



# ESF Securitisation Data Report

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## European Securitisation Issuance On Pace for Another Record Year; Mortgage and CDO Sectors Lead the Way

The European securitised and structured product issuance is on pace to break last year's record of €327 billion. New issue volume totaled €106.1 billion in the second quarter, the second highest quarterly volume in history, up from the €66.7 billion in the first quarter. The €172.7 billion volume during the first six months of the year is 21.5 percent higher than the €141.2 billion during the first half of 2005. Residential mortgage-backed security (RMBS), commercial mortgage-backed securities (CMBS) and collateralised debt obligation (CDO) markets were the leading contributors to first half growth.

As the volume in the second half has typically exceeded the volume in the first half of the year, issuance is likely to be greater than €350 billion for full-year 2006. The European Commission's Capital Requirements Directive on 1 January 2007 could prove to be an additional boost to issuance motivated by capital-relief towards the end of the year. As a result of the Directive, starting in 2007, sophisticated bank investors in the highest-quality RMBS will benefit from a lower risk weighting of 7 percent when adapting the advanced risk-based approach.

Though not evident from the aggregate public issuance volume data, there is a growing investor appetite for the first loss equity tranche

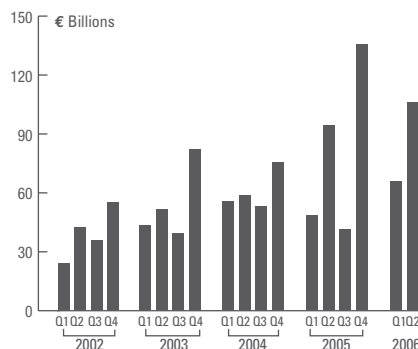
of the capital structure, especially in RMBS, which is typically issued as a private placement. With the current benign credit conditions and tight credit spread environment, investors are attracted by potentially higher returns. However, these tranches are most credit exposed and affected by adverse credit events. Therefore, investments require particularly vigilant attention, analysis and monitoring.

### The Economic and Credit Environment

The economic and financial environment continued to be supportive of securitisation volume growth through the second quarter. The economy is poised for its strongest performance since 2000. The European Commission recently confirmed its projection that full-year 2006 economic growth will be 2.1 percent this year with near-term risks "on the upside." Consumer credit growth is considered to be an important driver of the economic expansion. Should this trend hold, there could be a pickup in consumer loan origination, offering an opportunity for greater securitisation issuance volumes.

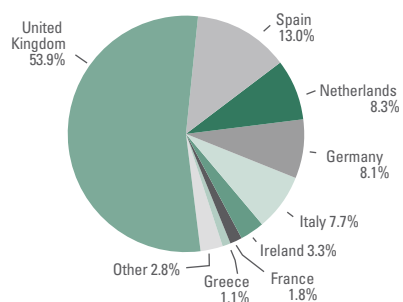
The inflation threat appears to be under control despite the global concern about commodity prices for at least two reasons. An output gap and unused capacity, which should restrain

European Securitisation Issuance  
2002:Q1–2006:Q2



Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

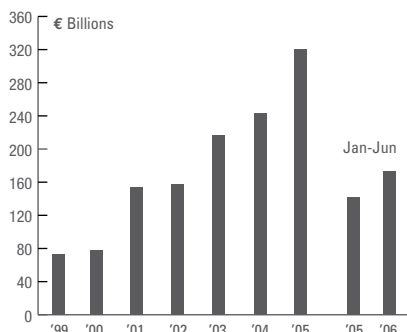
European Securitisation Issuance  
2006:Q2 by Country of Collateral



Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

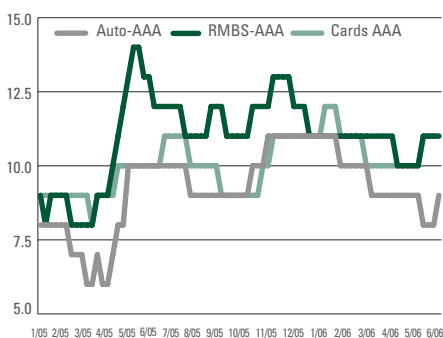
## Historical European Securitisation

1999–2006:Q2



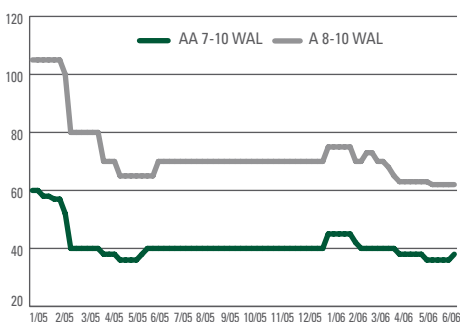
Sources: JP Morgan Securities, Inc., Dealogic, Thomson Financial, Structured Finance International

## European ABS\* Spreads to EURIBOR and Sterling LIBOR



\*Spreads of Auto ABS (3-4 yr), Credit Cards ABS (5 yr) and RMBS (5 yr)  
Source: J.P. Morgan Securities Inc.

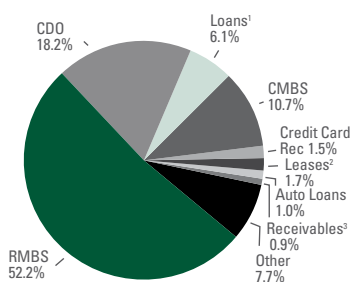
## European High-Yield CLO Spreads to LIBOR



Source: J.P. Morgan Securities Inc.

## European Securitised Issuance

by Collateral Type 2006:Q2 YTD



Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

<sup>1</sup> Includes leveraged, commercial, consumer, corporate, SBL, and other loans

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

<sup>3</sup> Includes account, health care, insurance, utility and other receivables

price pressures. An appreciating currency will also help keep inflation low.

Consistent with its inflation management objective and recognition of the economic expansion this year, the European Central Bank (ECB) raised the target short-term interest rate to 3.00 percent. Even with the recent rate hikes, benchmark interest rates remain at relatively low levels and financial market conditions are considered accommodative. In addition, the Bank of England increased its target interest rate to 4.75 percent in an effort to curtail inflation.

Benign credit conditions and tight spreads continue to characterise the securitisation markets. European ABS credit spreads were relatively stable during the first half of the year but spreads were generally tighter compared to a year ago. There was some modest widening in June among AAA issues (perhaps due to the strong flow of supply coming to market in June) but little change at the mezzanine and subordinated sectors with strong subscriptions and even oversubscriptions evident in some transactions, indicative of the search for yield and a comfort with the credit outlook.

RMBS AAA spreads to EURIBOR were virtually unchanged during the first half of the year, with spreads one basis point tighter at the end of June compared to the first of the year. AAA credit card receivable to sterling Libor spreads ended the first half of the year exactly where they were at the beginning of the year, while auto AAA spreads to EURIBOR tightened by 2 basis points in June. After some volatility during the early part of the year, AA and A European collateralised loan obligations (CLO) spreads to Libor ended June slightly tighter than the beginning of the year, with more tightening at the single A level. Over the past year, the most significant spread tightening has occurred in the AAA, A and BBB CLOs sectors. There appears to be some differentiation between experienced European CLO collateral managers and more recent entrants.

## Collateral Type

RMBS issuance totaled €90.2 billion in the first half of the year, up 30.0 percent from the €69.3 billion issued during the same period a year ago. That growth has

been supported by strong residential origination growth this year. The ECB reported that, for the twelve months ending in April, housing loan growth (excluding Germany where the residential market has not yet fully rebounded) increased by about 19 percent. That growth has been supported by strong investor demand, additional banks securitising their portfolios and housing price appreciation, especially in the UK. Despite a recent modest uptick in arrears and repossessions, the delinquency and repossession percentage remain low in the UK. The RMBS market increased its share of total issuance to 52 percent compared to 49 percent in the first six months of 2005. In the second half of the year, a number of new comers are expected to issue bonds secured by their portfolio of home mortgages, especially in the UK.

Non-conforming RMBS is becoming an increasingly prominent sector in the UK, driven in part by investor demand for higher returns, and, in fact, issuers outside of the UK have also begun to securitise non-conforming product. Non-conforming origination is also being driven by demand by consumers across Europe for greater choice in products available to non-standard borrowers. In many countries, it is difficult to originate non-conforming product due to a variety of obstacles that limit consumer choice. Non-conforming RMBS accounted for approximately 30 percent of UK RMBS issuance in July. About half of the 2006 non-conforming volume has been generated by new entrants, either new issuers or established issuers introducing new programmes.

CDOs, including funded cash and synthetic deals, were the fastest growing product sector and continued to raise their share of issuance volume to 8.2 percent in the second quarter. CDO issuance surged to €31.5 billion in the first six months of the year, about a 61.0 percent higher than the €19.5 billion during the first half of 2005. Arbitrage CDO issuance accounted for 48 percent of aggregate CDO issuance, with the remaining 52 percent being balance sheet CDO. The percentages confirm the resurgence of balance sheet CDO issuance that began late in 2005. It is expected that a number of bank balance sheet CLO transactions will come with issuers motivated by

*continued on page 4*

## European Securitisation by Country of Collateral

€ Billions

COUNTRY	2005:Q2 YTD	2006:Q2 YTD	Annual Change
AUSTRIA	0.25	-	-0.25
FRANCE	4.29	3.17	-1.12
GERMANY	15.53	13.92	-1.61
GREECE	1.50	2.00	0.50
IRELAND	1.11	5.89	4.78
ITALY	17.39	13.33	-4.06
NETHERLANDS	14.68	14.27	-0.41
PORTUGAL	2.08	-	-2.08
RUSSIA	-	1.01	1.01
SPAIN	21.03	22.39	1.36
SWEDEN	0.28	0.18	-0.10
TURKEY	1.76	0.93	-0.83
UK	53.87	93.03	39.16
MULTINATIONAL	7.70	2.53	-5.17
<b>TOTAL*</b>	<b>141.22</b>	<b>172.65</b>	<b>31.43</b>

\*Totals may not add due to rounding

Sources: Dealogic, Thomson Financial, J.P. Morgan Securities Inc., Structured Finance International

## European Covered Bond Issuance by Country of Collateral

€ Billions

COUNTRY	2005:Q2 YTD	2006:Q2 YTD	Annual Change
AUSTRIA	3.11	1.33	-1.78
CZECH REPUBLIC	0.05	-	-0.05
FINLAND	0.25	0.25	0.25
FRANCE	9.80	14.03	4.23
GERMANY	85.50	65.37	-20.13
HUNGARY	0.18	0.15	-0.03
IRELAND	7.99	9.66	1.67
ITALY	1.00	1.99	0.99
LUXEMBOURG	3.63	4.03	0.40
NETHERLANDS	0.40	2.47	2.07
SPAIN	34.78	51.92	17.14
SWITZERLAND	0.88	2.39	1.51
UK	5.68	8.81	3.13
<b>TOTAL</b>	<b>153.25</b>	<b>162.40</b>	<b>9.40</b>

economic and regulatory capital issues arising from Basel 2. Euro-denominated CDO issuance totaled €26.5 billion over the first half of the year. On a linked-quarter basis, second quarter issuance grew by 43 percent to €15 billion. CDO issuance denominated in British pound reached GBP1.9 billion with GBP1.6 billion issued in the second quarter. A noteworthy trend is the influx this year of new CLO managers — both U.S. managers expanding into Europe and European ABS managers diversifying. Barclays Capital recently brought to market a managed CDO of commodity swaps.

CMBS issuance also showed strong growth with a €18.5 billion volume in the first half of the year, up 16.6 percent from the €15.8 billion in the first half of last year. European CMBS issuance growth has been supported by the number of new conduits recently established and are funding at least a portion of their acquisitions through the term CMBS market. Another driver of CMBS growth is the increased volume of pan-European deals. Furthermore, the CMBS sector has been enhanced by a trend towards increasing transparency, including

market-led initiatives to launch a European CMBS index to hedge risk exposure both before and after issuance of new CMBS.

The securitised credit card receivable issuance volume more than doubled to €2.5 billion in the first half of the year. Auto loan ABS issuance totaled €1.7 billion, compared to the €1.2 billion in the first half of 2005.

### Country of Collateral

The UK accounted for nearly 54 percent of all European securitisation, totaling €93.0 billion, a 67.1 percent increase from the €53.9 billion during the same period in 2005. RMBS issuance in the UK totaled €44.8 billion in the first half, or nearly a 50 percent share of the European RMBS volume. In addition, UK originated CMBS collateral was 52 percent of total European CMBS issuance in the first half of the year.

Spanish securitised issuance totaled €22.4 billion, or 12.9 percent of European securitisation volume, in the first half of the year. Netherlands ranked third with an originated collateral securitisation vol-

ume of €14.3 billion in the first half, down slightly from the first half of 2005.

German ABS issuance reached €13.9 billion in the first half of the year. A big story this year is the emergence of German CMBS, which has been referred to as a new “asset class,” offering opportunities for CMBS diversification and access to the German multifamily rental market. Through July, there had been three pure German multifamily deals with other transactions including German multifamily collateral components. There are also additional German CMBS deals in the pipeline.

ABS from Italy decreased during the first half of 2006 to €13.3 billion, compared to €17.4 billion in the first half of 2005. This decrease can be partly attributed to the reduced number of government transactions. By contrast, securitised issuance from Ireland grew by nearly five-fold in the first half, to €5.9 billion. All of the Russian issuance of €1.0 billion took place in the first quarter. The €1 billion is more than twice the full-year 2005 issuance of €400 million.