

Around the Houses - Quarterly European RMBS

August 2009

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Performance Update Q209



Summary

Peter Dossett

The second quarter of 2009 has seen a continuation of the trend of the last 12 months, with the performance of underlying RMBS assets deteriorating and this having a knock-on affect on ratings. Across Europe, the affects of recession are impacting residential mortgages via increased delinquency and default rates, and it is Fitch Ratings' expectation that these performance indicators will continue to deteriorate. The date-based arrears indices, included in this report for the first time, highlight the increasing average level of arrears across Europe, most notably in UK and Spanish RMBS transactions.

During Q209, Fitch downgraded 91 tranches of European RMBS, compared to only 14 upgrades. Although the agency continues to assess tranches for upgrades, the prevailing economic climate means that a greater cushion is required before an upgrade can be made, to take account of the volatile nature of the economy as a whole.

Report Highlights

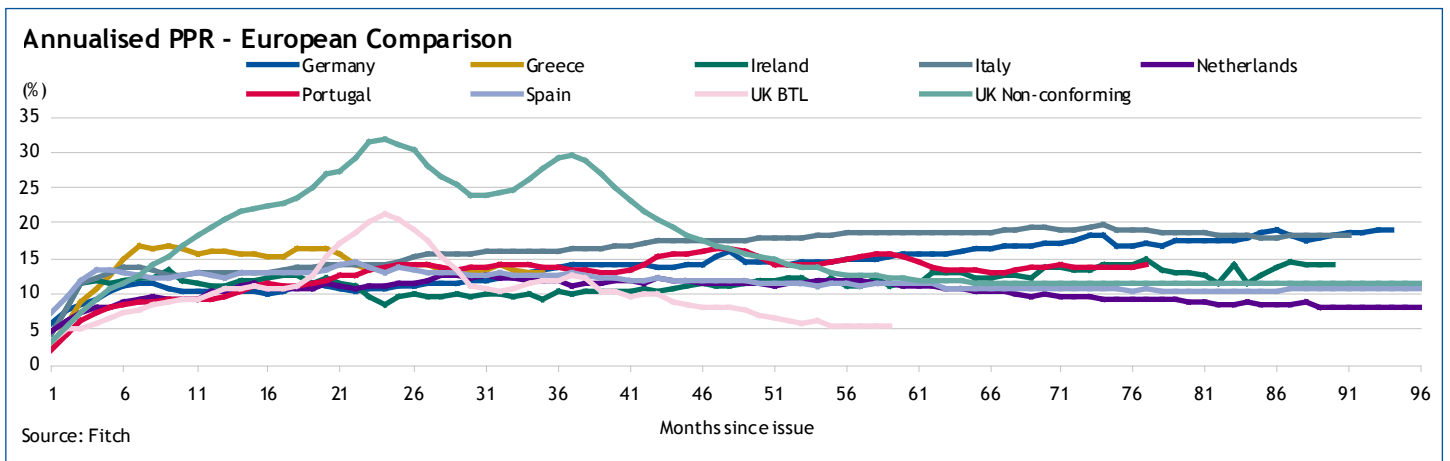
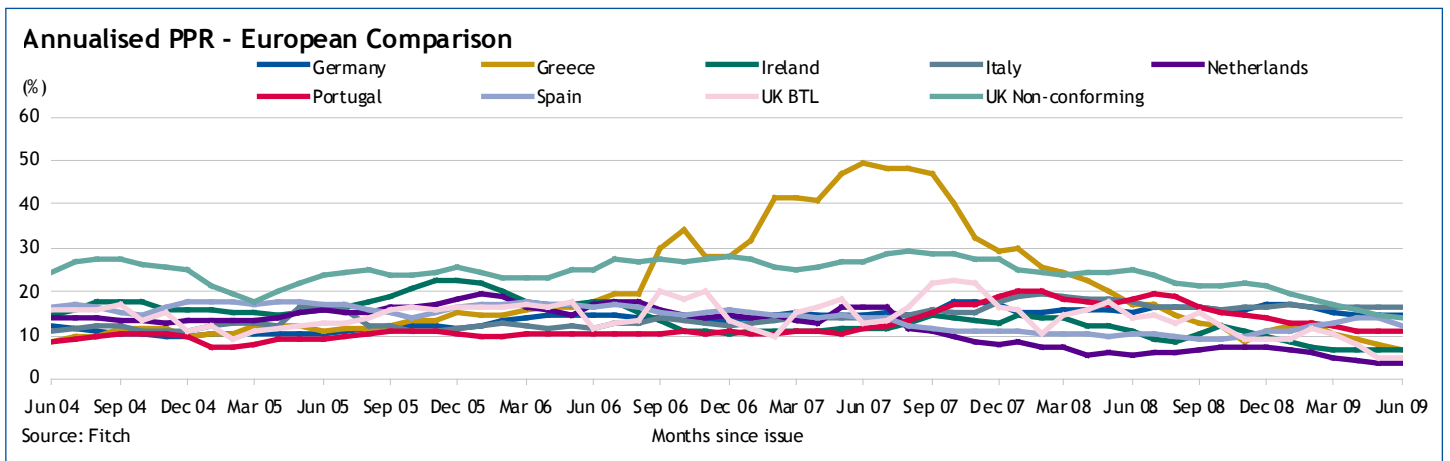
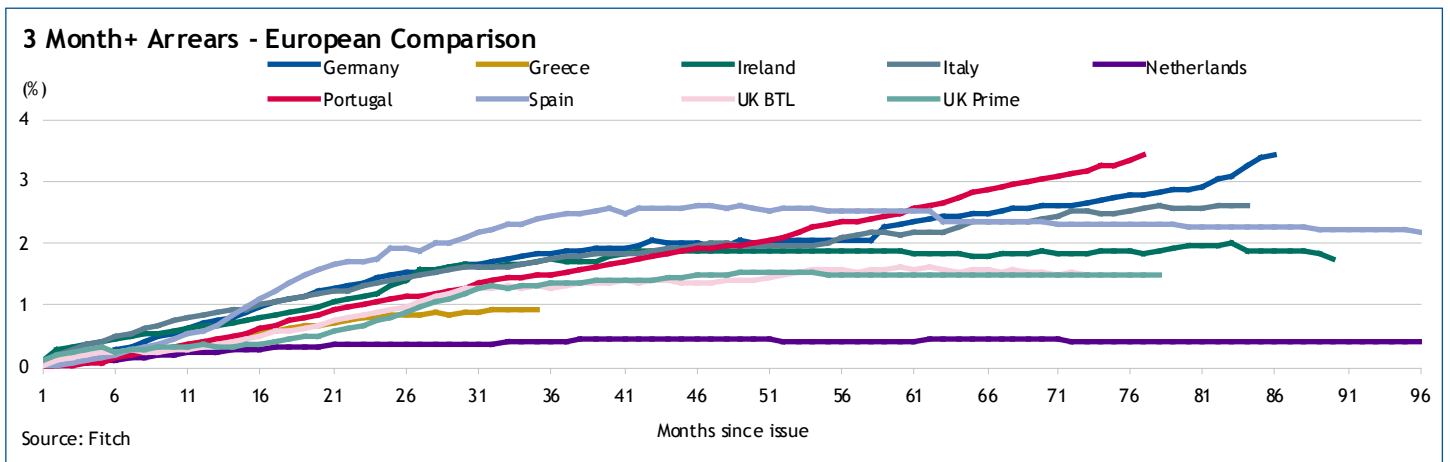
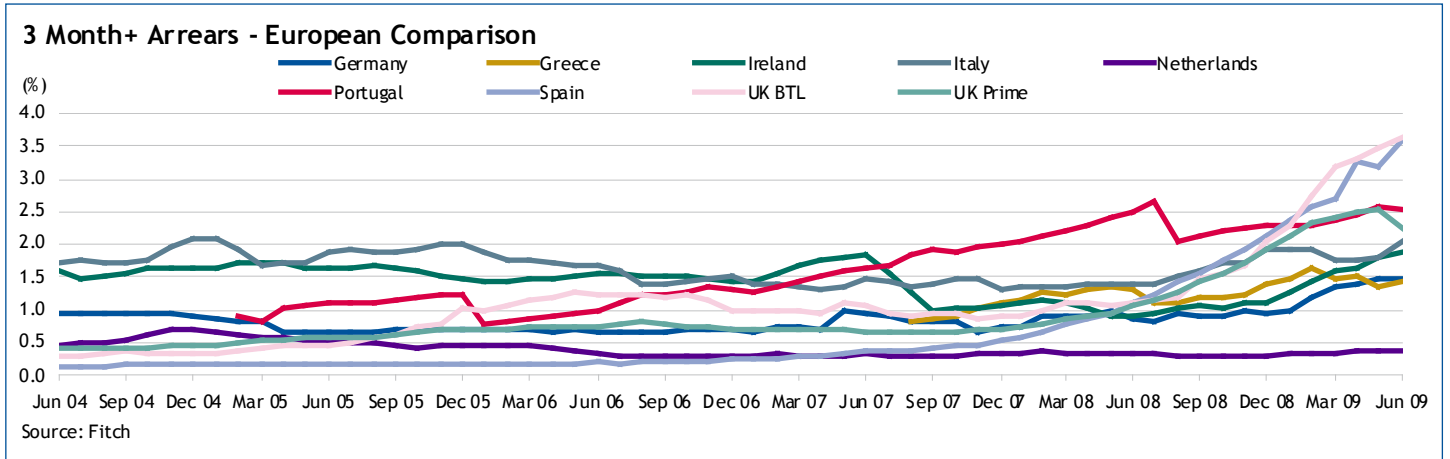
- Arrears levels have increased across all jurisdictions in the last year, most notably in UK and Spanish RMBS.
- Improved affordability has recently reduced the rate of increase in arrears cases, but Fitch believes that rising unemployment has not yet worked through to arrears levels.
- Downgrades continue to be predominantly from UK non-conforming and Spanish transactions, with limited upgrades from any sector.
- The first interest deferrals occurred in Spanish RMBS, and un-cleared principal deficiency ledger balances are building up in some UK non-conforming transactions.
- Prepayment rates continue to decline, despite historically low interest rates, due to reduced mortgage availability.
- Inclusion of date based arrears indices reflecting the recent trend.

The 'In Focus' section this quarter looks more closely at interest deferral mechanisms in European RMBS and outlines the most common features. This is an increasingly relevant structural mechanism, as the level of losses and defaults means that a selection of transactions have already breached their deferral triggers; Fitch expects many others to do so as performance continues to deteriorate.

Rating Actions/Outlooks

Q209			Current Outlook			Cumulative year to date		
Upgrade	Downgrade	Affirmation	Positive	Negative	Stable	Upgrade	Downgrade	Affirmation
14	91	309	19	181	1,115	222	470	2,340

Note: 33 tranches are currently on Rating Watch Negative. This table also includes transactions from other jurisdictions not covered in this report. Source: Fitch (data as of 1 June 2009)



In Focus: Interest Deferral

Sanja Paic



The rising trend of arrears, repossessions and defaulted loans has led to a tightening in available revenue funds necessary to meet payments due to transaction counterparties and noteholders. This has meant that structural features in RMBS transactions, that were previously not active, are becoming more important. One such feature is the interest deferral mechanism, which saw their first use in European RMBS during Q209.

The structures of RMBS transactions have various features in place, designed to provide additional support should the deal fail to generate sufficient revenue to meet its obligations. These features include: reserve funds, liquidity facilities, use of principal funds to meet interest payments, as well as interest deferral mechanisms for mezzanine, junior and excess spread notes. Usually, these features are dependent on the performance of the underlying collateral of the transactions and are aimed at providing additional support to noteholders, particularly the senior note investors.

Throughout 2008 and in the course of 2009, the majority of transactions have faced some form of performance deterioration that has resulted in these features being utilised more frequently. The most commonly used feature in European RMBS has been the cash reserve fund, present in the majority of transactions. This is used when the available revenue is not sufficient to cover interest and losses. The reserve is however limited in size and therefore further features provide additional protection to senior noteholders, and this often involves deferring interest to junior and mezzanine notes.

In Q209, TDA 25 was the first European RMBS transaction to defer interest payments on the junior collateralised notes. This transaction uses a trigger to defer interest based on the level of loans defined as defaulted. In June 2009, the volume of defaults in TDA 25, as a percentage of the original pool, breached the 3.9% trigger, which in turn caused the deferral of the class D interest payments. Interest on the class D notes now rank subordinate to the redemption of principal. Similarly, the mezzanine tranches are linked to higher default rates, and should the volume of defaulted loans continue to increase at the current pace, Fitch believes that the interest on classes C and B may also be deferred and therefore rank subordinate to the allocation of principal amounts. Similarly, Madrid RMBS II and III have also seen deferral of interest on their junior notes this quarter. The deferral of interest on the class E of Madrid II and classes D and E of Madrid III was a result of a breach in the cumulative default triggers. In the three transactions, if the deferred interest remains unpaid, it does not accrue additional interest and is payable when

sufficient funds are available at future interest payment dates. The definition of default, be it cumulative or current, and the accrual of further interest is not standard; therefore, it is necessary to understand the specific transaction documentation to know exactly when interest may be deferred.

This feature is typical for Spanish RMBS transactions, although in some instances, the trigger may also be linked to the amount of available revenue following the payment of senior fees, as is the case in the UCI series. Fitch believes that more Spanish RMBS transactions, such as Madrid RMBS I and the Santander Hipotecario series, are likely to hit their prescribed default targets in the forthcoming interest payment dates.

The other deferral trigger that is most commonly used in European RMBS is the deferral of interest based on the revenue waterfall. If a transaction does not generate sufficient funds to pay interest due on mezzanine, junior and excess spread notes, interest payments are deferred until the next payment date, whereby sufficient funds are accumulated to pay off any outstanding payments. The deferred amount typically accrues; however, unlike Spanish RMBS, the deferred interest payments do not move within the waterfall, ie interest on mezzanine and junior tranches remains senior to the reserve fund.

This mechanism caused the deferral of interest on the most junior collateralised tranche of Eurohome Mortgages 2007-1, a pan-European RMBS transaction. Following the full depletion of the reserve fund in February 2009, the investor report for Q209 showed the outstanding principal deficiency ledger balance for this tranche at 100%, with 26.9% of amounts allocated to the class D PDL. In the lifetime of this transaction, Fitch expects to see interest being deferred on more tranches, as is reflected in the current ratings the agency has assigned. Interest on these tranches will be deferred until a payment date when the issuer generates available revenue sufficient to pay off the deferred amounts.

The deferral of interest has also occurred on a number of uncollateralised notes, most commonly seen in UK non-conforming transactions (although due to the position in the waterfall, this is not unexpected). To date, no UK non-conforming transactions rated by Fitch have reported deferred interest payments on collateralised notes; however, the agency believes that transactions such as RMAC 2006-3 and Eurosail 2006-3, Bluestone 2006-1, Ludgate 2006-1, Newgate 2007-1, and Newgate 2007-2 – where recent investor reports show large PDL amounts outstanding – are likely to defer interest in the forthcoming IPDs.

Ratings on classes where interest deferral is taking place will typically be in the 'CC' to 'C' range and reflect Fitch's view on the likelihood of this being cured in the future. In addition a recovery rating will be assigned which indicates the agency's view on future principal and interest recovery on the tranche, discounted to the current period.

Germany



Sanja Paic

According to the data published by the Deutsche Bundesbank, the total volume of mortgage loans outstanding in Germany in Q209 decreased by 0.6% compared to the previous quarter, reaching EUR1,150.9bn. Of this amount, 26.2% is to self-employed borrowers and domestic entities, while EUR907.1bn of the outstanding portfolios are loans backed by real estate.

The Deutsche Bundesbank reported a further decline in the weighted-average effective interest rate charged on housing loans. In May 2009, the weighted-average effective interest rate reached 5.0% (as calculated by Fitch using provisional data published by the Deutsche Bundesbank), ie a reduction of 6bps from the previous quarter. The biggest decrease in Q209 was reported in interest rates charged on housing loans of up to one year maturity (57bps), which now stand at 4.97%. Interest rates charged on loans with maturities greater than five years was similarly reported at 5.0%; a decline of 5bps compared to February 2009.

Rating Actions

On 4 June 2009, Fitch downgraded 12 tranches of the three E-MAC DE transactions. The structures of these deals remain on Rating Watch Negative (RWN); the agency expects further clarification on outstanding issues and information relating to the performance of these deals. The rating actions reflect Fitch's concern about the quality of the underlying collateral of these deals and also highlight the agency's concern over the operational risk arising from the lack of transparency in the reporting. Following sale of repossessed properties, losses are not immediately allocated and therefore remain within the pool with limited expectation of further recovery. Fitch believes these amounts should either be realised as losses and subtracted from available excess spread or clearly reported. The RWN is expected to be resolved by year-end, whereby, depending on the quality of response Fitch receives from the servicer, the agency may take further rating actions.

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	39	11,922,489,133
AA	16	22,421,446,340
A	15	621,549,837
BBB	14	371,500,000
BB	11	177,519,802
B	6	85,538,338
CCC Below	8	67,728,005

Source: Fitch

In Q209, Fitch also affirmed the ratings of Provide Gems 2002-1 and revised the Outlook to Stable from Negative on the class A+ tranche. The Outlook revision follows the better than expected performance of the deal. June 2008 saw the full depletion of the threshold amount and subsequently losses have been allocated to the most junior tranche of notes. In June 2009, class E, which is now rated 'C'/RR6', had 21.8% of losses allocated to it. Since the last review, the volume of losses being recognised in this transaction has decreased, which was the key driver behind the recent rating actions.

Performance Indices

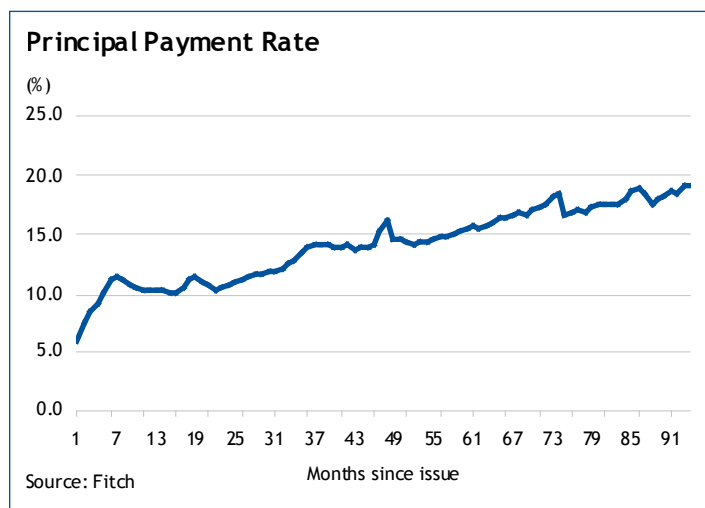
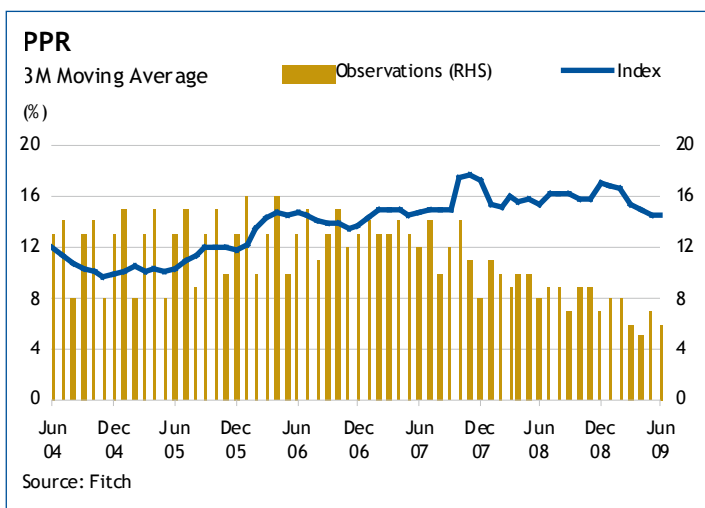
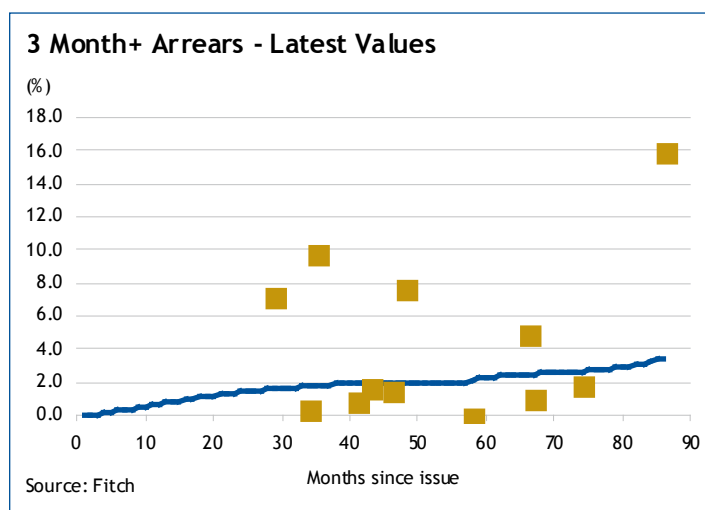
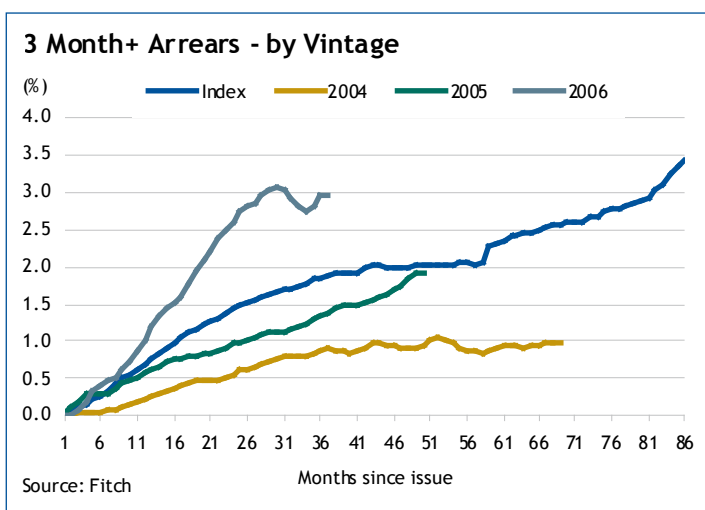
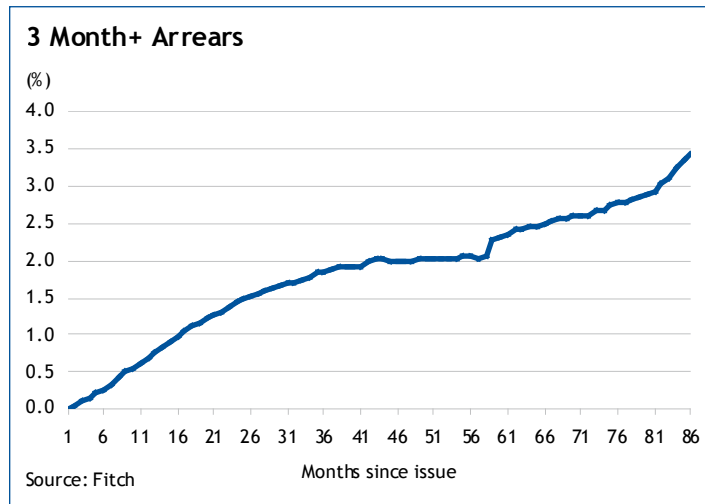
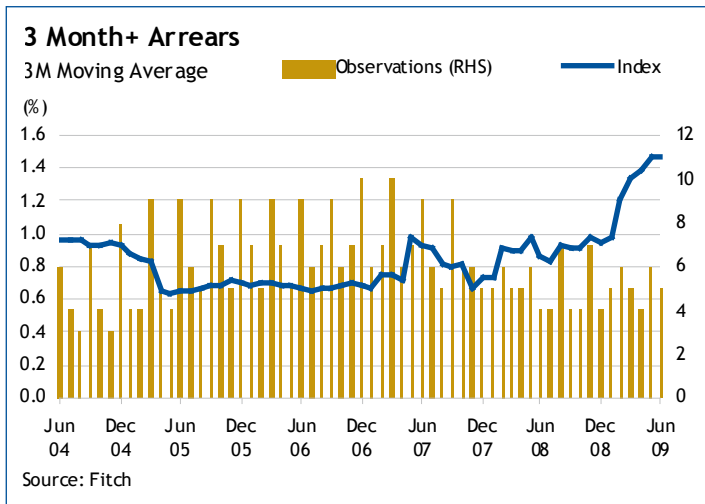
In comparison to the level seen in June 2009, loans in arrears by more than three months showed an upward trend for German RMBS. According to the index value, the three month moving average (3 Months+ arrears 3M Moving Average) for June 2009 stood at 1.6%, compared to 0.9% 12 months earlier. As mentioned in previous editions of this newsletter, the 2006 vintage continues to perform worse than the 2005 and 2006 originated deals, and this is again driven by the E-MAC DE transactions.

In the course of Q209, prepayment rates declined gradually, reaching 12.2% (Principal Payment Rate 3M Moving Average). Low prepayment rates are not unusual for Germany, as most mortgages offered on market are on fixed rates and carry high prepayment penalties. Alternatively, some lenders do allow a percentage of the loan to be prepaid without charging a penalty, but any prepayments above the set limit are subject to prepayment fees.

Rating Actions/Outlooks – Germany

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
0	12	12	0	18	14	12	7	68

Note: 13 tranches are currently on Rating Watch Negative
Source: Fitch



Greece



Santiago Isnardi

Compared to most European jurisdictions, the Greek property market has remained relatively resilient to the global financial crisis over the last 12 months. However, Fitch believes that house prices are starting to experience downward pressure. Elsewhere, the unemployment rate has remained steady at 9.2% in March 2009, lower than the 9.4% of January 2009 and similar to the 9.0% reached in March 2008.

Rating Actions

In June, Fitch affirmed seven tranches from the three Estia RMBS transactions and upgraded the class B tranche of Estia I. The portfolios backing the transactions comprise loans originated by Piraeus Bank S.A. The majority of Outlooks remained unchanged; however, the class B of Estia III was revised to Negative from Stable. The delinquencies and defaults within Estia I and II have remained low, which, together with credit enhancement growth, prompted the upgrade of the class B of Estia I. The reserve fund in Estia I is due to step down to 1.8% from its current level of 3.64% and this will reduce the level of credit enhancement; however, the performance of the pool supported the class B upgrade.

Conversely, since closing, the arrears of Estia III have experienced a sharp upward trend. An increasing volume of defaulted loans is putting pressure on the available excess spread and therefore the likelihood of a reserve fund draw is high. The transaction also includes a revolving period and therefore credit enhancement has not grown, which, in combination with the deteriorating performance, led the Outlook of the class B to be revised to Negative from Positive.

Also in June, Fitch affirmed all tranches of both Lithos and Grifonas No.1 RMBS transaction. Growing credit enhancement levels in Lithos have offset the rising level of delinquencies in the portfolio; however, Fitch revised the Outlook of both the junior classes to Stable from Positive as the likelihood of any future upgrade has reduced as performance has deteriorated.

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	15	6,883,325,538
AA	8	193,199,851
A	4	276,828,482
BBB	11	342,003,899
BB	0	0
B	0	0
CCC Below	0	0

Source: Fitch

The affirmation of Grifonas reflects the low arrears and credit enhancement growth of the transaction. All borrowers are civil servants and the competitive fixed rates offered by Consignment Deposits and Loans Funds (CDLF) contribute to the low prepayment rates of the transaction.

In May 2009, Fitch affirmed all classes of the five Themeleion Mortgage Finance series transactions. The affirmations reflect the strong credit enhancement available for the notes, driven by high prepayment rates. The initial sequential amortisation of the notes also ensures that credit enhancement increases, although for Themeleion I, Themeleion II and Themeleion III, the notes have now switched to a pro-rata amortisation. This will limit any further credit enhancement growth until the reserve fund has reached its floor amount, or until the transaction performance triggers are breached and amortisation is switched back to sequential. Fitch does not expect this to occur in the near term for any of the transactions. The transactions have seen some deterioration, with arrears levels increasing in the last 12 months, but these increases do not currently represent any risk to the ratings.

Performance Indices

Loans in arrears greater than three months continue to creep upwards for Greek RMBS, with the index value (3M moving average) for June 2009 at 1.45%, compared to 1.11% in June 2008. There is no significant difference between individual vintages, although the more recent vintage transactions from 2006 and 2007 are performing marginally worse.

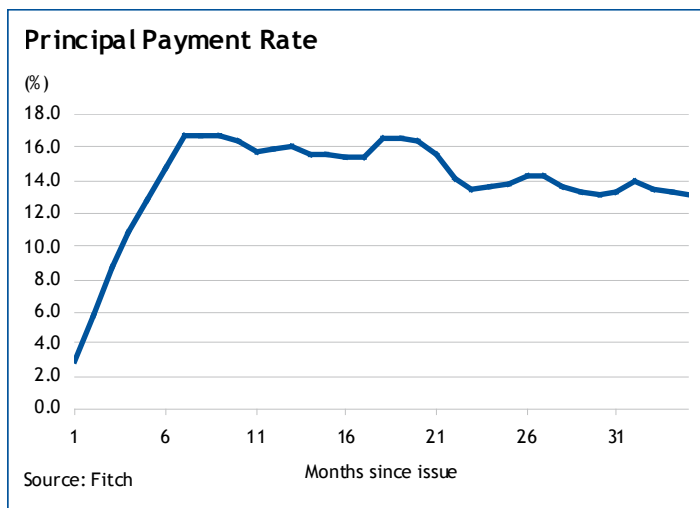
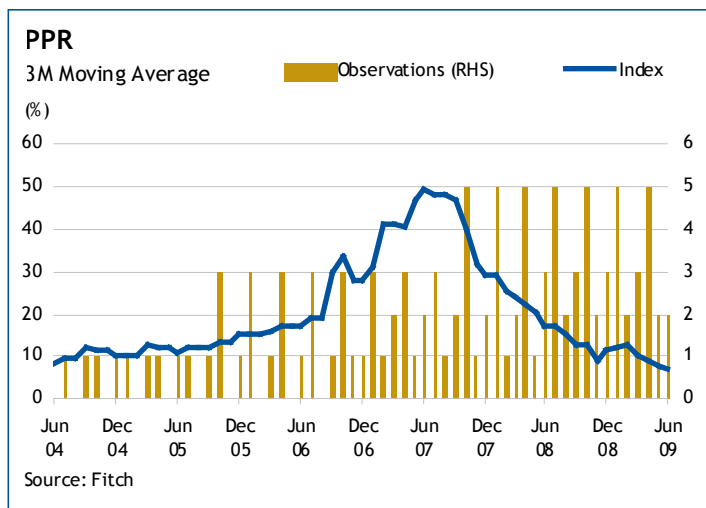
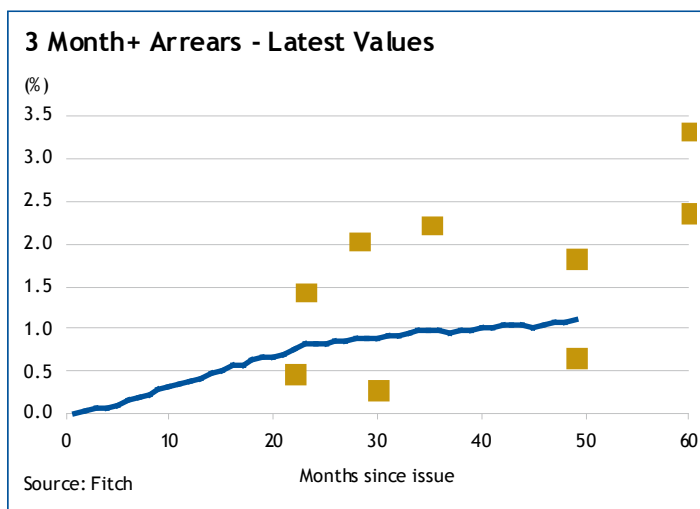
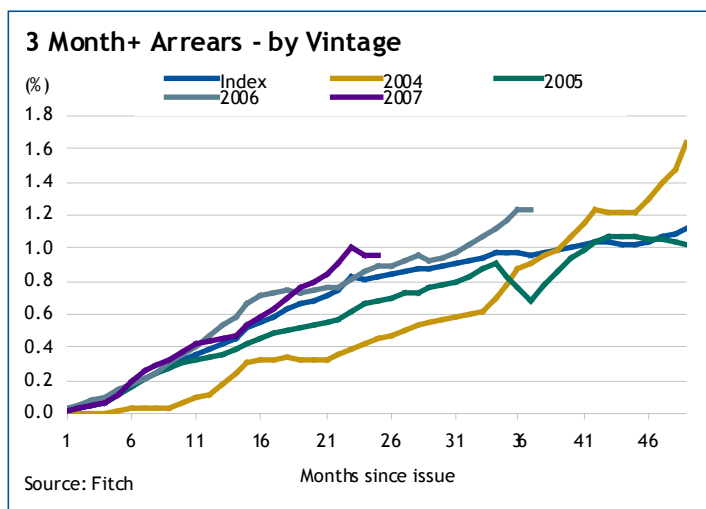
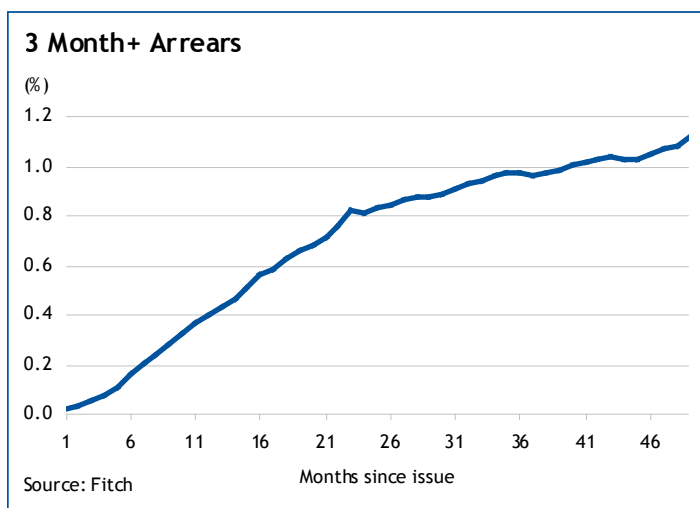
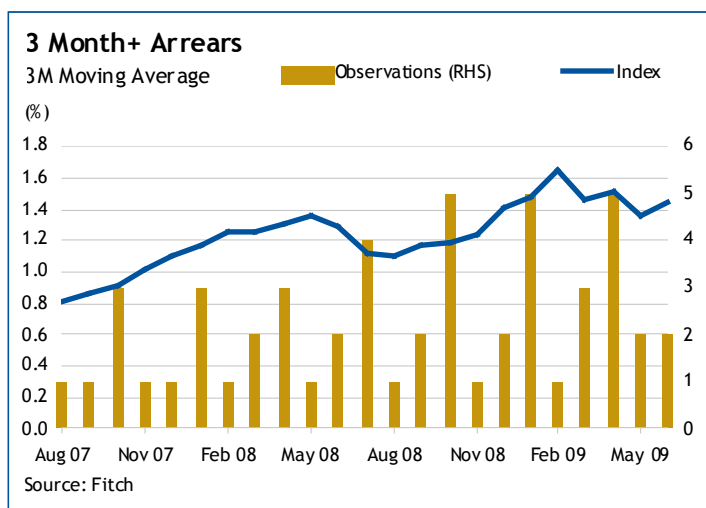
Rating Actions/Outlooks – Greece

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
1	0	27	1	0	35	11	1	26

Source: Fitch

Prepayment rates continue to decline; however, these were especially high for Greek transactions during 2007, as can be seen in the chart below. As mentioned in previous editions of this newsletter, this spike was caused by a mixture of increased competition between Greek banks and transactions reaching their substitution limits, requiring the originator to

buy back loans which, following modifications, no longer met the eligibility criteria of the pool. This in part, also explains the very low level of prepayments now seen, with annualised PPR now under 10%, as borrowers renegotiated preferable rates during 2007/08 and are now happy to remain with their current lender.



Ireland



Charlotte Allum-Smith

The Irish housing market continues to suffer in the current global financial crisis; with demand for properties low and a considerable excess of properties for sale, house prices are continuing to fall. House prices are now in line with levels seen in the summer of 2004. First-time buyers are suffering the worst, with more numbers falling into negative equity and those wishing to get onto the property ladder put off by a lack of economic confidence, despite falling house prices and interest rate cuts.

Ireland has seen house prices fall month-on-month for almost the last two and a half years. According to the ESRI House Price Index, May 2009 recorded a 1.3% house price reduction; this follows reductions of 1.9% and 1.0% for April 2009 and March 2009 respectively. The year-on-year price change to May 2009 saw a decline of 10.9% and the first five months of the year have shown a reduction of 6.2% in house prices. From the peak in the Irish property boom in January 2007 to the current trough in May 2009, property prices have fallen 21.2%. Following the current trend, Q209 showed that Dublin house prices are falling faster than properties elsewhere: in May 2009, Dublin showed a 2.2% fall in prices from April, compared to 0.4% outside of Dublin.

The performance profile of Irish RMBS transactions remains relatively unaffected by external influences, including the cuts to the eurozone interest rate. Despite slowly rising arrears levels and falling payment rates, Fitch does not expect this current crisis to have a significant impact on Irish RMBS, given historical performance. A decade of rapid house price

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	14	9,430,230,747
AA	6	244,805,411
A	2	102,400,000
BBB	6	260,176,534
BB	1	2,800,000
B	0	0
CCC Below	0	0

Source: Fitch

growth enjoyed by Ireland prior to the onset of the current crisis, combined with the low weighted average loan-to-value ratios (LTV) of the majority of the transactions, and the high level of seasoning in the majority of the RMBS pools, have helped Irish RMBS transactions weather the crash in the housing market and the current global recession.

Rating Actions

Since publication of the Q109 Around the Houses report, no rating actions were carried out on any of the Irish RMBS transactions rated by Fitch.

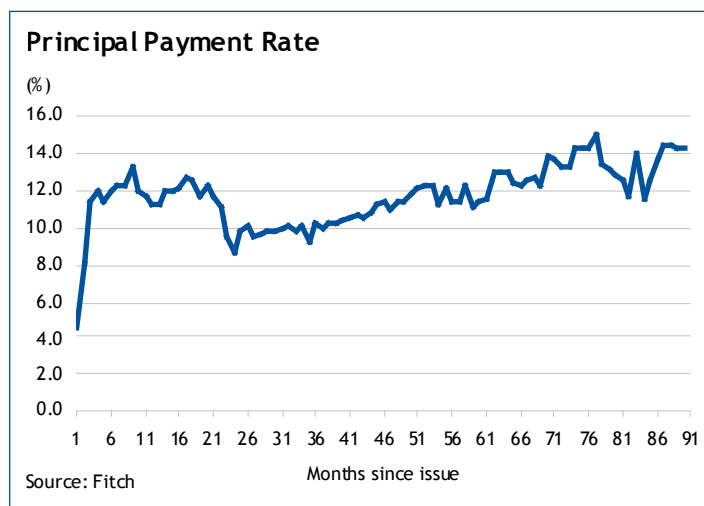
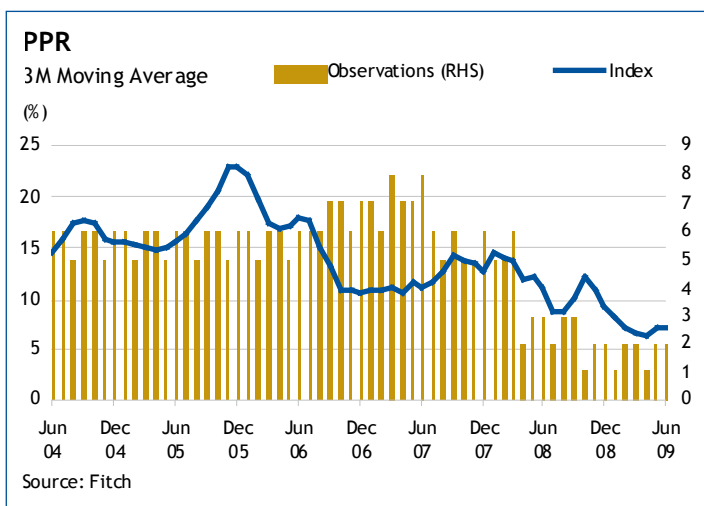
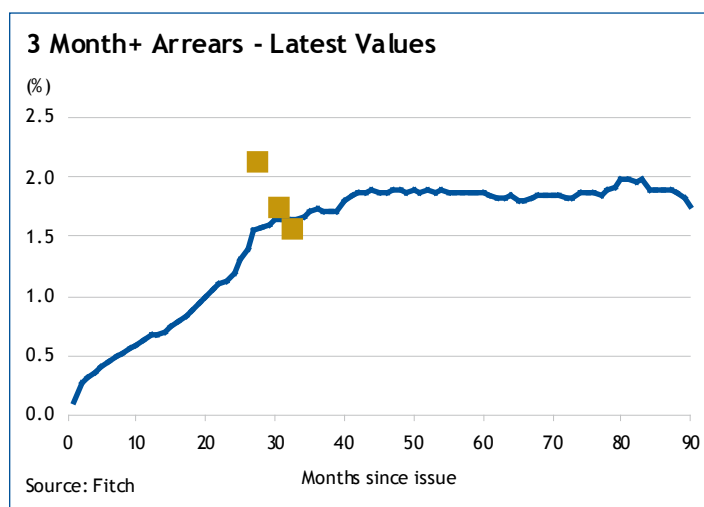
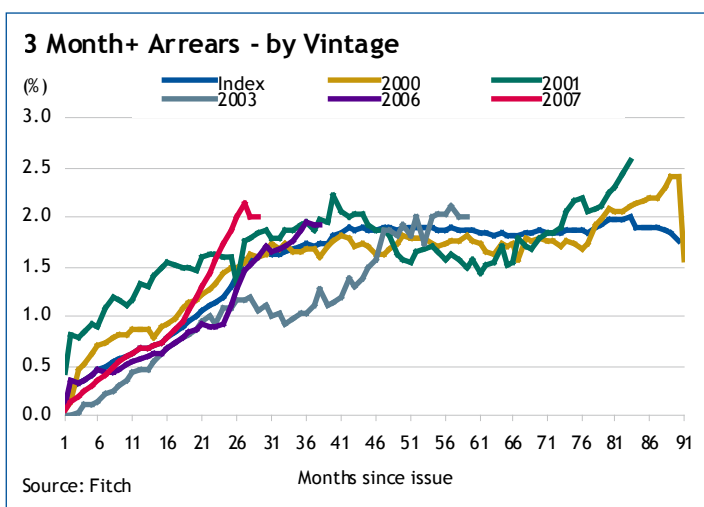
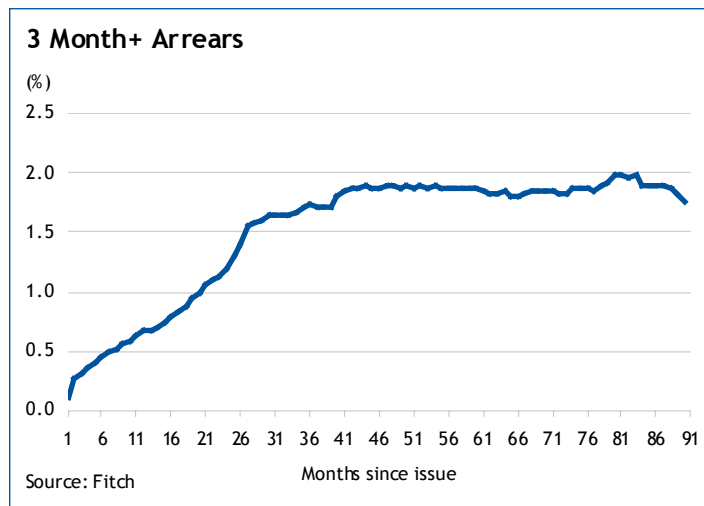
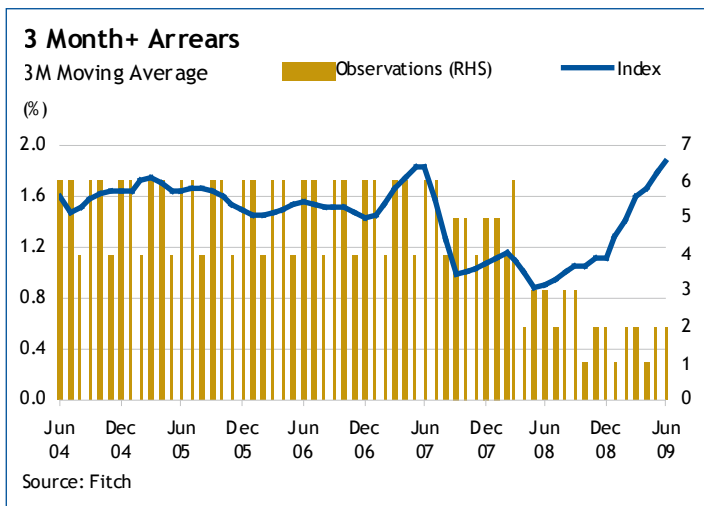
Performance Indices

The level of the Irish arrears index has doubled over the last year, from 0.90% in June 2008 to 1.87% in June 2009. The index is however comprised of only three transactions at present and is therefore very dependent on those particular pools. It may therefore not be a good indicator of the Irish market as a whole. The two non-conforming transactions from the Lansdowne series are excluded from all of the indices, due to the different nature of the collateral.

Rating Actions/Outlooks – Ireland

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
0	0	0	0	0	0	5	0	24

Source: Fitch



Italy



Mirella Tinti

Fitch published a press release on 16 June 2009, titled “*Low Interest Rates May Impact Future Mortgage Performance*”, with regard to the recent ECB interest rate cuts and the effect on mortgage performance. The agency has noted that countries such as Italy, Spain, Portugal and Greece, with predominantly floating-rate mortgage loans originated between 2003 and 2005, have shown higher levels of delinquencies and defaults coming through in 2007 and 2008 when Euribor increased, due to the limited use of forward-looking debt-to-income (DTI) ratios. This increase has however now been limited by the reduction in interest rates and the agency expects to see delinquency levels stabilise.

Rating Actions

Q209 saw 24 tranches of Italian RMBS affirmed, nine tranches upgraded and eight tranches where the Outlook was revised. The upgrades were driven primarily by the high level of seasoning and substantial credit enhancement levels in some transactions, as well as the benefits of either a provisioning mechanism or a fully funded reserve fund, combined with low levels of arrears. This was the case for Media Finance 1 Srl, Bipitalia Residential Srl and Mantegna Finance Srl, all of which saw upgrades to the mezzanine tranches due to credit enhancement growth and low arrears levels. Simultaneously, the junior tranches of Media and Bipitalia had their Outlooks revised to Stable from Positive, due to concerns over possible reserve fund amortisation trigger breaches (and issues linked to commingling risks in Bipitalia). Fitch shares the same concerns with regards to a reduction in credit enhancement through reserve fund amortisation in Siena Mortgages 03-4 Srl; all tranches were affirmed with a revision to the Outlook of the junior tranche to Stable from Positive.

The provisioning mechanism, in which excess revenue is used to accelerate the pay down of the notes, was one of the key drivers behind the upgrade of the class B and C

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	76	68,730,057,524
AA	25	918,293,091
A	27	1,358,175,828
BBB	35	1,666,285,000
BB	8	318,009,469
B	0	0
CCC Below	0	0

Source: Fitch

notes in Voba Finance Srl, IntesaBci Sec. 2 Srl, and Intra Mortgage Finance 1 Srl; the Outlook was revised to Positive from Stable for both tranches in Voba and for the mezzanine tranche in Intra.

The negative rating actions on classes B and C in Vela Mortgages Srl were predominantly linked to an increase in the level of defaults and the subsequent reserve fund draw (by 16.7% of its target amount). The agency’s concerns – which were expressed in the revision of the Outlook to Negative from Stable on the mezzanine and junior tranches – are based on further draws caused by an upward arrears trend, which are likely to result in further defaults. The deal, which closed in May 2008, remains in its lock-out period until January 2010.

Performance Indices

Three-month plus arrears in Italian RMBS have increased since June last year to 2.06% from 1.41%. An increase has been seen across nearly all European jurisdictions, and although Italian arrears have risen, they have done so at a slower rate than other countries, notably the UK, Spain and Ireland.

Recent vintage transactions are not seeing significantly different arrears levels to older transactions, as can be seen from the vintage indices for 2006 and 2007, as well as the distribution on the latest value scatter chart below, where the loans with the least seasoning are closely distributed around the index line.

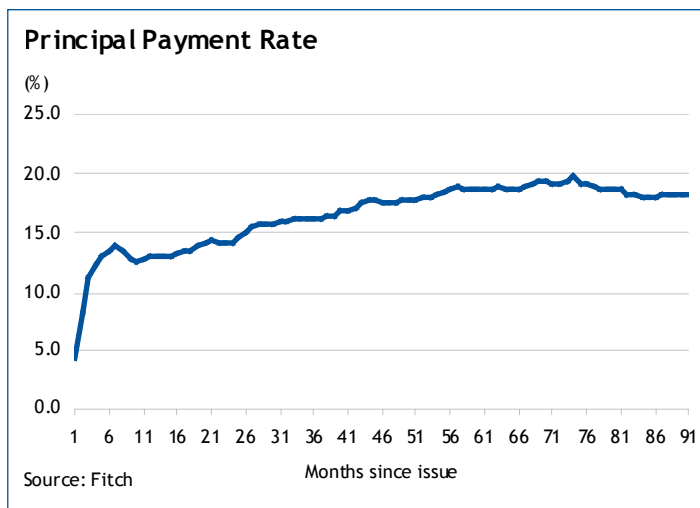
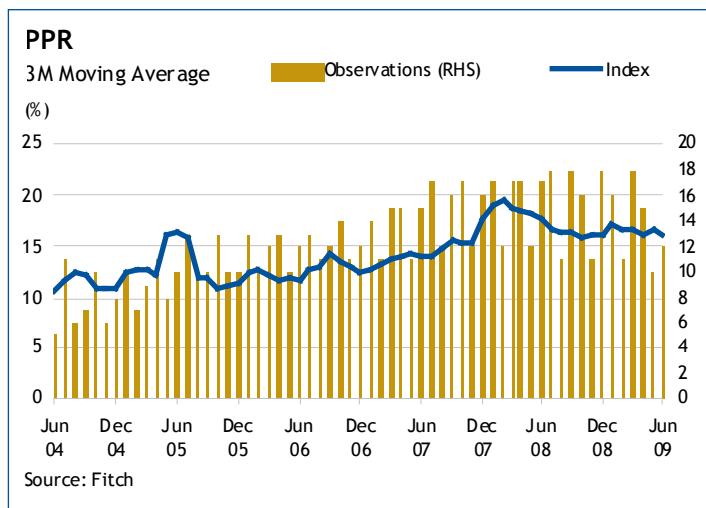
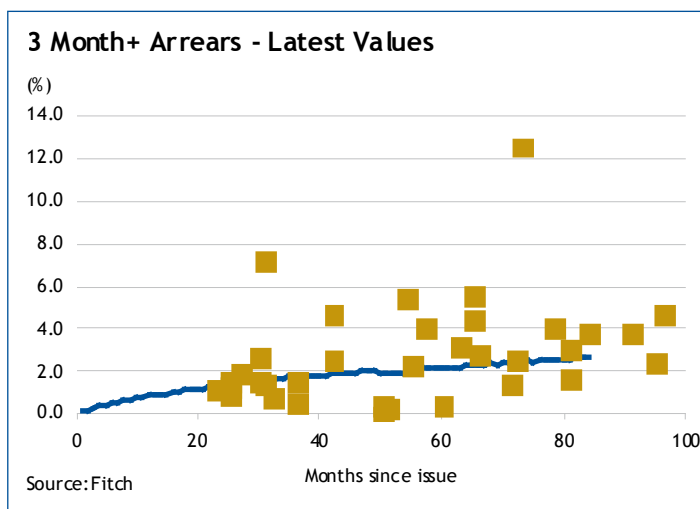
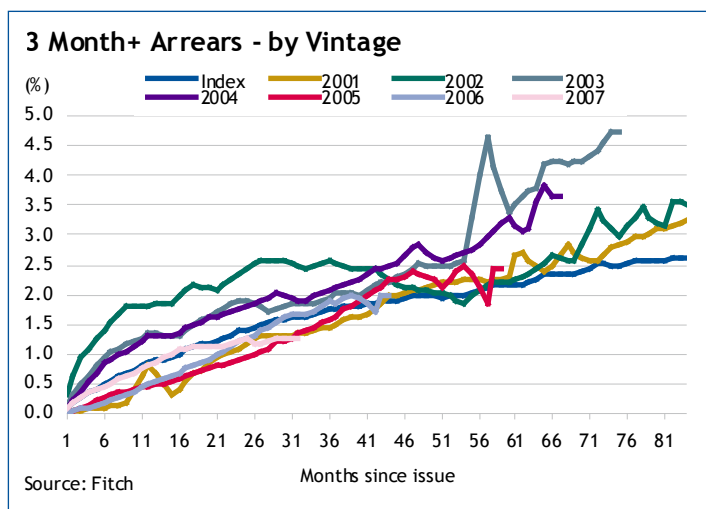
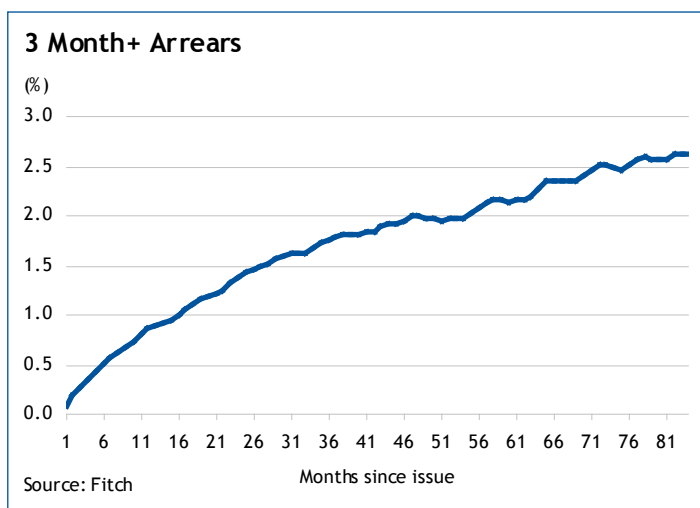
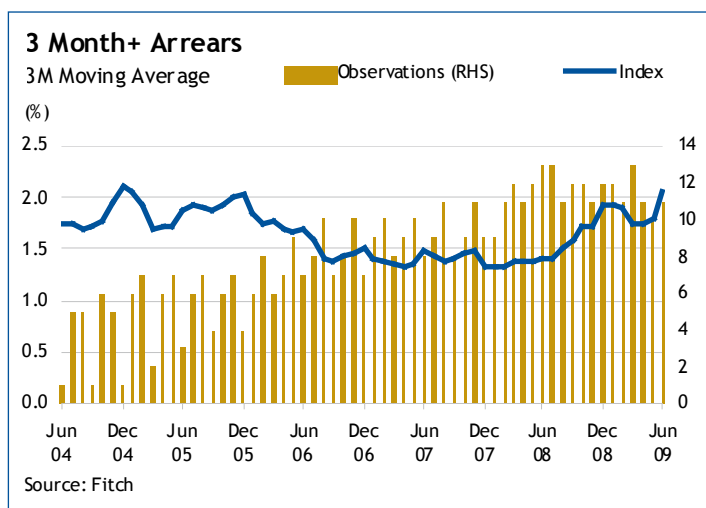
Rating Actions/Outlooks – Italy

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
9	0	24	10	11	62	20	27	120

Source: Fitch

PPR levels have remained relatively stable over time, suggesting that changes to legislation to limit prepayment penalties have had a limited affect. However, the lack of

change in PPR is perhaps more due to the current economic climate; it is likely that prepayments would be higher if economic conditions were more favourable.



Netherlands



Aksel Etingü

According to Statistics Netherlands (CBS), house prices dropped 3.7% in June 2009 in comparison to their levels a year ago (June 2008) and unemployment rose by 22% in May 2009, compared to May 2008. Fitch expects a 15% decline in house prices in the Netherlands. Arrears and losses are likely to see a moderate increase as a result of the deteriorating economic environment and housing market, but limited negative impact on RMBS ratings is expected.

The Dutch Financial Markets Authority (AFM) has announced plans to tighten mortgage lending regulation in the Netherlands. The proposal envisages establishing a maximum loan-to-market value (LTMV) ratio of 100% and a limit on the maximum loan amount of 4.5 to 5 times the borrower's income. The measures proposed by AFM may lead to further downward pressure on house prices and, as a result, aggravate loan level loss severities on outstanding transactions; however, the impact still remains to be seen. The proposal is still subject to debate by the government and market participants. Fitch will comment on the consultation document, and its potential implications on the ratings of Dutch RMBS, once it is released.

Rating Actions

On 28 May 2009, Fitch affirmed 63 tranches of Holland Euro-Denominated Mortgage Backed Series's (Hermes) – a series of Dutch RMBS transactions – and revised the Outlooks of nine tranches to Negative from Stable. Although the performance of the Hermes deals remains strong, Fitch's expectation of house price declines, combined with the loans' high loan-to-value ratios, has resulted in the revision of the Outlooks to Negative, for those tranches expected to be most at risk of a housing market decline. In Fitch's view, the probability of an increase in losses, driven by house price declines and delinquencies, has now become higher. Losses above the excess spread generated by the transactions will

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	173	158,449,076,446
AA	70	2,886,912,044
A	91	4,952,322,868
BBB	83	1,865,115,570
BB	26	455,371,112
B	6	77,979,432
CCC Below	1	8,684,285

Source: Fitch

lead to reserve fund draws, disrupting the repayment of the uncollateralised notes.

On 28 July 2009, Fitch removed the Rating Watch Negative (RWN) it had assigned to the E-MAC NL 2002-I transaction earlier in July 2009, due to the notes being fully redeemed. The transaction was placed on RWN due to the upcoming put option date in July 2009, which allowed investors to call the notes, if exercised. However, had the put option not been exercised, an extension margin would have been added to the interest due on the notes. The extension margin interest would rank junior to the reserve fund in the waterfall; however, unusually this was not explicitly excluded from the event of default definitions. Therefore, a missed payment of the step-up margin interest could have resulted in an event of default. Because the step-up margin is based on current market prices, and due to the limited excess revenue in the transaction, Fitch expected that this was highly likely to occur.

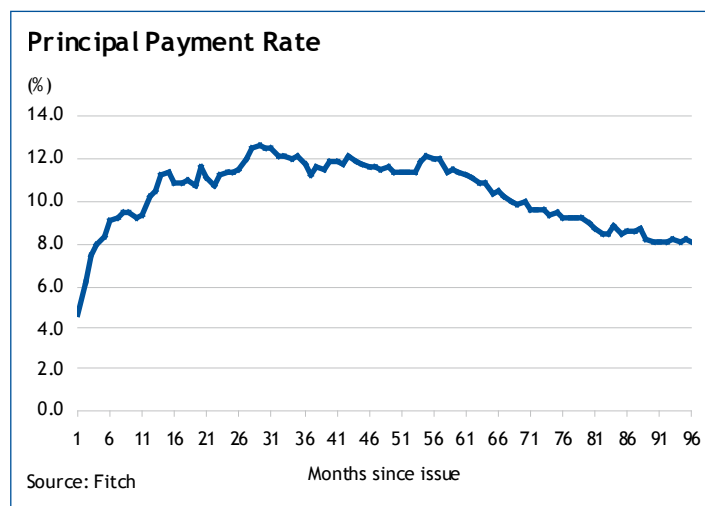
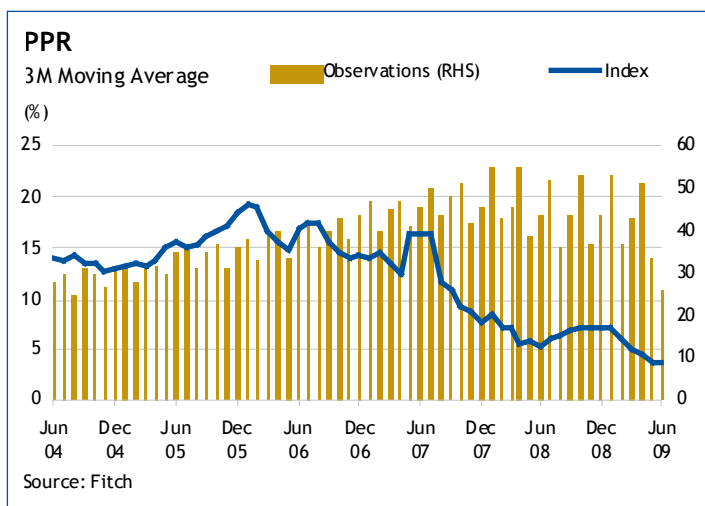
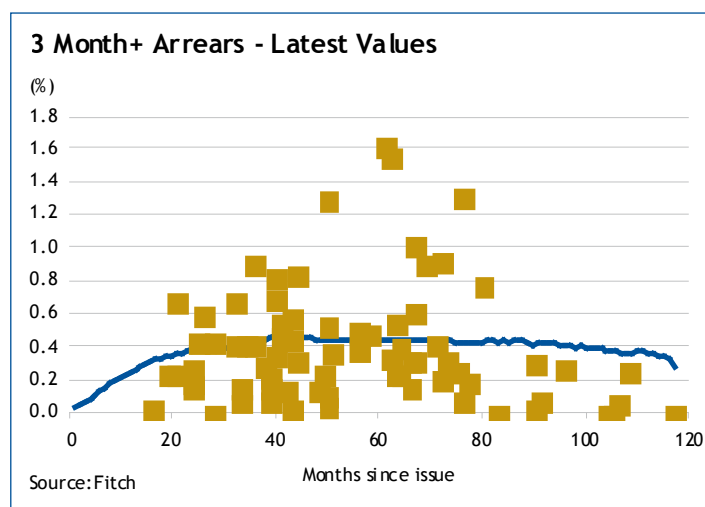
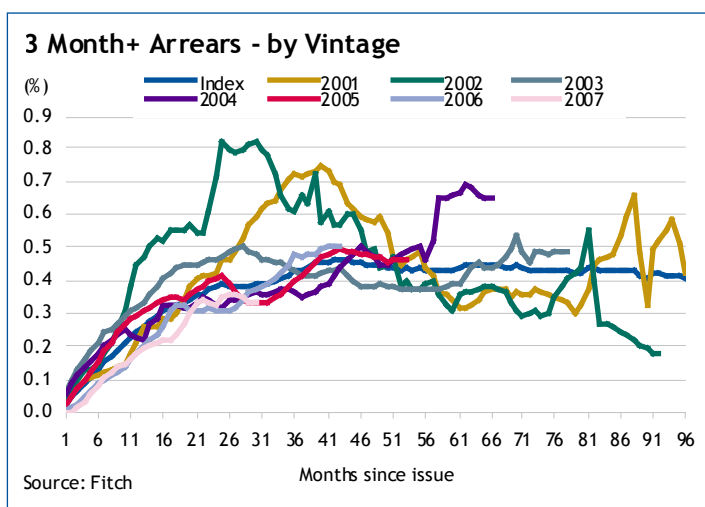
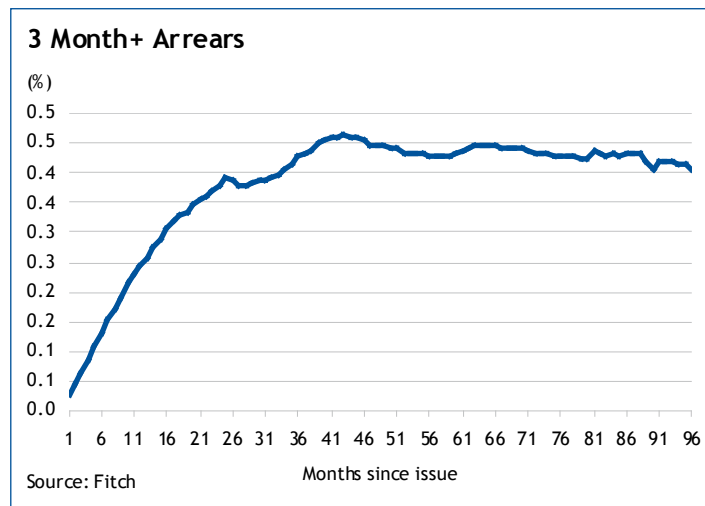
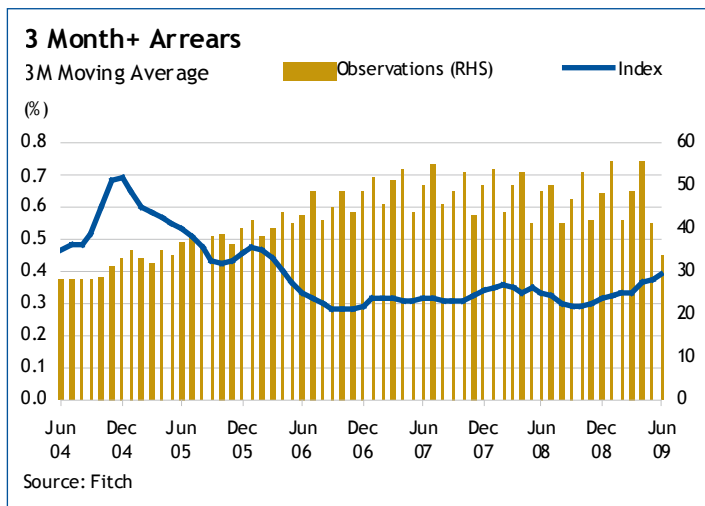
Performance Indices

Dutch RMBS transactions continue to exhibit the lowest arrears and loss levels among all European countries. As yet, RMBS transactions have not reported significant deterioration in performance. However, the unfavourable economic conditions, combined with the housing market deterioration, are expected to have a negative impact on arrears levels and will put pressure on loss levels.

Rating Actions/Outlooks – Netherlands

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
0	0	76	1	1	110	31	17	385

Note: 10 tranches are currently on Rating Watch Negative
Source: Fitch



Portugal



Sanja Paic

Although Q109 was marked by further house price declines across most regions of Portugal, the data published by Instituto Nacional de Estatistica (INE), showed a slowdown in quarter-on-quarter declines across Mainland, Lisbon and the central and northern parts of the country. Meanwhile, house prices in Alentejo and Algarve appear to be an exception; in Alentejo, data shows a quarter-on-quarter increase of 1.4%, while information for Algarve shows a further decrease of 3.3%, where the price per average square metre is reported to be EUR1,400.

Unemployment figures for Portugal show further signs of economic decline. In Q109, the official unemployment rate, as reported by INE, stood at 8.9%. This is an increase of 14.1% compared to end of 2008 figures. The statistics show that the highest hit regions were Algarve and the northern parts of the country, where unemployment increased by 53.7% and 19.6% respectively.

Following a period of decline in the outstanding portfolio of housing loans in Portugal, recent data, as of the end of April 2009 from the Bank of Portugal, reported an increase of 0.65% since February 2009, reaching EUR105.5bn. A further increase in the volume of non-performing housing has brought the percentage of such loans to 1.7% of the total outstanding portfolio, an increase of 4.8% compared to February 2009 (as calculated by Fitch). Meanwhile, deposits from private individuals decreased in March and April 2009, causing the gap between customer deposits and housing loans to decrease. In April 2009, deposits stood at EUR115.7bn, ie 9.6% more than the total outstanding portfolio of housing loans (compared to an 11.2% gap in February 2009).

The impact of the ECB rate cuts continues to affect the weighted-average interest rate on all housing loans in Portugal. In May 2009, INE reported a further drop in the weighted-average interest rate on all loans to 3.6% from 5.3% (in February 2009). This decrease has had a considerable

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	32	15,581,752,276
AA	14	509,458,340
A	19	602,399,012
BBB	19	466,538,665
BB	4	66,900,000
B	1	27,500,000
CCC Below	0	0

Source: Fitch

impact on the weighted-average interest rate on new loans, which, in Q209, stood at 3.1% compared to the previous quarter's 5.2%.

Rating Actions

In Q209, there were no rating actions within the Portuguese RMBS transactions rated by Fitch.

Performance Indices

In Q209, several transactions reported reserve fund draws. In the case of the two most recent Pelican transactions (Pelican 4 and 5), the reserve fund draws were caused by the increased gap between the swap rate received from the interest rate swap counterparty and the interest paid to the counterparty. Both transactions show the lowest level of arrears due to their low seasoning. Further reserve fund draws were reported in two Lusitano transactions (Lusitano 4 and 6). Fitch believes that the reserve fund draws have been caused by both increased net payments made to the swap counterparties, as well as high levels of provisions being recognised within the transactions.

Since June 2008, loans in arrears by more than three months have seen a constant increase, reaching 2.5%, as can be seen in the chart titled *3 Months+ Arrears, 3M Moving Average* below. The sudden drop that occurred in August 2008 was driven by the introduction of Douro 3 and Lusitano 6 in the index calculation, both of which saw lower arrears

Rating Actions/Outlooks – Portugal

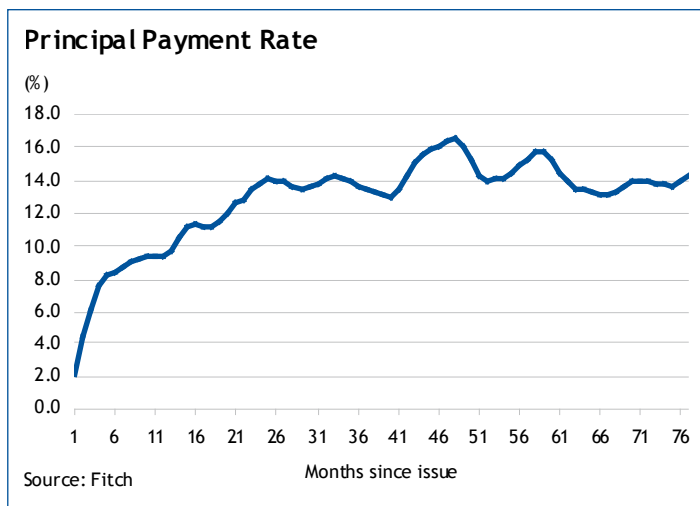
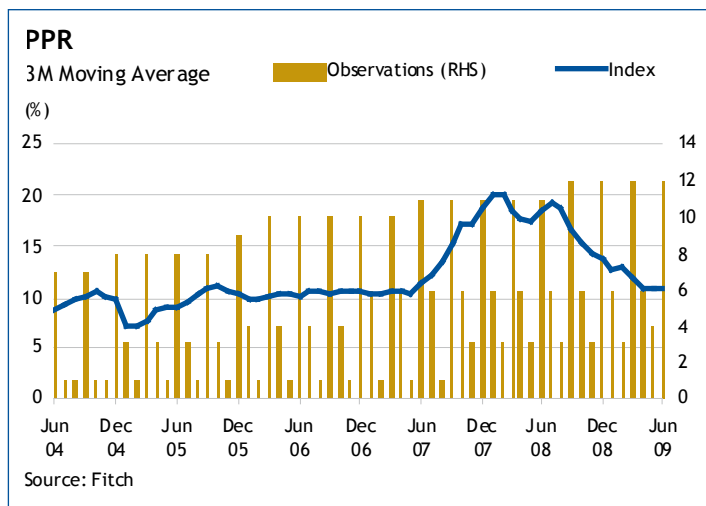
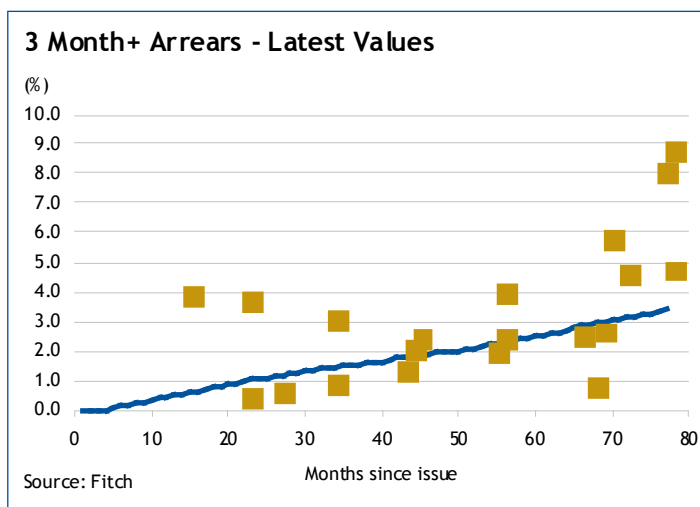
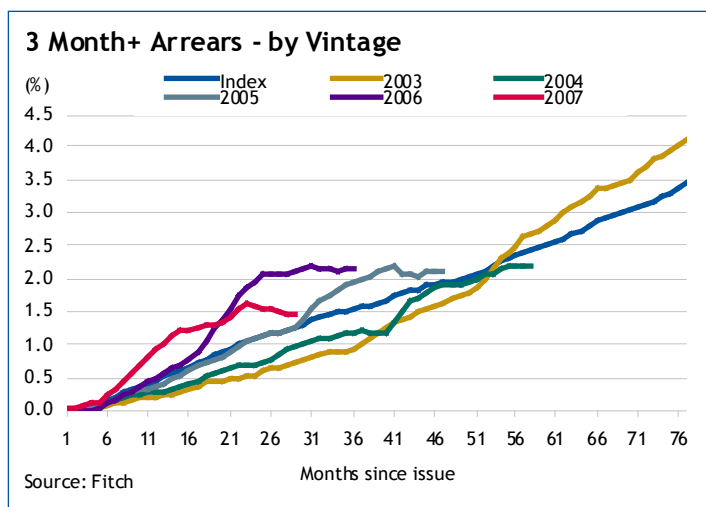
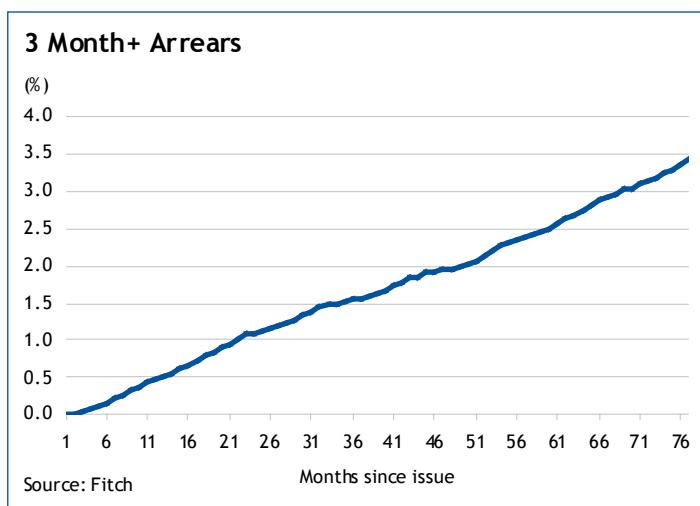
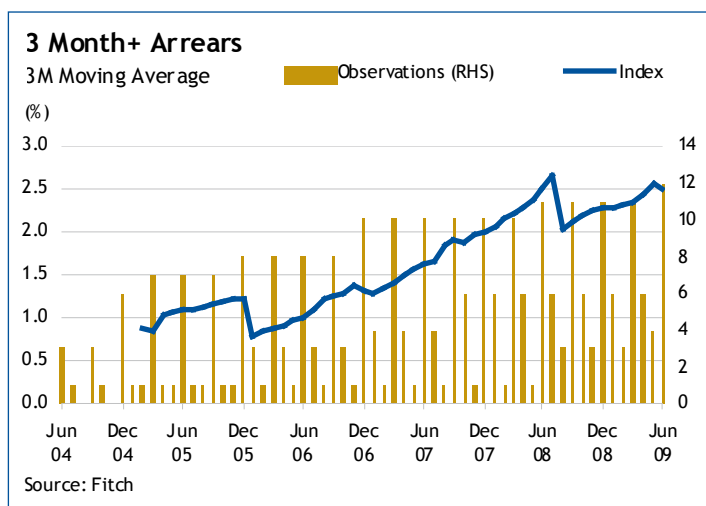
Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
0	0	0	0	0	0	12	6	71

Source: Fitch

from a large portfolio. The 2004, 2005 and 2006 vintages show signs of arrears levelling off, while the 2003 and 2007 vintage lines continue to show signs of deterioration.

The PPR index remains at levels seen in Q109 (closing at 11%). These levels are significantly lower than those seen

in H207 and H108, when high competition in the mortgage market led to lenders and borrowers renegotiating terms and conditions of existing loan contracts. As such, loans no longer met the eligibility criteria, or deals reached their substitution limits; thus originators had to buy back loans, which drove the payment rates to levels as high as 59.5%.



Spain



Santiago Isnardi

After several years of growth and an economy strongly reliant on the services and construction industries, Spain is one of the European countries most affected by the current credit turmoil. This is reflected in the deteriorating unemployment level and house price declines. The number of households where all active members are unemployed has increased substantially to 1,068,400 from 510,400 12 months ago. Therefore, the number of households with a decreased ability to make mortgage payments is likely to have increased significantly.

Unemployment among Spaniards increased to 15.24% from 8.71% a year ago; for foreign nationals, it soared to 28.39% from 14.64%. In its November 2008 report, Around the Houses, Fitch described foreign nationals and temporary workers as an increased risk for lenders (data from INE).

The overall deterioration in unemployment explains the increase of arrears across the board in Spanish RMBS. Transactions with a higher percentage of non-Spaniards - typically non-conforming lenders or more aggressively originated portfolios - will suffer a greater deterioration in their performance. In addition, although the last 12 months have shown deteriorating employment levels across all regions, Andalucía, Cataluña, Valencia, Madrid and Canarias have had the highest unemployment increase. Consequently, the performance of transactions with different regional concentrations will vary.

Rating Actions

Fitch downgraded 14 tranches and affirmed the two junior class F tranches of the FTA Santander transactions. The high numbers of immigrant borrowers who have been affected by unemployment, alongside the high LTV loans, have both contributed to the higher than initially expected provisioning levels. The originator has also written-off loans that are deemed to be non-performing prior to the 18 months provisioning mechanism. The high level of provisioned loans

Outstanding Balance

Rating	No of Tranches	Value (EUR)
AAA	144	61,583,485,143
AA	60	11,565,323,386
A	93	7,444,083,697
BBB	80	1,770,470,453
BB	41	921,864,000
B	7	298,300,000
CCC Below	49	942,085,180

Source: Fitch

in the last quarter resulted in the reserve funds of both transactions being fully depleted, with a subsequent shortfall in available funds to amortise the notes.

The BBVA RMBS Series, although also considered high LTV, is performing better. BBVA RMBS I and II had increasing defaults which caused minor draws on their reserve fund; the performance of BBVA RMBS III has been worse, resulting in large reserve fund draws. The class C tranche of BBVA RMBS I and II were downgraded as were the class B and C of BBVA RMBS III.

Negative rating actions were also taken on the TDA CAM 5 to 9 Series, which reflected the increasing number of defaulting loans in these pools. The downgrades are also a result of Fitch's expectations on the transactions' future performance, amid concern about the quality of the underlying portfolios. The pools contain a high percentage of loans originated in Valencia, second homes, and loans to non-Spanish residents.

Other rating actions included IM Cajamar 3, 4 and 6, which drew on their reserve funds; the reserve fund draws occurred due to an increase in the volume of defaulted loans being provisioned for. This resulted in the downgrade of six tranches of the deals. TDA 25, 27 and 28 were downgraded, with a downgrade to every tranche in TDA 25 and 28. TDA 25 and 28 have fully depleted reserve funds, while the reserve fund of TDA 27 was significantly reduced. This is a result of higher than expected defaults, attributed to the fact that some loans were originated by Credifimo, a specialised lender.

Rating Actions/Outlooks – Spain

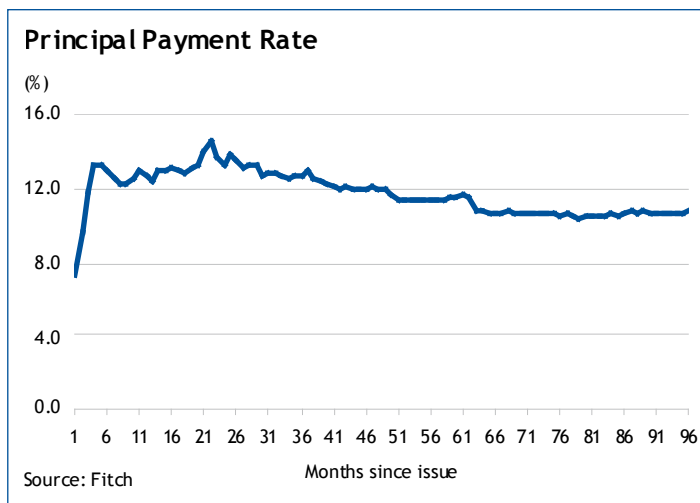
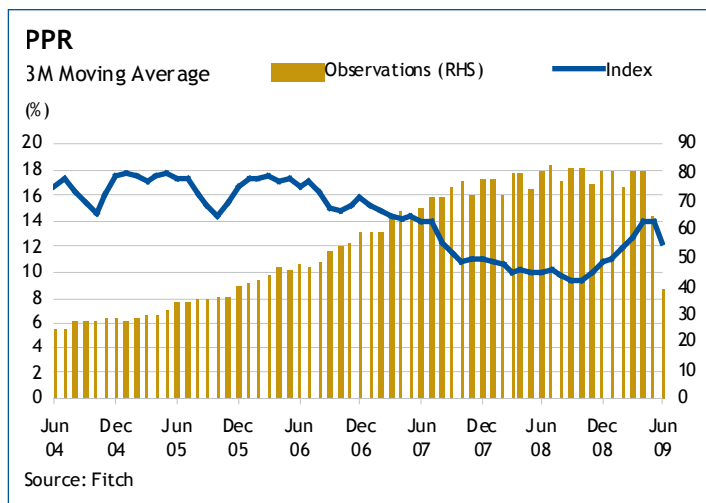
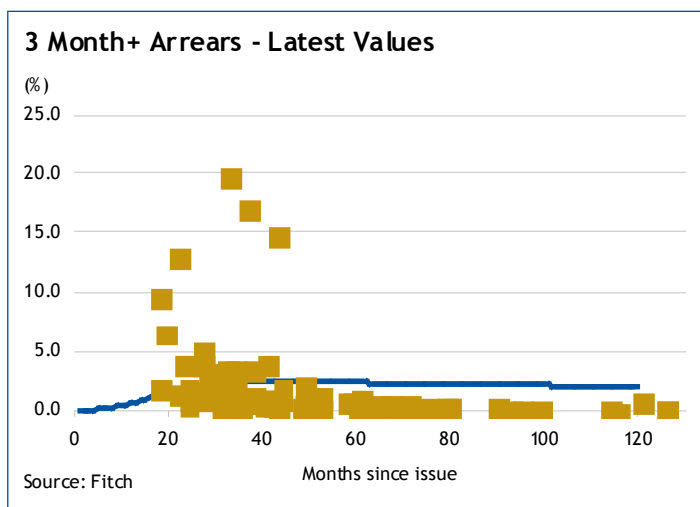
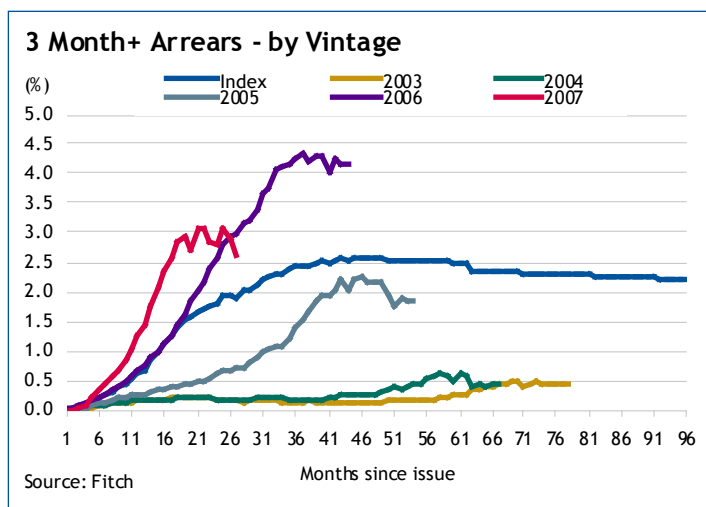
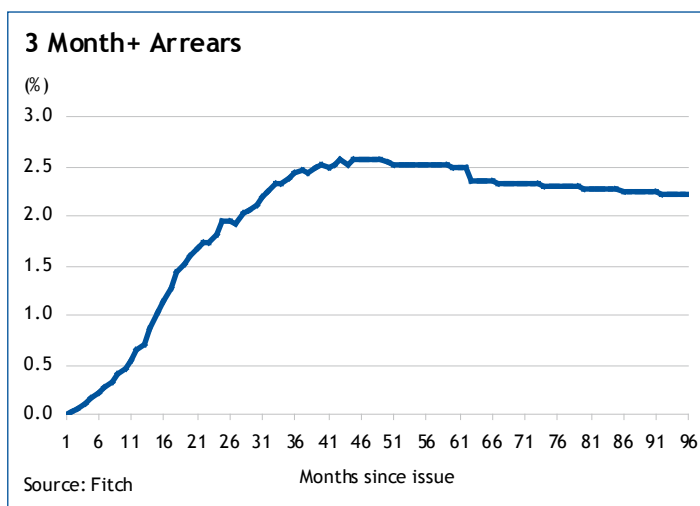
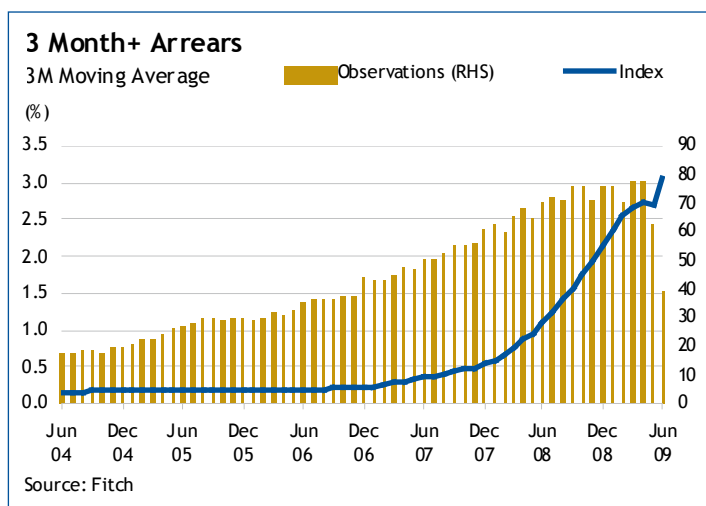
Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
2	56	82	2	95	95	40	114	290

Source: Fitch

Performance Indices

The level of arrears in Spanish RMBS continues to rise. Three month arrears are now at 3.1% compared to 1.1% in June 2008. The performance deterioration continues to be predominantly driven by transactions from 2006 and 2007.

Reporting standards for Spanish RMBS tend to be weaker than many other European jurisdictions, and this means that not all transactions have yet reported June 2009 data (as can be seen from the number of observations in the date-based charts below). Fitch expects that the final arrears figure for June 2009 will in fact be higher.



UK Buy-to-Let



Aksel Etingü

According to the Council of Mortgage Lenders (CML), new buy-to-let lending fell for the sixth consecutive quarter in Q109 due to challenging market conditions – which have led to tightened lending criteria – along with falling house prices.

Based on the CML's figure, during the first quarter of 2009, buy-to-let lending accounted for 6% of all gross mortgage lending, down from 12% the previous year. The CML has also reported a notable decrease in new buy-to-let mortgages being advanced in Q109, compared to Q408 (38,000 compared to 22,400). This represents a drop to GBP2.1bn from GBP4.0bn in Q408.

Rating Actions

Fitch has not taken any rating actions during Q209 on any buy-to-let transactions. The transactions continue to be monitored with each release of investor reports.

Performance Indices

As seen in the charts below, UK buy-to-let transactions have continued to experience an increase in their reported three-months plus arrears values. Arrears levels, previously stable at around 1.0%, have continuously increased since June 2008 when they were 0.9% to 2.5% in June 2009. Historically, as UK BTL transactions become more seasoned, the arrears levels (defined as loans three months or greater in arrears) tend to increase steadily. However, with the deteriorating housing market and limited lending options, arrears levels reported in the Fitch rated BTL transactions have increased notably in the last year. The impact of rising arrears has begun to affect the performance of less seasoned transactions with higher loan-to-value ratios (LTV) and lower interest coverage ratios (ICR). The more recent transactions have not had time to build up strong levels of credit enhancement (which helps mitigate the risk that may arise from the increasing arrears and a weaker borrower

Outstanding Balance

Rating	No of Tranches	Value (GBP)
AAA	68	32,103,606,919
AA	26	1,029,795,000
A	19	1,178,125,000
BBB	9	678,895,000
BB	4	256,200,000
B	0	0
CCC Below	0	0

Source: Fitch

profile). Transactions with more seasoning, on the other hand, still perform in line with the agency's expectations, due their higher credit enhancement levels.

It is important to note that the Paragon Mortgages RMBS series make up a significant portion of the Fitch Buy-to-Let Index. Due to the increased arrears levels reported in Paragon Mortgages transactions, the Fitch Buy-to-Let Index has also followed this upward trend. Although the arrears levels have been trending upwards, the number of properties assigned a receiver of rent has also increased. A receiver of rent is appointed in cases where the landlord cannot make its payments and the rental payments are directly collected from the tenant by the receiver of rent and handed over to the lender, therefore maintaining a steady cash flow to the transaction. This is a significant positive for the performance of these transactions.

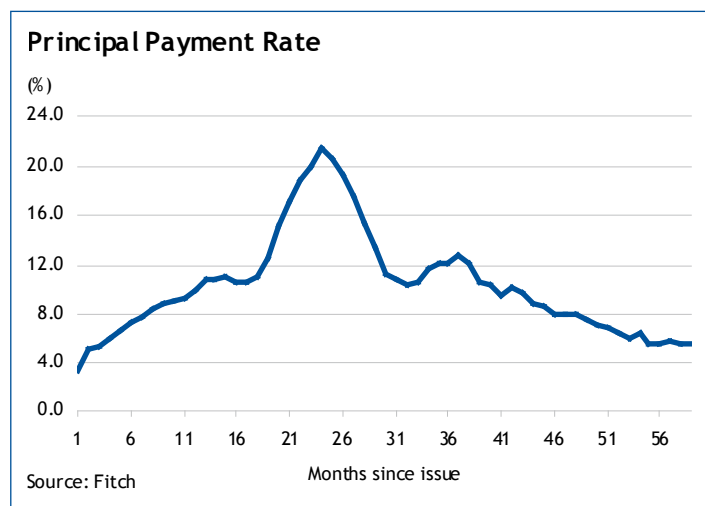
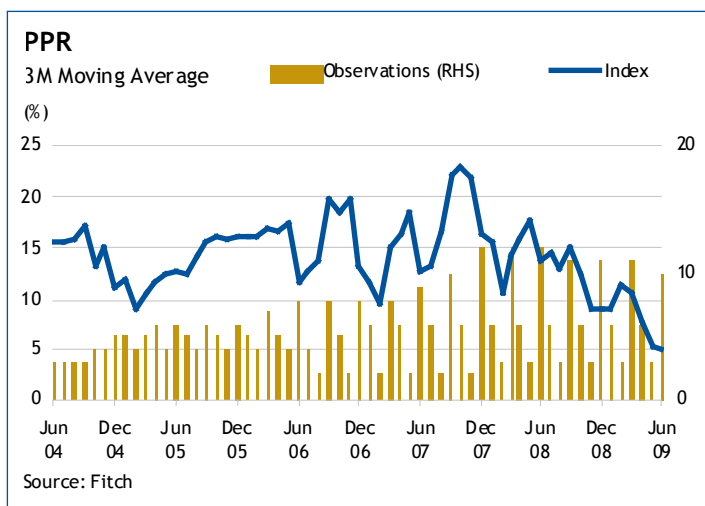
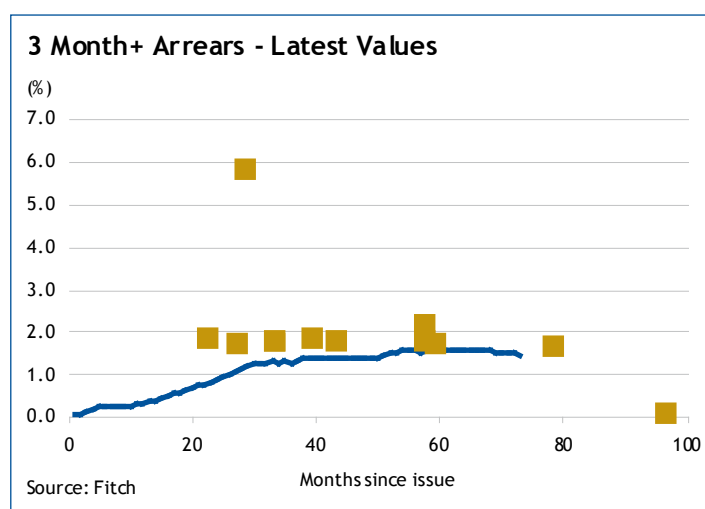
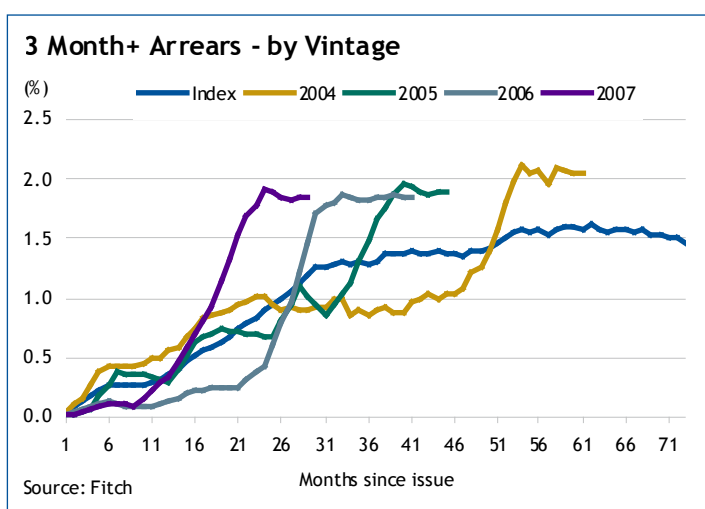
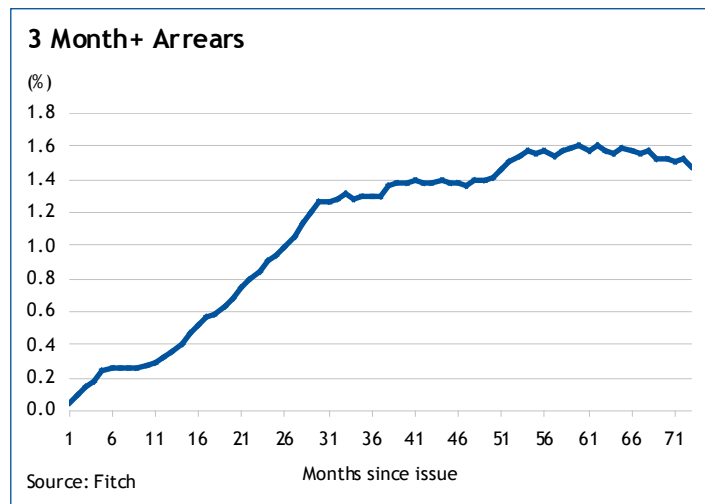
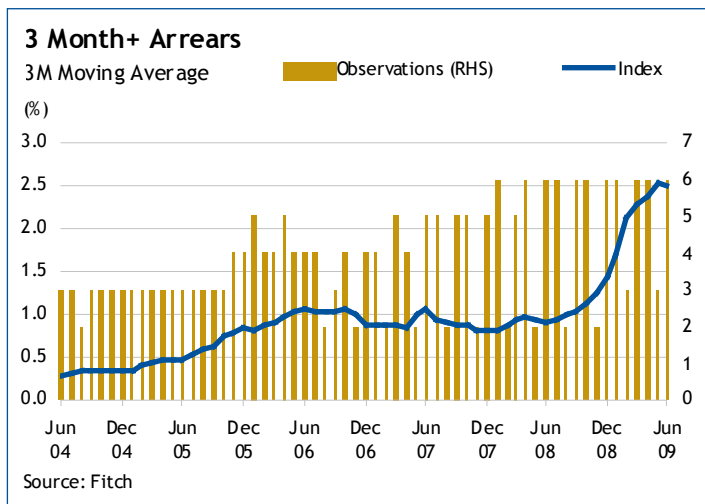
The overall increase in arrears levels, although high, can be attributed to the drop in interest rates (explained in previous releases of this newsletter and in the *Q109 UK Non-conforming Index*, available at www.fitchresearch.com).

The average index value for prepayment rates has shown a decline over the last year. Fitch expects this trend to continue as the UK makes its way out of recession. This is mainly due to limited refinancing options and the slow housing market limiting the sale of properties.

Rating Actions/Outlooks – UK Buy-To-Let

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
0	0	0	3	0	73	6	17	99

Source: Fitch



UK Prime



Charlotte Allum-Smith

The ongoing recession continues to take its toll across UK Prime transactions. However, Q209 hinted at a slight improvement in house prices, with the three-month rate of change, as calculated by the Nationwide House Price Index, turning positive for the first time since December 2007. The run of 18 consecutive months of house price decline has ceased, albeit perhaps temporarily; house prices within the UK rose by 1.1% between Q109 and Q209, although this was driven primarily by concentrations in London, the south east, East Anglia and Wales. A number of market participants have highlighted the low supply of good quality properties which appear to be currently supporting prices, and that this affect may disappear if more potential sellers are enticed into the market, possibly leading to further declines. The property market, especially in London, is benefiting from the fall in the value of the pound against all major currencies and is currently enjoying significant interest from foreign buyers, particularly in prime locations. However, it would be imprudent to assume that this is the beginning of a sustained recovery to the housing market. In particular, Fitch believes that as unemployment levels continue to climb in the UK, the full affect of the recession is yet to feed through to the housing market and this may ultimately result in further price declines. The average house price increased to GBP154,066 in Q209 from GBP149,709 at the end of Q109.

The British Bankers' Association's (BBA) latest data has begun to reflect some improvement in lending conditions. The volume of approvals from the major high street banks for house purchase loans show a 15.8% improvement since May 2008. The last quarter has shown an increase in approvals to 31,162 from 28,179 in February 2009. The high street banks are beginning to see an increase in lending and wider mortgage availability is reflected in higher average loan approval values. Approvals for remortgaging continue to fall, although data from the BBA show that this trend appears to be stabilising at current levels: in May 2009 approvals were 24,847 compared to 28,746 in February 2009, a 60% reduction in the last year.

Outstanding Balance

Rating	No of Tranches	Value (GBP)
AAA	338	292,770,058,232
AA	121	6,737,588,346
A	93	3,651,360,616
BBB	118	6,673,593,172
BB	8	650,922,500
B	0	0
CCC Below	0	0

Source: Fitch

Despite signs of improvement, Fitch continues to note that the reduced range of financing options, both in terms of market participants and the products they are offering, is limiting any potential increase in mortgage lending. This can clearly be seen in lower prepayment levels from UK borrowers, which in turn has resulted in fewer new property purchases as well as remortgaging activity.

Rating Actions

Since publication of the Q109 Around the Houses report, no rating actions were carried out on any of the UK Prime RMBS transactions rated by Fitch.

Performance Indices

The UK Prime Indices are dominated by large master trust transactions. These transactions historically substituted loans into the pools on a regular basis, artificially suppressing the level of arrears in the transaction as new loans substituted into the pool cannot be in arrears. However, given the uncertain future of some of the master trusts, substitutions have stopped and in these cases, arrears are increasing, most notably for Mound, Aire Valley and Granite. The master trust comparison chart below shows the clear deterioration of these three trusts, all of which have had significant periods without substitution to dilute the arrears levels.

The end of substitution in some pools, and general performance deterioration, has resulted in the level of three-

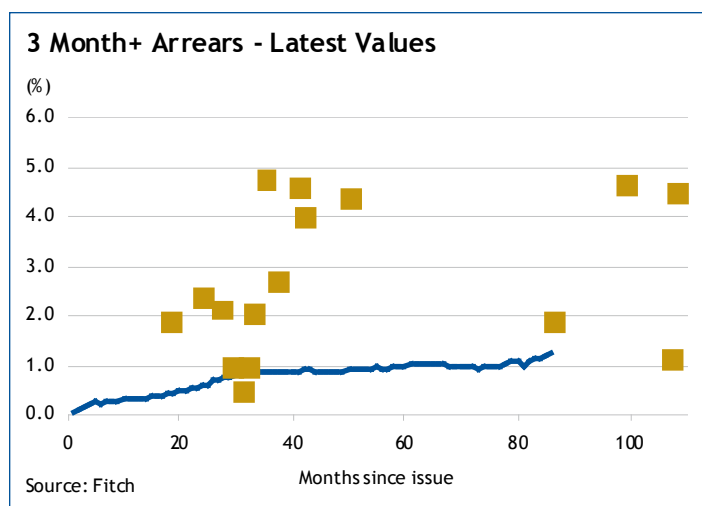
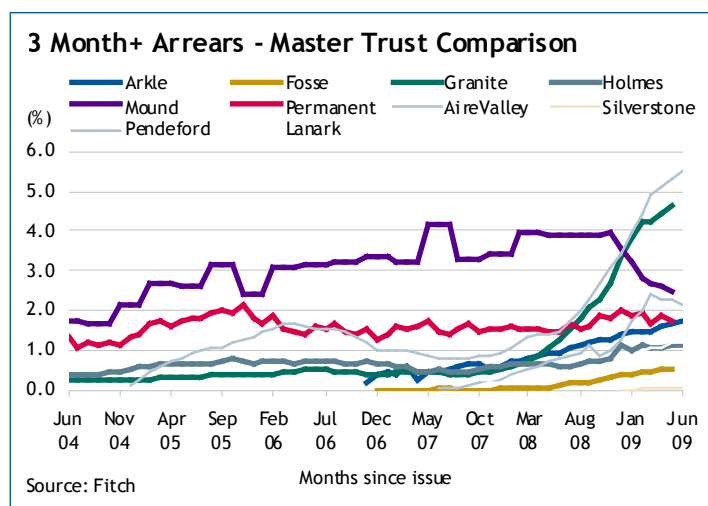
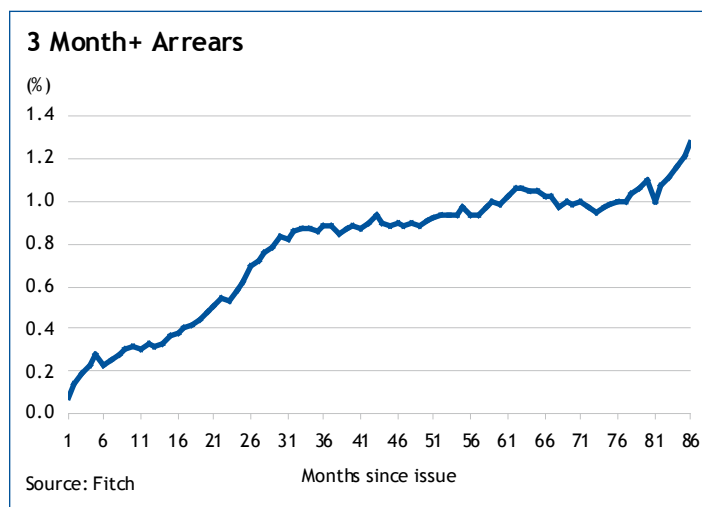
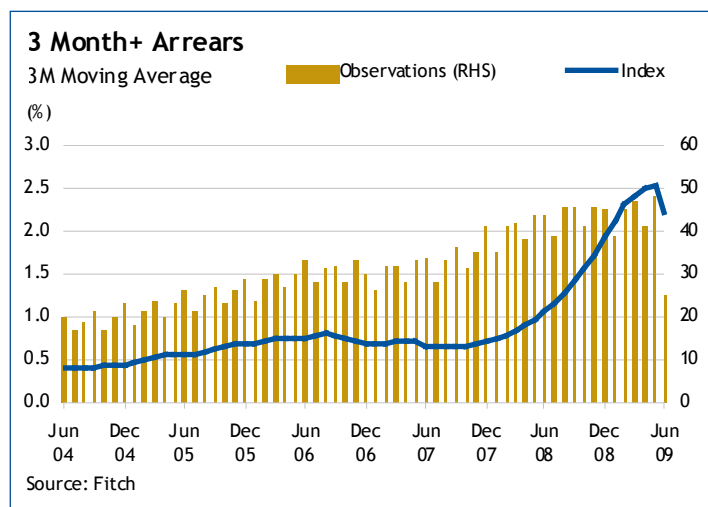
Rating Actions/Outlooks – UK Prime

Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
0	0	0	0	9	571	35	41	594

Source: Fitch

month plus arrears increasing significantly over the last year. In June 2009, arrears greater than three months comprised 2.23% of the outstanding balance of mortgages, compared to 1.05% in June 2008 and just 0.67% two years ago. The drop in the index value for June 2009 was caused by the number of observations for that period being low, with transactions with higher arrears levels not yet producing the investor report for that period.

At present, Fitch does not produce a PPR index for UK Prime, due to the distorting affect of substitutions to Master Trusts on the index. However, Fitch is working on an update to the index for Q309, at which point, this index will be included.



UK Non-Conforming



Peter Dossett

Although some improvement has been reported in terms of house prices and lending (as highlighted above and in the UK Prime Section), the impact of the ongoing recession still continues. The performance of UK non-conforming transactions greatly depends on the characteristics of their respective underlying collateral portfolios. As unemployment rises and lending remains tight, the agency expects a continued increase in the number of loans that are repossessed, particularly for those portfolios with more adverse loan characteristics. Any continued house price declines are therefore also going to be a significant factor, as they will affect the volume of losses that will result from sold repossessions.

Rating Actions

On 7 April 2009, Fitch upgraded two, downgraded five, and affirmed eight tranches of the three *Southern Pacific Financing* transactions (SPF 04-A, SPF 05-B and SPF 06-A). Fitch also revised the Outlooks to Stable from Positive on three tranches of SPF 05-B and SPF 06-A, indicating the agency's concerns about the overall performance of the deals, as well as the losses expected to result from the deterioration in the UK's housing and lending markets.

Following the review of *Uropa Securities plc Series 2007-01B* on 13 May 2009, Fitch downgraded seven tranches, revised the Outlooks to Negative from Stable on five tranches, and assigned recovery ratings to four classes. The downgrades followed two reserve fund draws that had reduced the available credit enhancement to the junior notes, and also the high loss severity realised on sold repossessions.

On 10 July 2009, Fitch downgraded 24 and affirmed 51 tranches from the *RMAC* securities series of non-conforming RMBS transactions backed by loans originated by GMAC RFC. Rating Outlooks on eight tranches were revised to Negative from Stable. The downgrades were caused by the deteriorating performance of the deals in the current negative economic

Outstanding Balance

Rating	No of Tranches	Value (GBP)
AAA	333	22,815,460,297
AA	121	4,333,042,477
A	100	2,373,393,158
BBB	88	1,342,150,965
BB	56	1,085,077,874
B	45	657,529,165
CCC Below	116	3,558,259,854

Source: Fitch

environment (which has deviated considerably from the agency's initial expectations). For more detailed information on the performance of the RMAC transactions, please refer to the report, titled "*RMAC 2006 and 2007 – Performance Update (UK RMBS)*", published on 13 June 2009 and available at Fitch's subscription web site www.fitchresearch.com.

Also in July 2009, Fitch downgraded 28 tranches of Newgate Funding Plc Series transactions and 12 tranches of the Eurohome UK Mortgages plc; the agency affirmed the remaining classes. The downgrades reflected continued deterioration in the underlying collateral portfolios, and the adverse impact of the lack of hedging arrangements following interest rate movements for the Newgate series transactions. A detailed report on the performance of these transactions was published on 23 July 2009, titled "*2007 Vintage Newgate Funding Plc Series Transactions*"; another was published on 29 July 2009, titled "*Eurohome UK Mortgages plc*".

Performance Indices

Arrears levels continue to show the same trend as previous quarters, with arrears rising across nearly all transactions within the UK non-conforming space. Although some of the increase in the three-month plus bucket may be artificial due to the arrears calculation method used, the impact of the ongoing recession on borrowers' ability to make timely payments will undoubtedly have had an affect on the level of arrears. Based on the three-month rolling average index

Rating Actions/Outlooks – UK Non-Conforming

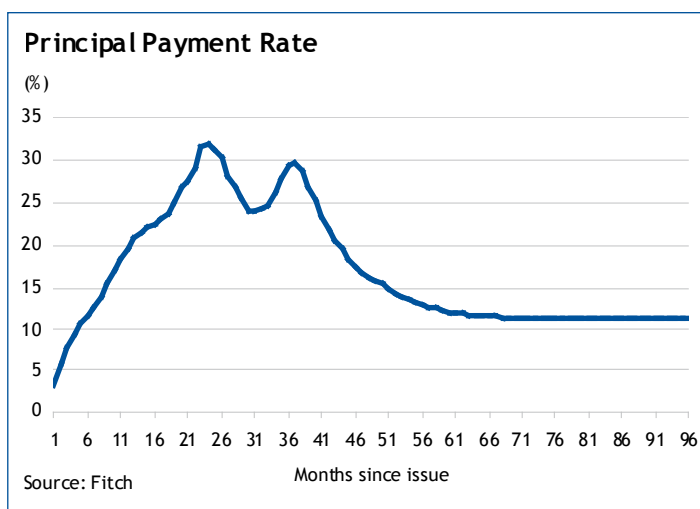
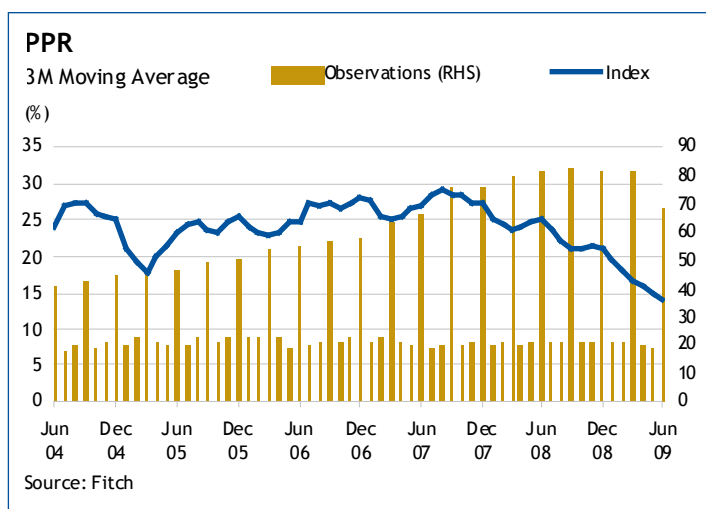
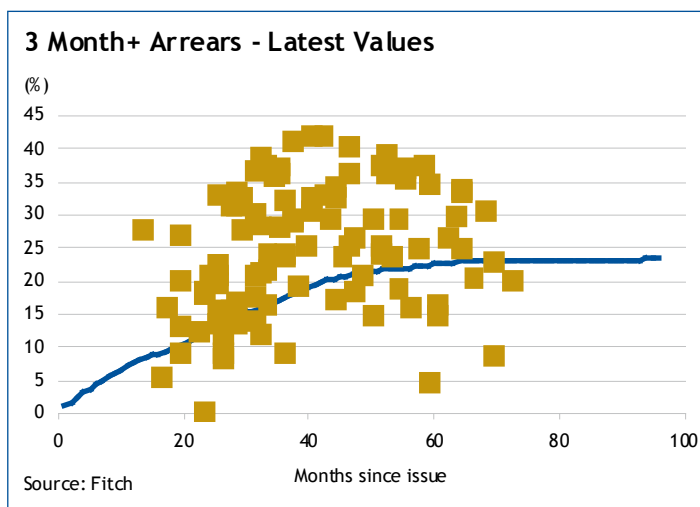
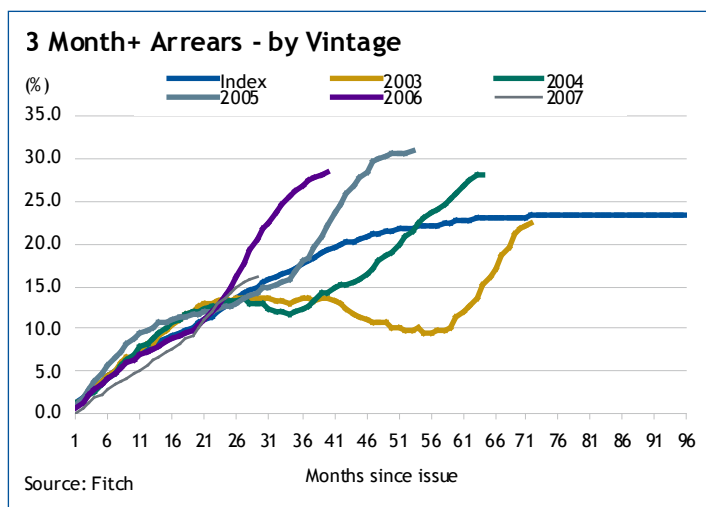
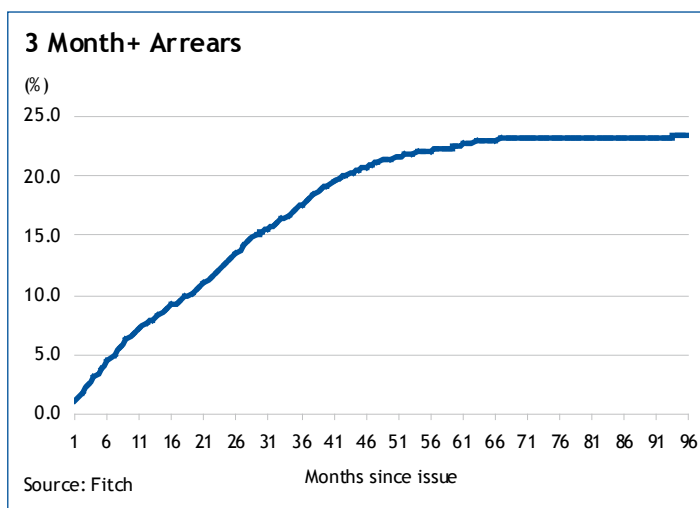
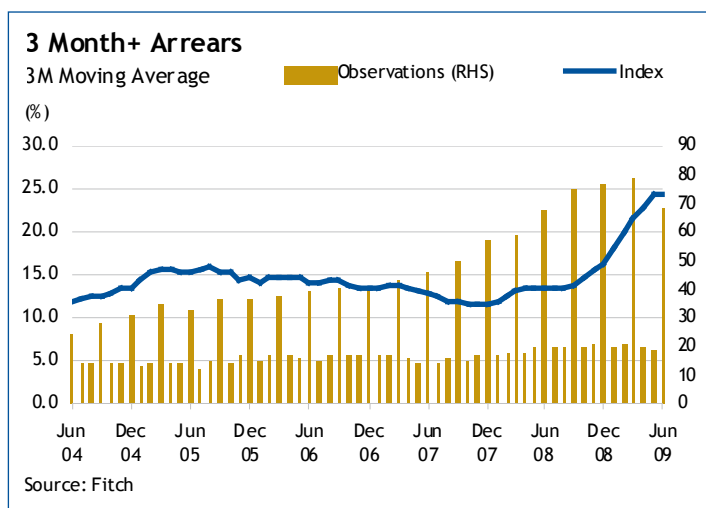
Q209			Cumulative 2009 to date			Current Outlook		
Upgrade	Downgrade	Affirmation	Upgrade	Downgrade	Affirmation	Positive	Negative	Stable
2	18	21	2	38	44	47	226	456

Source: Fitch

value for arrears, UK non-conforming transactions have seen an increase from approximately 13% in December 2007 to 25% in June 2009.

Principal Prepayment Rates experienced a notable decline throughout 2008, continuing into 2009. The decline – which

the agency attributes to a lack of refinancing opportunities – means that prepayment rates are unlikely to return to previous levels. Lower prepayment rates are likely to result in higher default levels, as borrowers who were previously able to refinance out of payment difficulties are no longer able to do so.



Appendix 1

Transactions mentioned in this newsletter

Transaction	Page #	Transaction	Page #
Aire Valley	22	Mantegna Finance	10
BBVA I	18	Media Finance 1	10
BBVA II	18	Mound	22
BBVA III	18	Newgate 2007-1	3
Bipitalia Residential	10	Newgate 2007-2	3
Bluestone 2006-1	3	Newgate Series	25
Douro 3	14	Paragon Series	20
E-MAC DE Series	4	Pelican 4	14
E-MAC NL 2002-1	12	Pelican 5	14
Estia I	6	Provide GEMs 2002-1	4
Estia II	6	RMAC 2006-3	3
Estia III	6	RMAC Series	25
Eurohome Mortgages 2007-1	3	Santander Hipotecario Series	3
Eurohome UK Series	25	Santander Hipotecario Series	18
Eurosail 2006-3	3	Siena Mortgages 03-4	10
Granite	22	SPF 04-A	25
Grifonas	6	SPF 05-B	25
Hermes Series	12	SPF 06-A	25
IM Cajamar 3	18	TDA 25	3
IM Cajamar 4	18	TDA 25	18
IM Cajamar 6	18	TDA 27	3
IntesaBci Sec. 2	10	TDA 27	18
Intra Mortgage Finance 1	10	TDA 28	3
Lansdowne Series	8	TDA 28	18
Lithos	6	TDA Cam Series	18
Ludgate 2006-1	3	Themeleion Series	6
Lusitano 4	14	UCI Series	3
Lusitano 6	14	Uropa 2007-1B	25
Madrid RMBS I	3	Vela	10
Madrid RMBS II	3	Voba	10
Madrid RMBS III	3		

Appendix 2 – Methodology

Over the years, Fitch has developed arrears and principal payment rate (PPR) indices for various countries across Europe. The indices are designed to provide benchmarks against which the delinquency and payment performance of RMBS in each country can be measured. It is important to remember that performance above or below the index does not necessarily imply 'better' or 'worse' from a ratings perspective.

In compiling the arrears indices, three-month plus arrears have been used, as Fitch believes this figure gives the best indicator of the loans most likely to default. The UK non-conforming index includes current possessions as well as delinquencies.

The payment rate data have been calculated from collateral balances and so encompass all causes of reductions in outstanding pools, whether scheduled repayments, voluntary prepayments, defaults or loan buy-backs. Fitch uses PPR rather than constant prepayment rates (CPR), as it provides a consistent measure across all transactions, and is not dependent on investor reporting standards.

Each index includes all deals from the respective countries that are seasoned by 12 months or more and have reporting standards that allow for inclusion within each index (eg arrears buckets that allow three-month plus arrears to be calculated). Fitch publishes two types of index: the first is a date-based index, giving the average value for any given point in time; the second is a period-based index, comparing transactions on a month-since-issue basis.

Date-based Indices

The date-based indices compare the weighted-average level of either arrears or payments for a given month, and are reported as a moving average of the last three months. The index is calculated as a moving average to smooth out variations in reporting frequency between transactions that report on a monthly basis and those that report on a quarterly basis. Data for transactions is only included from the 12th month onwards for arrears indices; this is to limit the affects of the rising arrears levels seen in nearly all transactions over the first year (if included, this would usually have the affect of pulling the index down). The PPR indices exclude just the first data point, which can often be volatile for a variety of reporting and transaction structure reasons. The index is therefore not a pure reflection of all outstanding loans, although it can be used as a proxy for the level of arrears and the level of principal payments in any given period.

This type of index provides an easy to understand comparison over time and can provide an increase or decrease figure between any given date, eg arrears have increased to 1.5% in June 2009 from 1.0% in June 2008.

Period-based Indices

The period-based indices compare deals at the same point since issue: for example, a deal that is 18 months seasoned can be compared with the average for all deals at that point. In this index, data for less seasoned transactions are extrapolated to provide comparisons with deals that are more seasoned. These extrapolated data are given progressively less weight according to the number of months since the latest actual data observation. Data for called deals are not extrapolated, although they do continue to form part of the index calculation. Each individual index is weighted by the current outstanding mortgage balance of all deals. This results in the extrapolated curves tending towards a zero gradient and is consistent with the method of calculating the proportion of loans in arrears.

The volatility of the period-based indices increases at the tail-end, as they are based on actual data for fewer deals at that stage. By definition, these are older deals that will have amortised more than others, thus very small changes in arrears or principal payments can have a dramatic effect on the index. To limit this volatility, Fitch requires three 'actual' data points to produce an index. For this reason, the scatter charts included in this report often include points beyond the index. This approach is not taken for vintage indices, so these tend to show more volatile behaviour.

Index Production

Fitch delays compiling the index data for one month after the end of each quarter. This is to provide time for issuers to calculate and publish reports. The vast majority of issuers are able to meet this deadline, and Fitch believes there is little reason why all issuers should not be able to meet this timescale. The inclusion of the number of observations in the date-based moving average indices helps readers identify where indices are comprised of a small number of observations, and also highlights countries that have weaker reporting timescales.

The date-based indices show the last five years of performance (where possible). Although some of the indices go back further than this, the number of observations for each period is small, and the type of mortgage product will often have changed significantly over this time period. Period-based indices are limited to eight years.

Different standards of investor reporting mean the PPR and arrears indices may be different lengths and have different numbers of observations. This is because a transaction may report arrears by weeks rather than months, thus excluding

it from being included in the arrears indices. However, the calculation of PPR requires only the collateral balance. In this situation, the deal will be included in the PPR index, but not in the arrears index.

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