarter.

- Headline risk is likely to remain for some time. Once market conditions stabilise, clearing prices will take into account credit quality measures and higher volatility. Longer term buy-and-hold investors will be relatively advantaged, and due diligence, transparency, timely availability and access of transaction data as well as credit quality distinctions will continue to be significant themes.

Collateral Sectors

- RMBS continued to be the leading issuance sector with €212.2 billion and 54.0 percent of overall volume through the third quarter. Third quarter issuance declined to €52.6 billion from €77.8 billion in the second quarter and €58.0 billion a year ago.
- CDO issuance increased nearly 60 percent to €93.1 billion in the first three quarters of the year compared to €59.3 billion in the first three quarters of 2006. CDO volume slowed in the third quarter to €16.1 billion, down from €40.9 billion in the second quarter, the result of reduced liquidity and the de-leveraging trend.
- CMBS was the third largest sector with €42.9 billion, slightly more than the €40.3 billion issued in the first nine months of 2006. Third quarter volume fell to €6.0 billion from €25.0 billion in the second quarter and €22.0 billion a year ago.
- Auto loan backed ABS issuance totaled €10.9 billion year-to-date, significantly higher than the €5.0 billion for the first nine months of 2006, based on a strong second quarter. Third quarter issuance dropped to €2.7 billion from €6.0 billion in the second quarter and compared to €3.2 billion a year ago.

Country of Collateral (excluding CDO)⁴

- Securitisation issuance backed by collateral originated in the UK reached €154.8 billion and accounted for 51.6 percent of overall volume in the first nine months of the year, 35.0 percent higher than the €114.7 billion issued at the same time last year. Third quarter issuance totaled €30.2 billion, less than half the €62.1 billion volume in the second quarter of this year and 35.7 percent lower than the €47.0 billion issued in the third quarter a year ago. UK RMBS totaled €116.2 in the first nine months and accounted for 54.8 percent share of the overall RMBS sector, compared to 53.6 percent at the same time in 2006. The CMBS sector was also dominated by UK collateral with €25.5 billion, or 59.4 percent of total CMBS issuance. Outstanding securitisation volume with collateral originating in the UK was €492.6 billion, more than 37.2 percent of the entire European securitisation market.
- Issuance of securities with collateral based in Spain was €45.4 billion compared to €23.9 billion in the first nine months of 2006. Third quarter volume of €14.5 billion was only marginally higher than volume last quarter which totaled €14.4 billion. Spanish volume in the first nine months of the year was largely driven by strong RMBS issuance during the first half of the year. RMBS issuance totaled €36.1 billion through the third quarter, up from €21.0 billion during the same period last year. During the third quarter, there has been an increase in the number of issuers retaining RMBS transactions and using the senior AAA tranches as collateral for repo transactions. Outstanding volume in Spain, one of the largest growing regions, grew more than 20.5 percent to €173.1 billion due to the strong increase of RMBS issuance in the first half of the year.
- Italian issuance grew to €23.9 billion in the first three quarters of 2007, 21.3 percent higher than the €19.7 billion issued in 2006 with much of that growth coming from RMBS transactions. Italian RMBS issuance totaled €15.2 billion, nearly two-thirds of total Italian securitised issuance year-to-date. Third quarter volume dropped sharply to €3.1 billion compared to €14.1 billion last quarter and €4.2 billion in the third quarter a year ago.
- Issuance backed by collateral originated in the Netherlands totaled €27.9 billion, 70.1 percent higher than the first three quarters of 2006. Dutch RMBS volume totaled €22.4 billion through the first nine months of this year. CMBS was the second largest Dutch collateral product sector at an issuance volume of €4.8 billion. The Dutch issuance volume increased in the third quarter to €11.5 billion from €10.6 billion last quarter and €3.6 billion a year ago.

⁴ CDO issuance in 2006 totaled €103.6 billion and €93.2 billion through 2007:Q3. Only CDOs 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>



ESF Securitisation Data Report

- German issuance volume was €13.5 billion in the first three quarters of the year, with most of that volume coming from the CMBS sector which totaled €7.5 billion. German issuance fell dramatically in the quarter to €1.8 billion from €8.2 billion last quarter and €18.4 billion a year ago.
- Other significant sources of collateral for new issuance were Ireland (€8.4 billion year-to-date), Portugal (€7.9 billion), Belgium (€4.1 billion with most of the issuance occurring in the third quarter) and France (€3.1 billion).
- Issuance supported by multinational collateral is becoming more prominent in the marketplace. Despite a decline between the second and third quarter, multinational collateral backed issuance totaled €5.1 billion, more than all of the volume in 2006.



ESF Securitisation Data Report

European Securitisation Issuance € Billions

Historical Issuance

	Q1	Q2	Q3	Q4	Total ¹
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	68.3	106.9	113.5	185.8	474.5
2007	138.9	164.8	89.5		393.2

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	2.7		10.9	0.8	1.0	3.2	6.8	11.8
C. Cards Rec	0.1	0.4	0.2		0.7	1.6	1.0	0.2	0.6	3.4
CDO ²	36.1	40.9	16.1		93.1	13.7	24.4	21.2	44.3	103.6
CMBS	11.9	25.0	6.0		42.9	8.0	10.3	22.0	21.0	61.3
Leases ³	1.7	2.5	-		4.2	0.4	1.0	0.3	4.2	5.9
Loans ⁴	5.1	8.2	7.2		20.5	1.0	5.3	2.9	6.0	15.2
Receivables ⁵	-	2.9	2.5		5.4	0.5	1.5	3.6	0.4	6.0
RMBS	81.8	77.8	52.6		212.2	37.6	49.3	58.0	99.7	244.6
Other	-	1.1	2.2		3.3	4.8	13.1	2.1	2.8	22.8
TOTAL¹	138.9	164.8	89.5		393.2	68.4	106.9	113.5	185.8	474.6

Issuance by Country of Collateral (Excluding CDO²)

	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	3.9		4.1	-	-	-	2.3	2.3
Denmark	0.1	0.4	-		0.5	-	-	-	-	-
France	1.3	1.8	-		3.1	0.6	0.7	4.1	2.3	7.7
Germany	3.5	8.2	1.8		13.5	0.9	11.2	18.4	7.2	37.7
Greece	-	1.5	1.3		2.8	-	2.0	1.0	0.6	3.6
Ireland	2.9	3.2	2.3		8.4	0.4	2.5	3.3	4.5	10.7
Italy	6.7	14.1	3.1		23.9	3.0	12.5	4.2	10.5	30.2
Kazakhstan	0.1	0.4	-		0.5	-	-	-	0.2	0.2
Luxembourg	-	-	0.1		0.1	-	-	-	-	-
Netherlands	5.8	10.6	11.5		27.9	6.9	6.0	3.6	12.1	28.6
Portugal	2.9	2.4	2.6		7.9	-	-	4.9	0.9	5.8
Russia	-	1.1	0.1		1.2	1.0	-	0.1	0.6	1.7
Spain	16.5	14.4	14.5		45.4	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	30.2		154.8	36.1	31.7	47.0	77.4	192.2
Ukraine	0.1	-	-		0.1	-	-	-	-	-
Multinational	-	3.2	1.9		5.1	-	1.8	0.8	0.9	3.5
TOTAL¹	102.8	123.9	73.3		300.0	54.6	82.5	92.3	141.5	370.9

¹ Numbers may not add due to rounding. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after the prior period cut-off dates.

² CDO securities issued in Euros. CDO issuance in 2006 totaled €103.6 billion and €59.3 billion through 2007:Q3. 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.

³ Includes equipment and other leases.

⁴ Includes leveraged, commercial, consumer, corporate and other loans.

⁵ Includes account, health care, insurance, oil, utility and other receivables.

Sources: Thomson Financial, JP Morgan, Merrill Lynch, Bloomberg

European Securitisation Issuance € Billions

Collateral Type by Country of Collateral (Excluding CDO¹)

2006:Q3 YTD

	Auto Loans	C. Card Rec	CMBS	Leases ²	Loans ³	Receivables ⁴	RMBS	Other	TOTAL
Belgium	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	-	-	-	-	-
France	1.3	-	1.1	-	2.2	-	0.3	0.5	5.4
Germany	2.5	-	14.1	0.3	-	-	6.2	7.5	30.6
Greece	-	-	-	-	-	-	3.0	-	3.0
Ireland	-	-	0.4	-	-	-	5.9	-	6.3
Italy	-	-	1.3	1.0	1.9	2.2	11.5	1.8	19.7
Kazakhstan	-	-	-	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-	-	-	-
Netherlands	-	-	1.0	-	0.5	-	14.9	-	16.4
Portugal	0.5	-	-	-	-	-	4.4	-	4.9
Russia	-	-	-	0.4	0.3	0.3	0.1	-	1.1
Spain	-	-	-	-	2.9	-	21.0	-	23.9
Sweden	-	-	-	-	0.2	-	-	-	0.2
Switzerland	-	-	-	-	-	-	-	-	-
Turkey	-	-	-	-	-	-	-	0.7	0.7
UK	0.7	2.8	20.2	-	1.2	3.1	77.6	9.1	114.7
Ukraine	-	-	-	-	-	-	-	-	-
Multinational	-	-	2.2	-	-	-	-	0.3	2.5
TOTAL⁵	5.0	2.8	40.3	1.7	9.2	5.6	144.9	19.9	229.4

Collateral Type by Country of Collateral (Excluding CDO¹)

2007:Q3 YTD

	Auto Loans	C. Card Rec	CMBS	Leases ²	Loans ³	Receivables ⁴	RMBS	Other	TOTAL
Belgium	-	-	-	-	-	-	3.9	0.2	4.1
Denmark	-	-	-	-	0.4	-	0.1	-	0.5
France	1.3	-	-	-	-	-	1.4	0.4	3.1
Germany	4.8	-	7.5	-	1.2	-	-	-	13.5
Greece	-	-	-	-	-	-	2.8	-	2.8
Ireland	-	-	1.5	-	-	-	4.9	2.0	8.4
Italy	1.7	-	-	1.7	2.6	2.6	15.2	0.1	23.9
Kazakhstan	-	-	-	-	-	-	0.1	0.4	0.5
Luxembourg	-	-	-	-	-	-	0.1	-	0.1
Netherlands	-	-	4.8	-	0.7	-	22.4	-	27.9
Portugal	-	-	-	-	-	-	7.9	-	7.9
Russia	0.3	-	-	-	-	0.3	0.6	-	1.2
Spain	2.8	-	-	-	6.5	-	36.1	-	45.4
Sweden	-	-	-	-	-	-	-	-	-
Switzerland	-	-	-	-	0.4	0.3	-	-	0.7
Turkey	-	-	-	-	-	-	-	-	-
UK	-	0.7	25.5	2.5	8.3	1.4	116.2	0.2	154.8
Ukraine	-	-	-	-	-	-	0.1	-	0.1
Multinational	-	-	3.6	-	0.4	0.8	0.3	-	5.1
TOTAL⁵	10.9	0.7	42.9	4.2	20.5	5.4	212.2	3.3	300.0

¹ CDO securities issued in Euros. CDO issuance in 2006 totaled €103.6 billion and €59.3 billion through 2007:Q3. 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.

² Includes equipment and other leases.

³ Includes leveraged, commercial, consumer, corporate, small business and other loans.

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

⁵ Numbers may not add due to rounding. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after the prior period cut-off dates.

Sources: Thomson Financial, JP Morgan, Merrill Lynch, Bloomberg



ESF Securitisation Data Report

European Securitisation Outstanding € Billions

Collateral Type by Country of Collateral

2006:Q4 YTD

	Auto	CDO ¹	CMBS	Consumer Loans	C. Card Rec	Leases ²	RMBS	Student Loans	WBS	Other	TOTAL
Austria	1.3		0.2				2.3				3.8
Belgium			0.1				4.1			0.2	4.4
Denmark							0.1				0.1
France	3.6	0.6	4.3	2.0	0.2		16.6		0.1	0.8	28.2
Germany	7.2	14.4	14.9			1.2	8.4		0.1	16.8	63.0
Greece		2.3			0.7		4.8			0.7	8.5
Hungary							0.1				0.1
Ireland		2.0	0.4				13.6				16.0
Italy	2.6	4.4	4.9	6.5		23.7	42.1		1.4	25.3	110.9
Netherlands	1.4	7.3	3.9	0.9	0.2		99.9			0.3	113.9
Portugal	0.3	1.8		1.7			22.4			1.1	27.3
Russia	0.5			0.6		0.3	0.4			0.9	2.7
Spain	3.5	37.9	2.4	6.1			93.0			0.7	143.6
Sweden			0.5	0.2			1.7				2.4
Switzerland							1.9				1.9
Turkey					0.4					2.6	3.0
UK	0.3	2.2	68.9	0.7	33.1	0.0	265.0	1.4	40.1	20.1	431.8
Multinational	2.3	148.0	17.9	0.6	0.6	0.7	0.4		0.8	6.4	177.7
TOTAL³	23.0	220.9	118.4	19.3	35.2	25.9	576.8	1.4	42.5	75.9	1139.3

Collateral Type by Country of Collateral

2007:Q3 YTD

	Auto	CDO ¹	CMBS	Consumer Loans	C. Card Rec	Leases ²	RMBS	Student Loans	WBS	Other	TOTAL
Austria	1.1		0.2				2.3				3.6
Belgium		0.0	0.1				6.9			0.3	7.3
Denmark		6.5					0.3				6.8
France	4.5	0.9	4.0	1.4	0.2		17.1		0.0	0.8	28.9
Germany	10.8	18.7	19.5			1.0	7.7		0.1	16.3	74.1
Greece		2.3			0.8		6.2			0.6	9.9
Hungary							0.1				0.1
Ireland		2.0	0.4				16.2				18.6
Italy	3.5	5.4	4.1	6.9		19.6	52.1		2.5	23.5	117.6
Netherlands	1.3	10.5	7.8	1.5		0.2	110.2				131.5
Portugal	0.3	1.5		1.3			25.1			0.9	29.1
Russia	0.5	0.2		0.6		0.3	0.9			0.8	3.3
Spain	5.9	39.3	1.9	7.1		2.5	115.8			0.6	173.1
Sweden				0.1			0.7				0.8
Switzerland		0.4									0.4
Turkey					0.4					2.7	3.1
UK	0.2	7.6	77.1	0.9	28.4	0.0	320.8	0.9	37.1	19.6	492.6
Multinational	1.9	177.9	31.7	0.6	0.6	0.5	2.8		0.7	6.3	223.0
TOTAL³	30.0	273.2	146.8	20.4	30.4	24.1	685.2	0.9	40.4	72.4	1323.8

Outstanding by Rating

	Dec 06	Sep 07	% Change
Aaa/AAA	902.8	1057.7	17.2%
Aa/AA	61.0	69.9	14.6%
A/A	68.5	78.1	14.0%
Baa/BBB	55.6	62.4	12.2%
Ba/BB	9.5	12.8	34.7%
B/B	0.8	0.9	12.5%
Caa/CCC	0.6	0.4	-33.3%
Ca/CC	0.4	0.5	25.0%
C/C	1.4	0.7	-50.0%
Not Rated	38.8	40.2	3.6%
Defaulted	0.0	0.3	100.0%
TOTAL³	1139.3	1323.8	16.2%

¹ CDO securities issued in Euros.

² Includes equipment and other leases.

³ Numbers may not add due to rounding. Historical or prior period issuance numbers are revised to reflect changes in classification or information submitted to our data source after the prior period cut-off dates.

Sources: Bloomberg