



2007

ESF Securitisation Market Outlook

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European Securitisation Forum Forecasts Issuance to Grow to a New Record of €531 Billion in 2007, Led by RMBS, CMBS and CDO Sectors

The European Securitisation Forum (ESF) is pleased to present the results of its annual Researchers Working Group issuance forecast survey. The forecast survey covers the range of European securitised product asset classes, including residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), consumer and corporate asset-backed securities (ABS) and collateralised debt obligations (CDO). The survey includes responses from 8 ESF member firms. The survey also asked panelists for their views on the development of the European securitised markets, including the state of liquidity and investor demand.

The ESF survey panelists expect continued issuance growth in 2007, surpassing the record established in 2006. They base their higher issuance forecast on favourable macroeconomic conditions of strong growth and employment trends, additional products and investors in the marketplace and ample market liquidity, taking into account moderately rising interest rates. The median response for European cash funded securitisation issuance volume projects €531 billion for 2007, a 16.4 percent growth rate from the €456 billion issued in 2006. The highest volume sectors in 2007 are projected to be RMBS, CMBS and CDO, as they were in 2006. Volume growth, however, will be broad based with growth forecasted for most of the asset class sectors. In addition to funded issuance growth, the panelists expect synthetic issuance to also grow at about a 30 percent pace.

Collateral Asset Class

In response to the question of which sectors are likely to be the leading growth sectors in 2007, panelists specifically identified CDOs, particularly CLOs (collateralised loan obligations) and CRE (commercial real estate) CDOs, and CMBS, all well as consumer ABS. The panelists also noted that RMBS volume

growth should moderate from the strong pace of the last few years.

The survey respondents expect RMBS to maintain its position as the largest issuing sector at €282 billion in 2007¹, a 12.4 percent increase from the €251 billion issued in 2006. The RMBS growth rate moderation compared to recent years is based on lower origination volume which assumes a cooling housing sector expansion. RMBS issuance is seen as

EUROPEAN SECURITISATION ISSUANCE FORECAST

Cash Funded € Billions

	2006	2007	% Change
RMBS	251	282	12%
CMBS	62	75	21%
Consumer ABS	26	33	27%
Corporate ABS	18	18	0%
CDOs	80	100	25%
Other	19	23	21%
Total	456	531	16%

¹The RMBS issuance forecasts for 2007 ranged from €260 billion to €315 billion.

benefiting from refinancing of existing debt. Cash funded CDO is expected to be the second largest sector, expanding at a brisk pace, with issuance reaching €100 billion in 2007², 24.5 percent higher than the €80 billion volume last year.

Consumer ABS, including auto loans and credit card receivables, is forecast to have the highest growth rate of the asset class sectors in the forecast, as robust European economic growth supports further consumer credit expansion. The median forecast projects consumer ABS issuance at €33 billion in 2007, a 29.4 percent growth rate over the €18 billion in 2006.

Panelists see the CMBS volume growing by 20.6 percent in 2007 to €75 billion, compared to the €62 billion issued in 2006. The sector should benefit from the greater use of securitisation as a funding source of commercial real estate and increased liquidity due to the introduction of new indices.

Country of Collateral

U.K. is expected to continue to be the leading country of securitised issuance collateral, particularly in the RMBS and CMBS asset classes. Securitisation of German collateral should also have another solid growth year in 2007, where CMBS accounts for a substantial portion of the issuance volume. From the perspective of country of collateral, the consensus view is that the fastest rate of growth is expected to be found in newer emerging market countries across eastern and central Europe, particularly Russia, which start from a lower issuance base relative to the more established issuance countries. Emerging market collateralised securitisation products offer opportunities for diversification and yield pick up.

Market Liquidity, Investor Demand Support Market Expansion

Panelists generally expect secondary market liquidity and investor demand to continue to expand in 2007. The panelists base this view on developments in information reporting and disclosure, documentation standardisation, especially in the CDO sector, greater availability of analytical tools, application of

prepayment modeling and a wider range of securitised product indices. Specifically mentioned were greater CMBS liquidity due to the introduction of CMBS credit default swaps and increased secondary trading for both CDO debt and equity. Panelists see continued strong investor demand, enabling the market to absorb the growing issuance supply.

The survey asked about Basel II and its effect on securitisation pricing. Panelists noted that Basel II presents some challenges to market participants. Most panelists believe that, while the implementation of Basel II is already priced into the market, it is likely to have the effect of increased demand for ABS products, driving spreads tighter, especially the tranches that are senior in the capital structure.

Forecast Assumptions and Risks

The panelists identified a number of factors that could affect the forecast. The most frequently mentioned risks to their forecasts related to European economic growth diverging from the consensus projection and the frequency and size of European Central Bank and Bank of England interest rate increases should inflation and inflationary expectations increase significantly. In addition, panelists noted the potential adverse effect of a major housing market downturn, although the view among survey respondents was that the housing market should generally remain solid during the coming year.

² CDO issuance forecasts ranged from €60 billion to €130 billion.