Securitised product snapshot

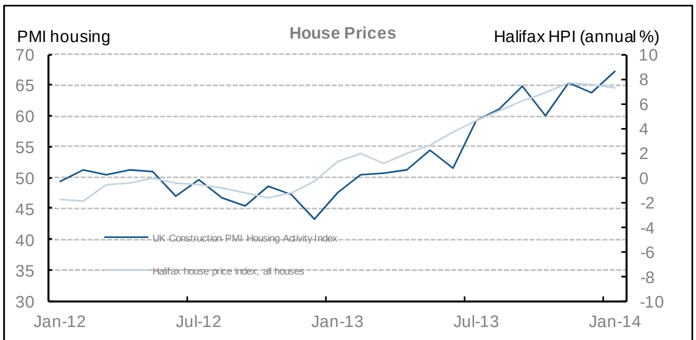
February 2014

European ABS market

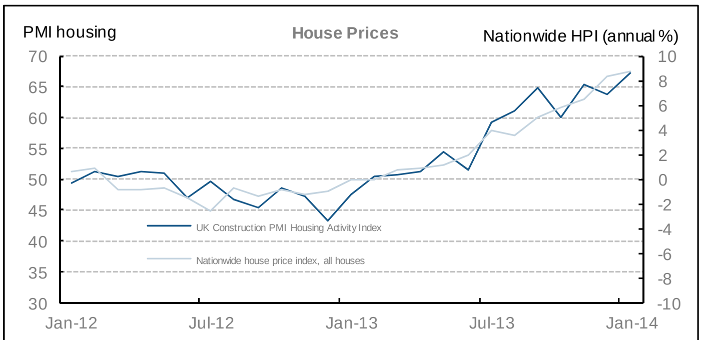
Economic data

Housing growth in the UK is still on the rise with a Construction PMI reading of 64.6 in January and with the housing activity massively improving at 67.3. The Halifax index showed a 7.3% year-on-year increase in house prices (+1.1%). Meanwhile, the Nationwide index showed a massive 8.8% increase (+0.7%). This means that this month the Halifax index is increasing at a faster rate than the Nationwide one.

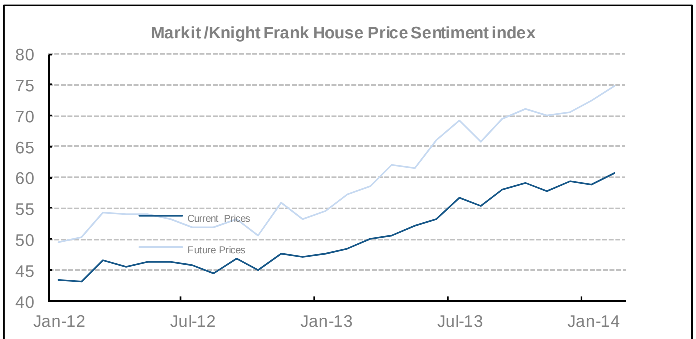
The future HPSI, which measures what households think will happen to the value of their property over the next year, jumped to a new high of 74.9 this month, up from 72.3 in January.



Source: Markit Economics, Halifax



Source: Markit Economics, Nationwide



Source: Markit Economics, Knight Frank

European ABS pricing and sectors

The European secondary market remained overall stable during February with no major announcement specific to the industry.

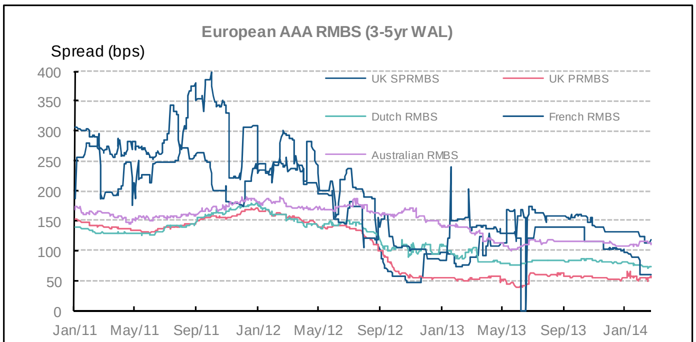
On the other hand the macro economic news has affected some specific sectors/deals. The current political and financial situation in Ukraine (CDS 1yr at 2,000 bps) is affecting negatively the only Ukrainian RMBS deal which was issued in 2007: Ukraine Mtg Ln Fin No 1

Plc. All tranches are now traded at a discount but since the senior tranche repaid fully in 2011 the spread for the B tranche is around 525 bps while issued at 375 bps.

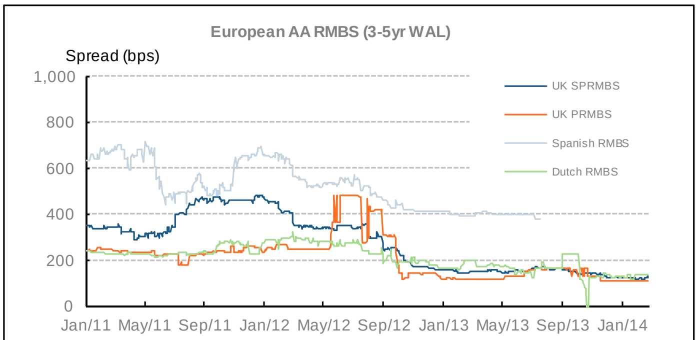
On the other side of Europe it is a different story for Spain which was upgraded by Moodys by one notch to Baa2 with a positive outlook. This was enough news to see Spanish RMBS traded at tighter levels across the whole capital structure.

Finally the biggest news regarding the European ABS market is the fact that many hedge and distressed funds are being set up in London in order to take advantage of possible upcoming sell off from banks which may be affected by new capital rules and stress tests. Our new European ABS evaluated service that was launched in February was specifically designed for that type of highly illiquid distressed assets and could help fund managers with price discovery as well as marking their books.

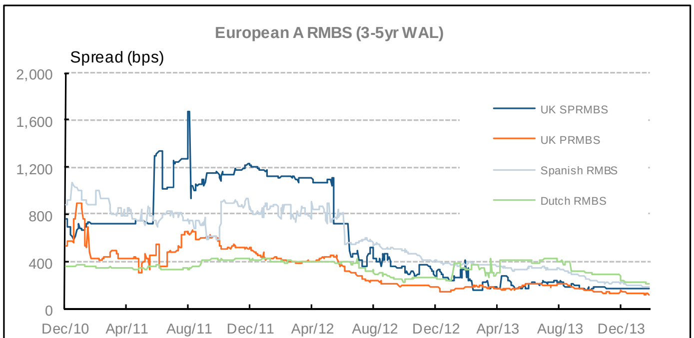
Sector	Spread Mid (bps) Jan2014	Spread Mid (bps) Feb2014
ALL Auto Lease AAA Float (1-4)	78	71
ALL Auto Loan AAA Float (1-4)	40	37
ALL CMBS AAA Float (3-5)	93	88
ALL Credit Card AAA Float (1-4)	35	34
Australia RMBS AAA Float (3-5)	109	112
Italy RMBS AA Float (1-3)	156	154
Netherlands RMBS AAA Float (1-3)	50	48
Spain RMBS AA Float (5-8)	222	214
United Kingdom Granite AAA Float (1-3)	65	62
United Kingdom PRMBS ex. Granite AAA Float (1-3)	38	38
United Kingdom SPRMBS AAA Float (1-3)	112	104



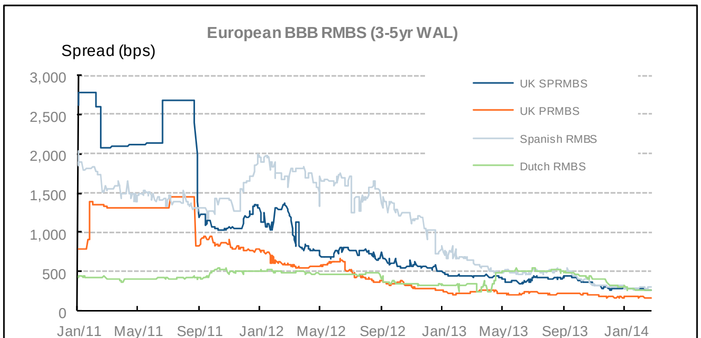
Source: Markit European ABS Pricing Service



Source: Markit European ABS Pricing Service



Source: Markit European ABS Pricing Service



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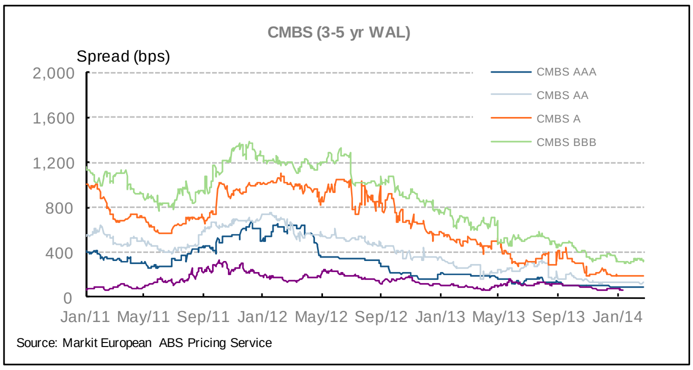
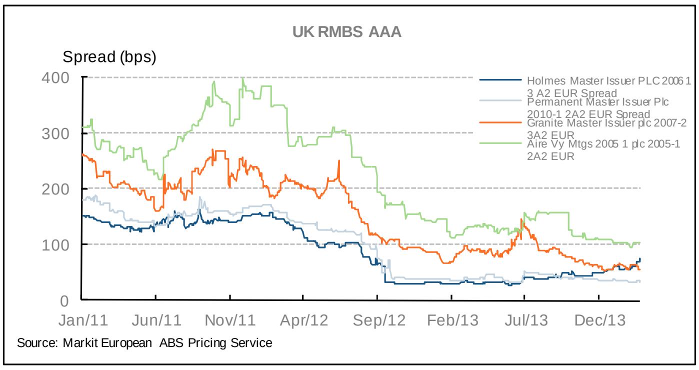
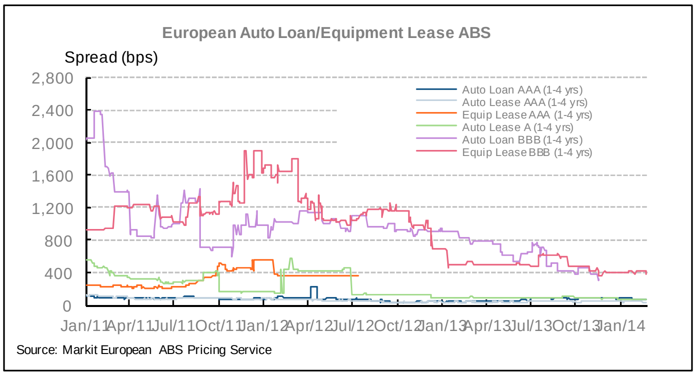
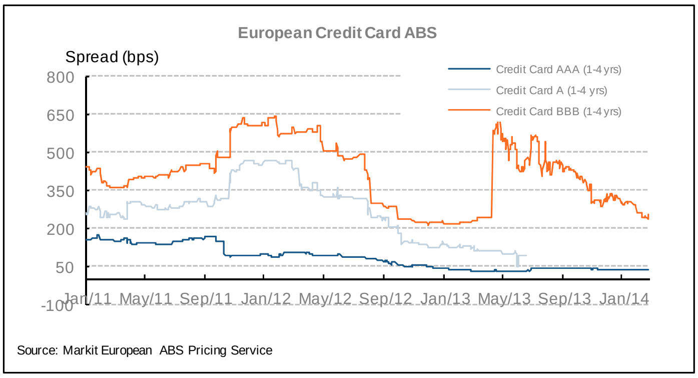
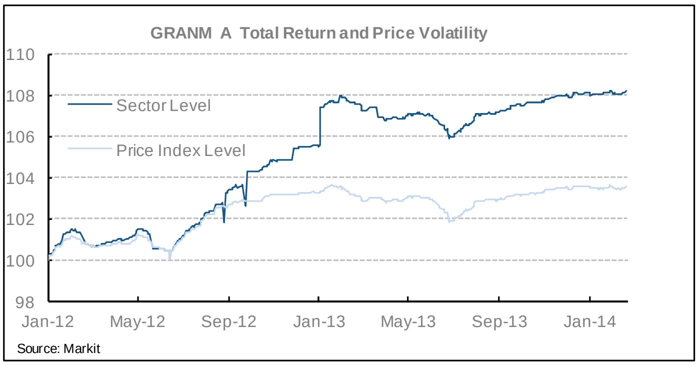


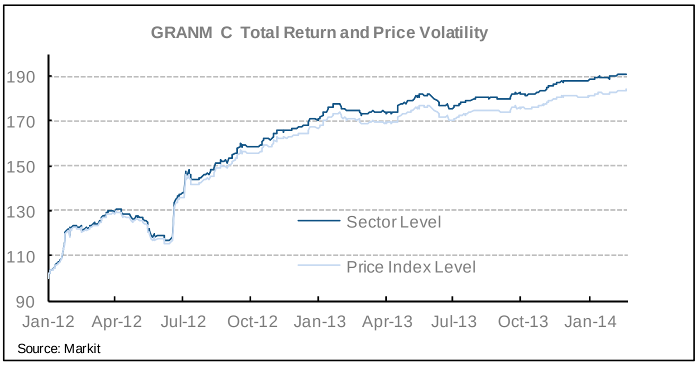






Granite senior levels are still increasing and their total return levels are still increasing with the C tranches jumping by more than 2 points. The A, B, M and C tranches are now traded respectively at 99.3 (56bps), 97.09 (99bps), 96.45 (115bps) and 96.13 (165bps).





Primary market

The primary market has been fairly quiet so far this year. New issuance was much needed to satisfy the substantial demand for new paper. While there were 11 issuances so far this year, the pre-placement of some of these deals hasn't helped subdue any of the demand.

The largest issuance came from the pre-placed Dutch RMBS Sector in the form of Storm 2014-1 BV with a single placed tranche totalling €1 billion. The "A" tranche was issued with a margin of +90bps.

The second issuance from Netherlands this year came in the form of consumer loans in KIGOI 2013 B.V. With a single placed tranche totalling €533.1 million, priced with a margin of +200bps.

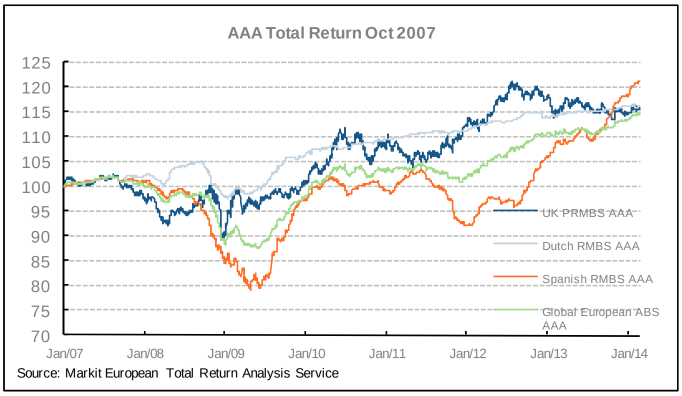
The primary market welcomed its first European leveraged loan CLO issuance of this year; Jubilee 2014-11 issued with seven placed tranches totalling €413.6 million.

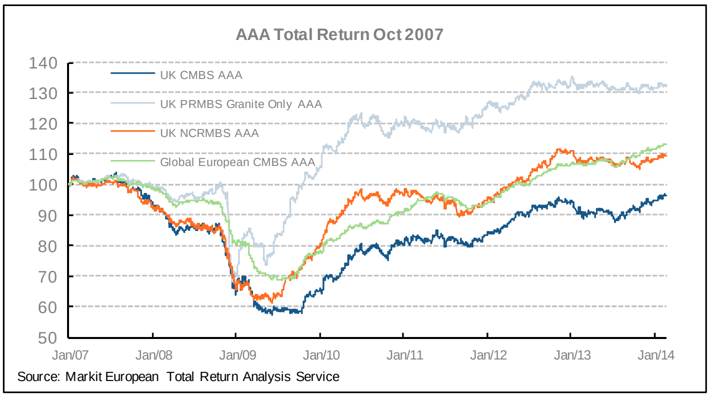
We have seen the issuance of 2 oversubscribed German auto deals and 3 German auto lease deals. Volkswagen's VCL 19 two placed tranches totalled €720 million with the senior note at +35bps and GMAC's E-Carat 6 at €417.5 million with the A note at +40bps.

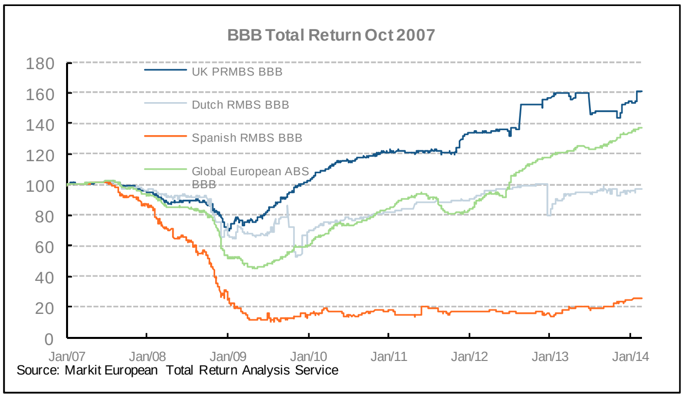
Primary Market (Source: Markit RCD)

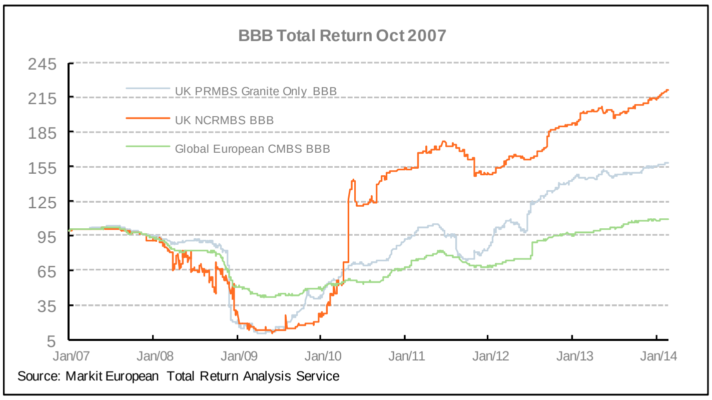
Deal	Country/Sector	Class	Av Rating	Spread (bp)	Amount (€ mn)
Jubilee 2014-11	European/ CLO	A	AAA	140	227
		B	AA	200	54
		C	A	275	27
		D	BBB	335	20.8
		E	BBB	460	26.5
		F	B	560	16
Atlantes SME 3	Portugual/ CDO	A	A	195	437.5
E-Carat 6	Germany/ Auto Loan	A	AAA	40	400
		B	AA	78	17.5
VCL Master Residual Val	Germany/ Auto Lease	A	AAA	55	113
VCL Master Residual Val	Germany/ Auto Lease	A	AAA	55	45
VCL Master Residual Val	Germany/ Auto Lease	A	AAA	55	45
Kigoi 2013 B.V	Netherlands/ Consumer L	A	A	200	533.1
VCL 19	Germany/ Auto Lease	A	AAA	35	697.5
		B	AA	68	22.5
Quadrivio SME 2014 Srl	Italy/ SME ABS	A1	AA	125	80
		A2A	AA	180	200
		A2B	AA	180	110
Alba 5 SPV	Italy/ Lease	A	A	110	326.7
Storm 2014-I BV	Netherlands/ RMBS	A	AAA	90	1000

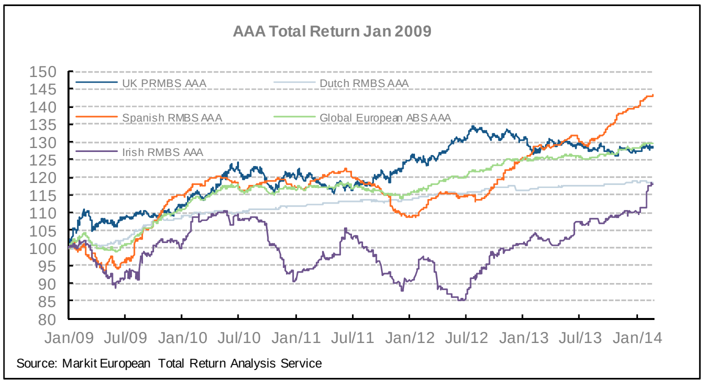
European total return

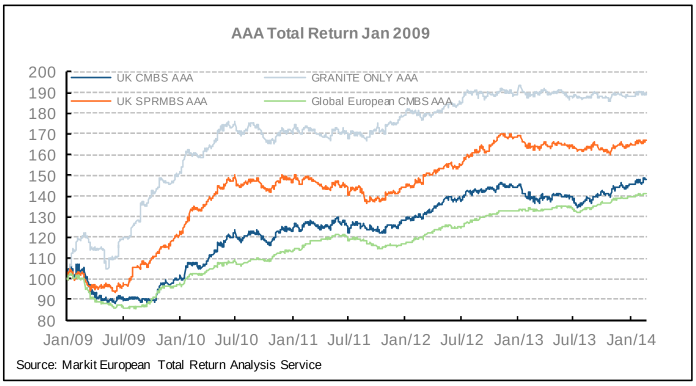


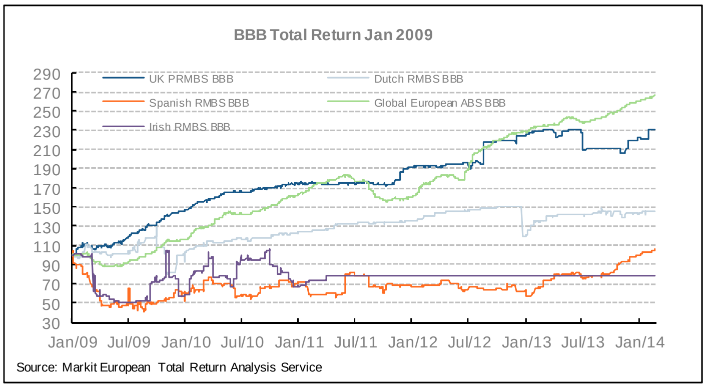


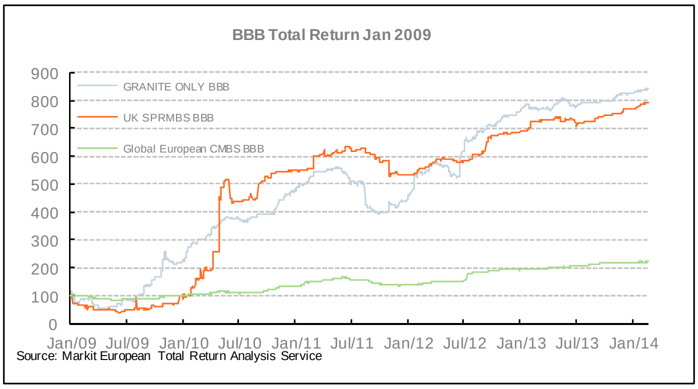












US ABS market

Overview

In conjunction with the global equity market rally, especially here in the US, most sectors enjoyed positive momentum throughout February. Both Non-Agency RMBS and Commercial Mortgage Backed Securities edged up slightly month over month and selective areas within other products benefitted as well. After a substantial tightening in the European CLO market, spreads experienced a modest correction.

CLOs

While January saw a significant drop in new CLO issuance, from December, February looks to have reversed the trend. While still shy of the levels reached in some months during 2013, February saw a healthy number of deals come to the market. On a higher level, data compiled in February shows that there was a significant drop-off in cash inflows into the loan space and some high-yield funds experienced redemptions. On the heels of this data, there was slight weakening in parts of the capital structure, with the BBB's and A's out of Europe feeling the brunt of it. All eyes and ears remain focused on US regulatory groups, hoping they extend the exemption of the Volcker rule to include CLOs in some capacity, similar to the exemption placed around Trust Preferred CDOs.

Generic Markets (DM)			
Vintage	1.0	2.0	Eur.
AAA Amortizing	90-110	N/A	95-110
AAA	115-140	140-160	115-130
AA	160-190	200-230	160-185
A	190-250	2985-310	250-295
BBB	270-350	390-420	360-400
BB	475-600	675-620	550-600

CMBS

The commercial mortgage space was somewhat sideways for the most of the month, but was bolstered by the positive sentiment in the overall US equities market. The more vintage senior rallied slightly, while the more levered tranches saw some decent tightening, which the GG10 AM's in almost 25bp month over month. Generally across the street, the spreads are reflective of the lack of supply as targeted customer buying has left the street's inventories lower, than compared to a month prior.

Generic Markets (Spread to Swaps)		
Vintage	Senior	AM
2005 (CD1)	90 (A4)	75
2006 (CD3)	100 (A5)	105
2007 (GG10)	150 (A4)	360
2011 (LC1)	87 (A3)	
2012 (LC3)	85 (A4)	

Non-agency RMBS

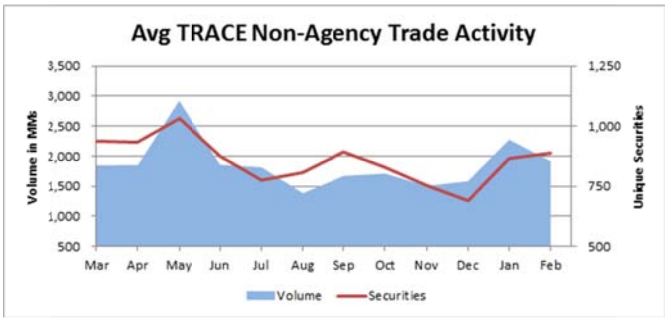
February has shown positive activity; even after the abundance of supply earlier in the month, trading volumes have continued at an increased pace and the market has been able to absorb more bonds than expected. We continue to monitor supply levels as we believe there will be a general lack of supply, due to the number of buy-and-hold customers.

Levels for the sector are flat to slightly up over the month as positive economic factors continue to aid performance assumptions across the board. Alt-A and Subprime paper stand to benefit the most, as HPA increases will cause reductions to LTV and severity levels potentially leading to an increase in prepayments as underwater borrowers will once again qualify for refinancing.

Currently bond holders and investors are reviewing the recently approved Countrywide Settlement, which would distribute $8.5Bn in recoveries to affected bonds. Much of the recovery is already priced in to the market but holders still do not have a definite timetable and a plan to appeal the ruling as it is already in motion. Lastly, Ocwen recently announced a plan to provide further loan servicing advances based on changes made to their home pricing model. These changes will increase the number of homes with potential positive equity, which would allow for more loans to qualify for advances of principal and interest.

Trading volumes have remained elevated thus far in 2014 even after the larger IABF and GSE auctions from earlier this year. Daily February volume has averaged $1.915bn or close to 900 securities traded daily; while average volume is down from January's $2.275bn, we are still above average compared to the trailing 12mt mean of $1.86bn.

The last portion of the IABF list traded in early February, the list consisted of mainly high dollar priced Prime and Alt-A paper. The BWIC traded well and most of the bonds fell in to the hands of customers, as opposed to the prior two auctions in which the dealers ended up holding a larger portion of the inventory. We did however notice a bit of push back from customers as the highly competitive nature of the auction led to many dealers repeatedly asking for better bids.



Aggregate issuance, through late February this year, is shy of last year's start, $1.5bn vs. $2.1bn, respectively. We have seen six new deals, aside from the GSE Risk-Share deals, most recently JP Morgan's JPMMT 2014-1; this $356mm deal is backed by 412 first lien prime mortgages, the deal has a 71% LTV with an average FICO of 761. We are currently seeing the 1A2 note being offered at a 102H. This month also gave us the latest GSE risk share deal, STACR 2014-DN1. The Freddie Mac deal is backed by 140,000 mortgages, totaling a balance of $32.4bn.

Consumer ABS

February was an eventful month for the consumer ABS market as new issuance and trading volume increased dramatically, month-over-month, compared to January. Spreads were generally tighter across the board. Senior auto loans backed by either prime or subprime collateral were between -1 to -11 bps tighter while longer duration subordinate prime autos were -4 bps tighter. Shorter duration, prime auto subordinates were an outlier this month and ended up slightly wider, about +3 bps, as investor focus shifted away from the seasoned sub market to the new issue sub market. Credit cards were generally tighter as well, from -2 to -3 bps tighter, except for the fixed-rate subordinate sector which was approximately +3 to +4 bps wider. Both FFELP and private student loans outperformed this month as spreads were tighter across the board, from -1 to -11 bps. The market witnessed a steep rise in prices throughout the month for select subordinate FFELP and private bonds, from $0.50 to $1.50 tighter. Please see Markit's generic spread matrix below for a breakdown across asset-classes.

Generic Spreads by Sector			
Prime Auto Loan		**WAL**	**Spread**
Class A	FIX	0-2	10
		2+	19
Class B	FIX	0-2	26
		2+	46
Credit Card			
Class A	FIX	0-3	15
		3+	38
Class A	FLT	0-3	8
		3+	26
FFELP Student Loan			
Class A	FLT	0-5	47
		5+	67
Class B	FLT	5+	276

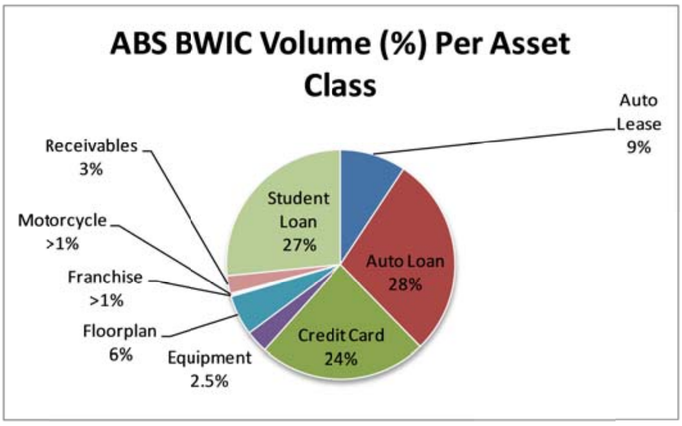
Subprime Auto Loan		**WAL**	**Spread**
Class A	FIX	0-1	22
		1+	32
Class B	FIX	0-2	39
		2+	82
Credit Card			
Class B	FIX	0-3	67
		3+	130
Class B	FLT	0-3	43
		3+	71
Private Student Loan			
Class A	FLT	0-2	78
		2-5	133
Class B	FLT	5-10	233

The primary market was active this month with 18 consumer ABS deals coming to market compared to just 10 in January. New issuance totaled approximately $15.7bn in February which was also up considerably from last month's total of $9.8bn. Auto-related deals accounted for just over $10bn of the total coming to market this month, continuing its dominance in the new issue space. Please see the table below for a full breakdown across asset-classes.

US New Issue ABS*		
Asset Class	**Amount (mm)**	**Number of Deals**
Auto	5,990.00	5
Card	3,150.00	3
Equipment	1,740.00	3
Floorplan	4,190.00	5
Rate Reduction	-	-
Student Loan (FFELP)	660.00	2
Student Loan (Private)	-	-
Total	15,730.00	18

*January 27 - February 21

BWIC activity was also up considerably in February with approximately $4bn in bonds out for the bid, versus just $1.7bn in January. Auto-related collateral dominated the BWIC space this month accounting for about 43% of total in February, while student loans and credit cards accounted for approximately 27% and 24%, respectively. Please see the chart below for a breakdown across asset-classes.



Agency

In the beginning of the month the slow prepayment speeds reported in February, and the prior week of net selling in mortgages, caused spreads to widen across all Agency MBS, which is encouraging buyers to re-enter the market. It's worth noting that most of the new CMO deals have been backed by Ginnie collateral. Of late banks have been selling Fannie and Freddie deals to purchase Ginnie CMOs while Ginnie investors have been selling due to tightening spreads. Investors have been focusing their purchases on Ginnie Mae 4.5s and 5s. This increase in demand has allowed sellers to increase their BWIC volumes.

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