

# European Securitized Products Weekly

## Focus on CMBS Recovery and New Efficient UK RMBS

- **UK Bank Stress Tests Could Boost Further Asset Supply** — New Bank of England stress tests will apply more severe assumptions than EU-wide stress tests to eight UK financial institutions. Lloyds and RBS are the most vulnerable to the high mortgage stresses, and could potentially accelerate real estate asset sales
- **New UK Non-Conforming Deal Possible RMBS Model** — A newly announced deal could be a model of how to achieve capital and balance sheet relief for originators, and simultaneously meet skin-in-the-game requirements to attract European bank buyers of senior tranches
- **Tailwind for Legacy Senior CMBS** — More loans are being repaid at maturity, and rising loan workouts by special services should help senior legacy CMBS bond investors through faster principal recoveries
- **Faster Workout through Sales Less Helpful for Mezz** — Special servicers are planning property sales in more than two-thirds of the €18bn of loans in workout, mostly through enforcements, which will lead to recoveries in long defaulted loans but may also result in higher loss severity and hurt mezz tranches
- **CMBS Loss Severity Not Excessive but May Worsen** — Fifty-five out of a total of 128 resolved loans did not experience any loss, and the severity on the reminder was a moderate 33 per cent. However, Moody's expects a higher 44per cent loss on the loans remaining in workout

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

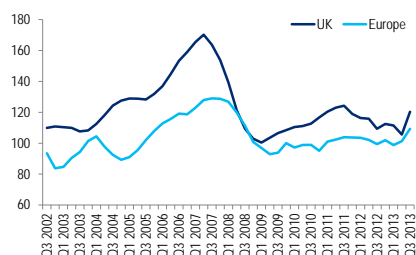
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## Two Sources of Optionality in CMBS

Figure 1. Commercial Property Valuation Index for UK and Europe, 2002 Q3 – 2013 Q3



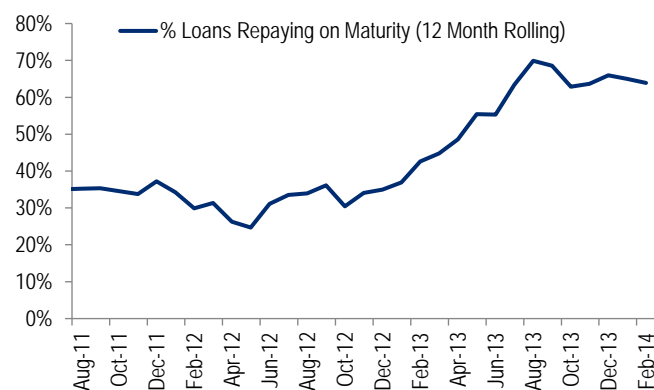
Source: DTZ Research

The ongoing, albeit slow, recovery in many European countries is benefiting commercial real estate (CRE) markets too. CRE capital values in both the UK and the Euro-area started improving in 2013, according to DTZ Research's transaction based index. We think that forecasted employment gains in Europe will lead to higher demand for office space, resulting in further improvement in rents and capital values. The improvement in CRE valuations and easing of lending criteria are providing good tailwinds for the legacy CMBS sector in many ways. First, a higher proportion of CMBS loans are making principal repayments on their maturity dates due to relaxation of stringent lending criteria of CRE lenders. CBRE reported that LTVs offered on new CRE loans increased 10 percentage points during the past year to 70–75%, driven by more competition in commercial lending. Second, the pace of workouts of specially serviced loans is also picking up, which should result in faster recoveries on defaulted loans. About €18 billion of European CMBS loans are currently in special servicing, with more than 27% in enforcement process. The recoveries from property liquidations on these loans should materialise soon. In this note, we discuss these two sources of optionality for legacy CMBS investors in further detail.

### Greater Proportion of Loans Repaying on Maturity

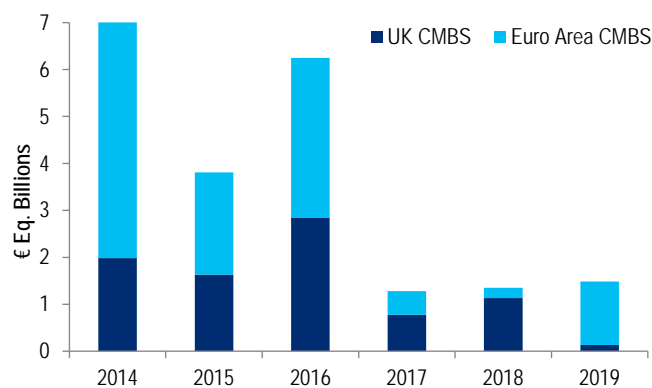
The proportion of CMBS loans making principal repayments on (or before) their loan maturity dates has picked up significantly from 35% to about 70% during the past three years (Figure 2). This indicates that refinancing conditions for CRE borrowers are easing. After the 2008 financial crisis, underwriting criteria of CRE lenders became very restrictive and most of the maturing loans failed to refinance. Moreover, due to severe correction in CRE prices many loans breached their LTV covenants near their maturity dates when servicers tend to call for updated valuation. As such, loan maturities led to adverse surprises in several loans. The difficulty in predicting loan maturity outcomes due to poor disclosures on updated valuation led some investors to perceive maturity dates as the moment of truth rather than a source of principal recovery. The improving trend in repayment, however, is very encouraging and shows that upcoming maturity dates can provide upside for investors in legacy CMBS through faster principal recoveries. About €17 billion of CMBS loans (38% UK CMBS and 62% European CMBS) are set to mature over the next three years (Figure 3).

Figure 2. Proportion of CMBS Loans Maturing On or Before Maturity, Aug 11 – Feb 14 (%)



Source: S&P and Citi Research

Figure 3. CMBS Loan Maturity Schedule, 2014 – 2019 (€ billion)



Source: S&P, Bloomberg, Investor Reports and Citi Research

The optionality from repayments on maturity is much higher in UK CMBS. We examine outcomes of 70 UK and Euro-area loans maturing between Jan–Feb 2014 and find that 80% of UK loans (by balance) repaid on their maturity compared to about 60% of Euro-area loans repaying principal. UK commercial property yields

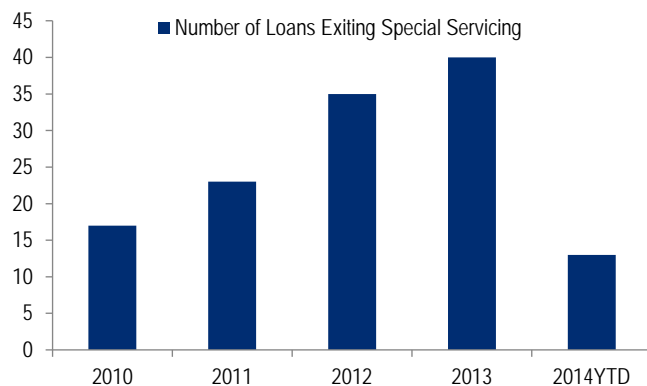
across different sectors are slowly tightening and rents are also showing signs of improvement. While yields on prime sectors, like London offices and prime shopping centres, have started stabilising after recovering significantly from wide levels of 2009, secondary property yields started tightening only in 2013. The strong economic turnaround in the British economy should further benefit the secondary commercial property sector (which comprises majority of CMBS). We think that tightening in yields and increasing rents should enable more UK CMBS loans to secure refinancing on their maturity dates.

## Acceleration in Loan Workouts

Apart from voluntary repayments, another source of optionality in legacy CMBS is recovery on defaulted loans. Investors generally assign conservative recovery assumptions while pricing CMBS bonds, rightly so in many cases because of idiosyncratic risks in the sector and little influence on work-out strategies employed by the special servicers. However, 55 out of total 128 resolved loans so far have experienced no losses and the average loss severity of the remaining 73 loans is moderate at around 33%. Although loan level loss severities vary widely, average severities are roughly similar to more diversified sectors like UK non-conforming and peripheral RMBS. The pace of loan resolutions has also improved significantly over the past two years (Figure 4). Around 40 loans exited special servicing in 2013, resulting in about €3 billion of principal recoveries. We expect that the rate of loan resolution will continue to improve further as ongoing CRE recovery and higher demand for commercial properties should motivate more servicers to liquidate properties backing defaulted loans.

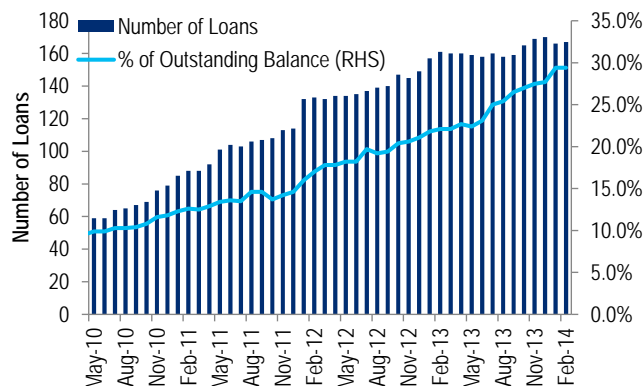
About one-third of outstanding CMBS loans are currently in special servicing (Figure 5), 50% of which have been in special servicing for more than three years, according to Moody's. As we discuss below, a majority of these loans are undergoing the enforcement process and should result in recoveries in the next few years. Moreover, Moody's recently reported that about 25% of all specially serviced loans are near workout completion, implying that recoveries on such loans are imminent. Faster loan resolutions and higher than expected recoveries can provide good upside to the legacy CMBS sector, in our view.

Figure 4. Number of Loans Exiting Special Servicing, 2010 – 2014YTD



Source: Moody's and Citi Research

Figure 5. Proportion of Specially Serviced Loan in European CMBS



Source: Moody's

While the recoveries on defaulted loans largely depend upon the characteristics of the underlying properties, workout strategies of special servicers can play an important role in the timing of recoveries. Moody's reports that special servicer strategies and loan jurisdiction are the two main factors influencing the total time required for liquidation. We list the average time to resolution and loss severity of

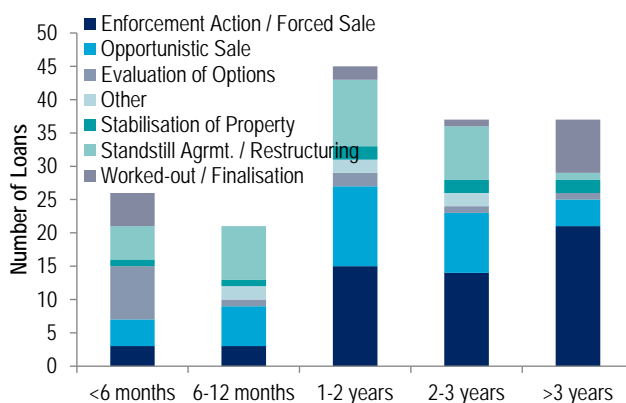
loan resolutions completed in the past by their outcome in Figure 6. As can be seen, average resolution time for workouts involving property sale is around 1.8–2.1 years, with consensual sale being slightly faster than enforcement. Other workouts like restructuring and sponsor support are faster but only a small portion (30%) of past workouts resulted in such outcomes. Average resolution time of the past property sales gives us some idea of the expected time to recovery on current specially serviced loans that are going through enforcement. However, we appreciate that special servicers would have sold easier-to-liquidate properties first, and the required time to sell currently enforced properties can be slightly longer than the above range.

Figure 6 Number of Loans Split by Workout Strategy

Resolution Mechanism	Number of Loans	Loss Severity	Avg Time To Resolution
Property Sale (Consensual)	47	12%	1.8yr
Property Sale (Enforcement)	42	24%	2.1yr
Sponsor Support	21	0%	0.5yr
Discounted pay-off	9	17%	0.5yr
Restructuring	7	0%	1.3yr
Other	2	0%	0.9yr

Source: Moody's and Citi Research

Figure 7. Number of Loans Split by Workout Strategy and Time Since Entering Special Servicing



Source: Moody's and Citi Research

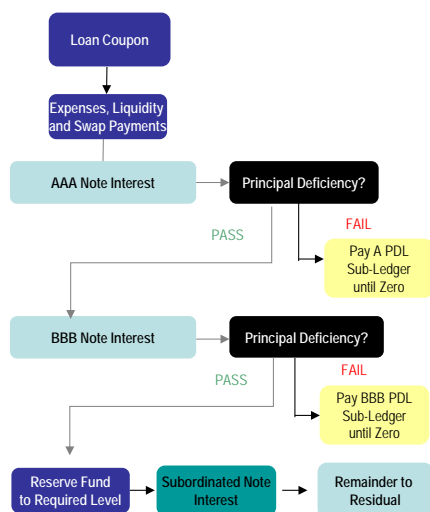
We examine current specially serviced loans to filter candidates where property sale is the most likely outcome. Such loans should experience recoveries from liquidations in the next couple of years. We rank specially serviced loans by time spent in special servicing and examine the proportion of different workout strategies in each of the buckets. The proportion of loans going through enforcement action is higher for loans that have spent more time in special servicing. This is not surprising because special servicers would have evaluated other options before initiating the enforcement process. About €10 billion of specially serviced loans are currently in the enforcement process and special servicers are considering opportunistic sale in further €2.5 billion loans. Moody's expects that loans in special servicing will experience about 44% principal loss on average. The resulting recoveries will benefit senior tranches but may lead to write-downs on subordinates.

Figure 8. UK Banks- Exposure to UK Mortgage and UK CRE

	UK Mortgage Loans, bn	UK Mortgages % Group Loans	UK CRE Property Loans, bn	UK CRE Property % Group Loans
RBS	99	24%	44	11%
Lloyds	323	63%	27	5%
Barclays	130	27%	23	5%
HSBC	132	20%	17	3%
Total	684	33%	111	5%

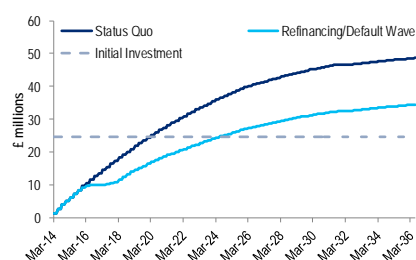
Source: Company Reports

Figure 9. Simplified note interest payment priority for an idealized UKNC RMBS with two rated tranches



Source: Citi Research

Figure 10. Expected Cumulative Cash Flows and Time to Recover Initial Investment for RMACS 2006-NS1 Residual Tranche\*



\*Status Quo assumptions based on most recent prepayments and defaults. Refinancing/Default Wave Scenario assumes threefold rise during 2016-2018

Source: Citi Research

## New UKNC RMBS Helps Seller and Buyer UK Mortgage Clean-Up Deals Continue

The pressure from regulators on European banks to clean up their balance sheets and the implication for primary supply have been two recent popular topics for us and ABS buyers (see [Will NPL Trickle Turn to Flood? Regulators, Stock Markets Decide](#), as well as [Stick to UK Prime Issuance Guns Despite Last FLS Shot](#)). Moreover, the Bank of England announced stress tests on Tuesday designed to gauge their ability to withstand a sterling crisis. The stresses included a 35% and 30% fall in residential and commercial real estate prices, respectively, following a sharp rise in rates ([UK Bank Stress Test Methodology Released](#)). Though US banks like BAML are not included in such tests, it is interesting to see a portfolio of legacy non-conforming UK mortgage loans enter the ABS markets. The newly announced deal, Moorgate Funding 2014-1, is backed by a portfolio of mortgages originated by BAML units Mortgages Group and Wave Lending Limited, and by Close Brothers, Paragon Mortgages Limited and Edeus Mortgages Creators Limited, a lender that is now in liquidation. BAML had been holding the portfolio for the last 7-8 years, and the seasoning of the loans could be attractive to investors. BAML will continue to service the loans even after the securitization. Slightly more than half the portfolio includes borrowers with self-certified income, and 8% of borrowers have CCJs. Self-employed borrowers represent 45% of the pool. The deal also represents a case study of how originators may be able to get balance-sheet and capital relief, and thus be motivated to issue RMBS versus unsecured debt or covered bonds.

## EU Risk Retention to Satisfy Bank Buyers

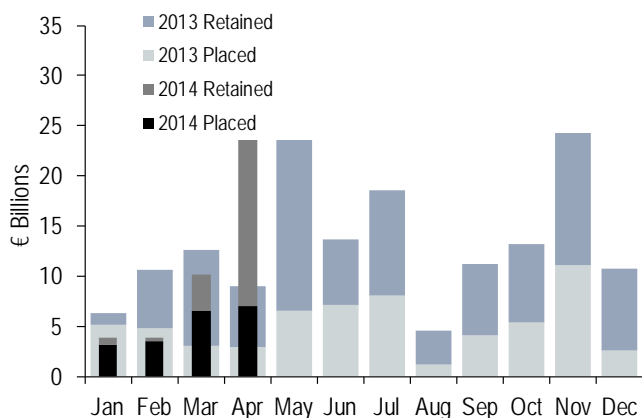
We believe BAML took steps to ensure 'skin-in-the-game' requirements were met to appeal to European bank buyers, and yet obtain capital relief. According to a client memo from Cadwalader, the EBA's Final Draft RTS addressing ABS risk retention, published on 17<sup>th</sup> December 2013, allows two entities to hold the retention requirement. In the first method, it can be a manager which has itself acquired some of the loans and then, after a period of holding them for its own account, sold them to the RMBS issuer. As the manager "has established and is managing the [...] securitisation" (Article 4(2)(i)) it can satisfy the retention requirement provided it is the originator of some of the loans. In the second method, the retaining entity can be an originator entity which "has established the [...] securitisation" and through which the issuer bought the loans. This entity need not originate all of the loans, provided that at any time during the life of the deal more than 50% of the loans have been originated by the originator entity. In the Moorgate deal, according to Capital Structure, the issuer Moorgate is expected to purchase the beneficial interest of the portfolio from Kilimanjaro AM Ltd, who may have held it for a while before selling it to the issuer, and will now retain STG 25.5m of the deal's residual certificates. BAML were thus able to find an external skin-in-the-game entity (Kilimanjaro AM) and sell all the tranches, thus achieving deconsolidation as well as capital relief.

## Holding Residuals Attractive

Holding the residual certificates may be not such a bind after all, and could prove to be an attractive investment for the buyer ([UK Non-Conforming Residuals - The 10% IRR Glitter Can Be Gold](#)). Investors can achieve 10-15% yields without financial leverage, enjoy relatively front-ended cashflows, and demonstrate asset picking skills because of the dispersion among different shelves. Residuals enjoy the excess spread from a mortgage portfolio after paying all expenses (Figure 9). Current mortgage scenarios of low prepayments and defaults, partly because of interest-only mortgage borrowers benefiting from low rates, are the 'Goldilocks' scenario for the product., as illustrated by the RMACS example in Figure 10.

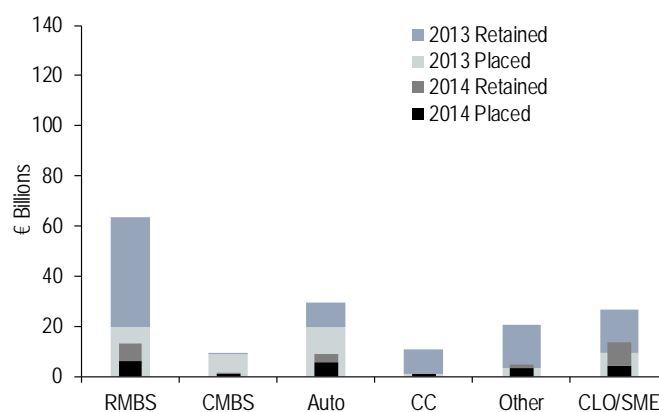
## New Issuance

Figure 11. Placed and Retained Issuance by Month, 2013–2014YTD (€ billions)



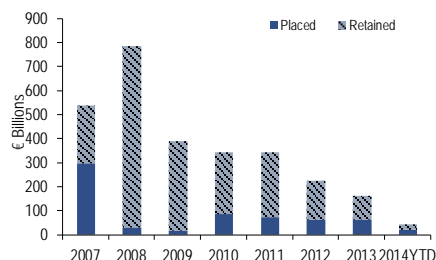
Source: Concept ABS, IFR, Informa and Citi Research

Figure 12. Placed and Retained Issuance by Sector, 2013–2014YTD (€ billions)



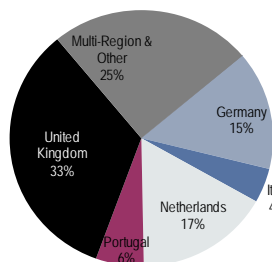
Source: Concept ABS, IFR, Informa and Citi Research

Figure 13. Annual Historical Placed and Retained Issuance, 2007–2014YTD (€ billions)



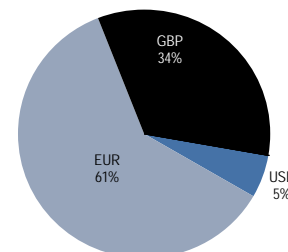
Source: Concept ABS, IFR, Informa and Citi Research

Figure 14. Placed Issuance by Region, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 15. Placed Issuance by Currency, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 16. Placed and Retained Issuance by Sector, 2013\* and 2014YTD (€ million)

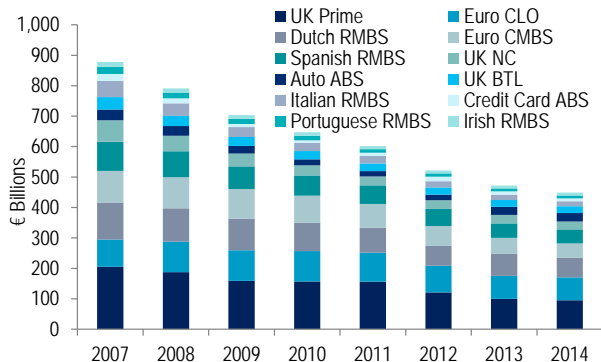
	RMBS(MM)		CMBS(MM)		Autos(MM)		Credit Card ABS(MM)		CLO/SME(MM)		Other(MM)		Total(MM)	
	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013
Placed	5,861	19,507	905	9,081	5,603	19,825	780	1,122	3,975	9,250	3,080	3,336	20,204	62,120
Retained	6,998	44,189	611	202	3,351	9,465	-	9,650	9,709	17,383	1,742	17,147	22,412	98,036
Total	12,859	63,696	1,517	9,282	8,954	29,289	780	10,772	13,685	26,633	4,822	20,483	42,616	160,156

\* 2013 complete year

Source: Concept ABS, IFR, Informa and Citi Research

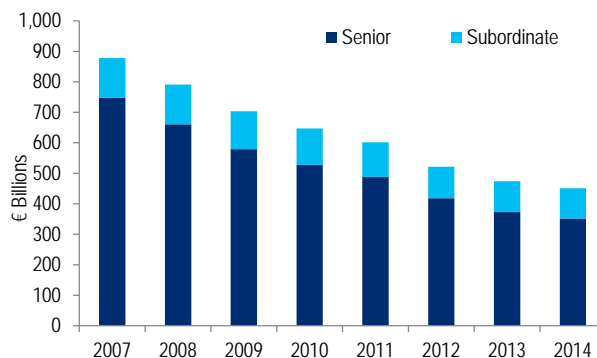
## European ABS Outstanding and Technicals

Figure 17. European Securitized Products Outstanding Balance by Sectors, 2007 – 2014 (€ eq billion)



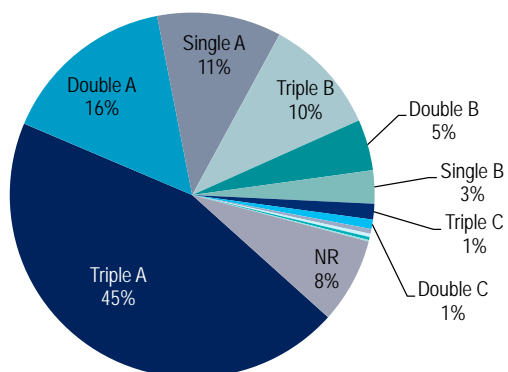
Source: Bloomberg, INTEX and Citi Research

Figure 18. European Securitized Products Outstanding Balance by Senior and Subordinate Notes, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

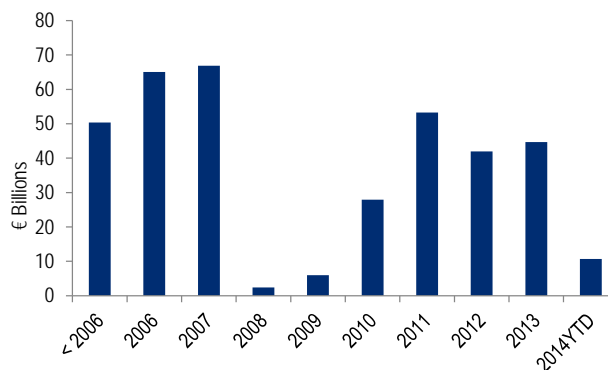
Figure 19. European Securitized Products\* Current Placed Outstanding by Rating#



#Bloomberg composite rating, \*Excludes Euro CLO

Source: Bloomberg, INTEX and Citi Research

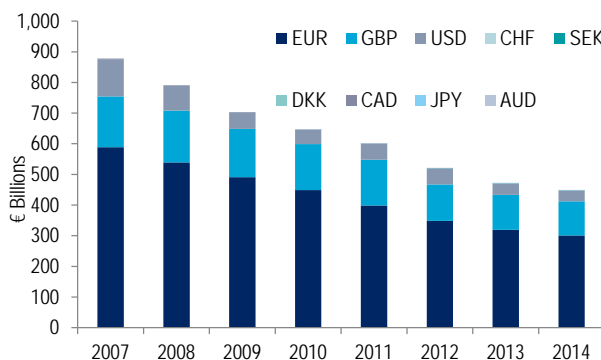
Figure 20. European Securitized Products\* Current Placed Outstanding by Vintage (€ eq billion)



\*Excludes Euro CLO

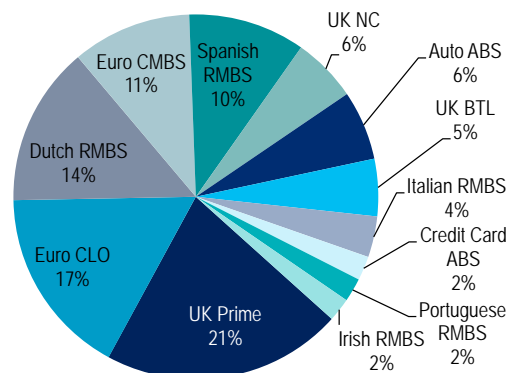
Source: Bloomberg and Citi Research

Figure 21. European Securitized Products Outstanding Balance by Currency, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

Figure 22. European Securitized Products Current Placed Outstanding by Sector

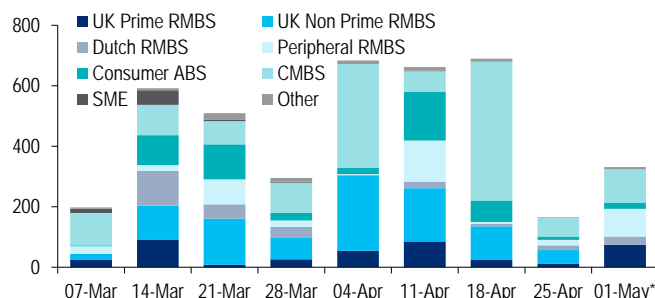


Source: Bloomberg, INTEX and Citi Research

## BWIC Tracker

### Weekly and Monthly BWIC Volume

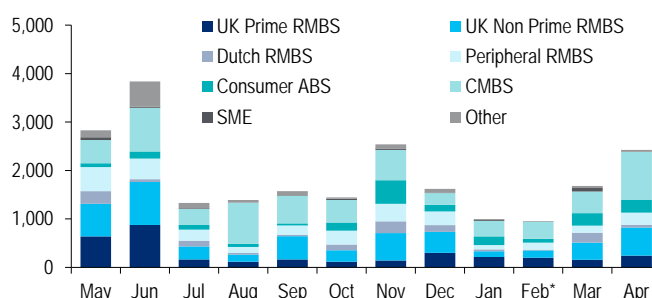
Figure 23. Weekly BWIC Volume by Sector, Mar 14–May 14\* (\$ eq. million)



\* Data until 01 May

Source: Citi Research

Figure 24. Monthly BWIC Volume by Sector, May 2013 – Apr 2014 (\$ eq. million)

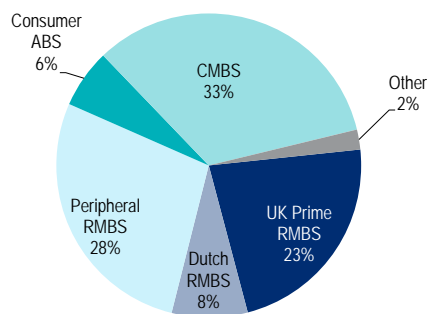


\* Data until 01 May

Source: Citi Research

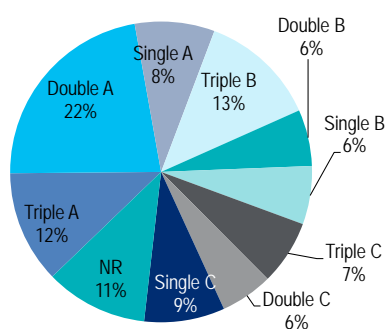
### Last Week's BWIC Distribution by Sector, Rating and Currency

Figure 25. BWIC Volume Distribution by Sector, 25 Apr – 01 May 2014 (%)



Source: Citi Research

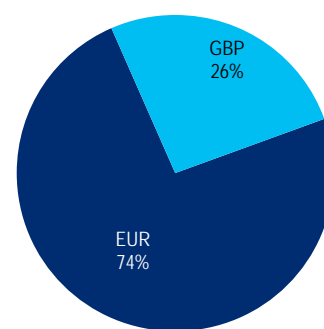
Figure 26. BWIC Volume Distribution by Current Rating\*, 25 Apr – 01 May 2014 (%)



\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

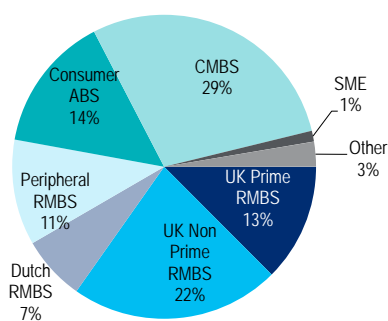
Figure 27. BWIC Volume Distribution by Currency 25 Apr – 01 May 2014 (%)



Source: Citi Research

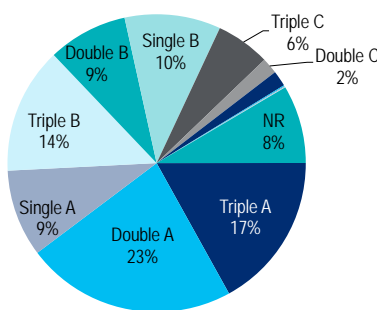
### YTD BWIC Distribution by Sector, Rating and Currency

Figure 28. BWIC Volume Distribution by Sector, 2014YTD (%)



Source: Citi Research

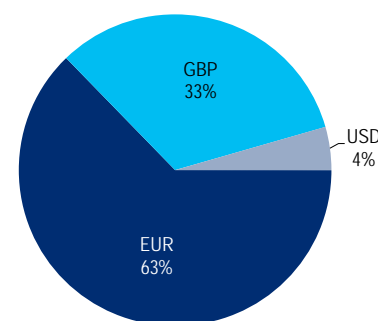
Figure 29. BWIC Volume Distribution by Current Rating\*, 2014YTD (%)



\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

Figure 30. BWIC Volume Distribution by Currency, 2014YTD (%)



Source: Citi Research

Figure 31. BWIC Volume and Number of Bonds by Sector and Current Rating\*, 25 Apr – 01 May 2014 and 2014 YTD

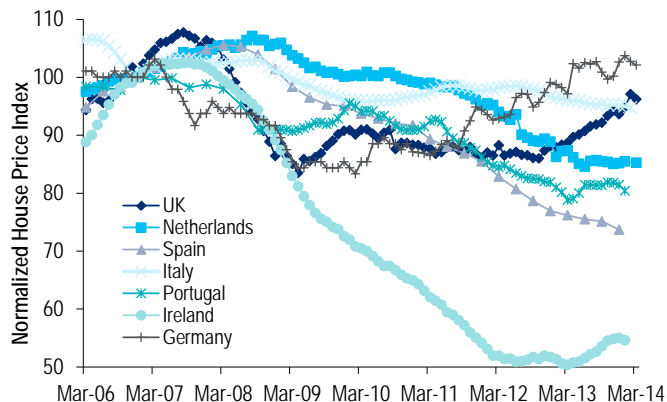
Sector	Rating*	25 Apr – 01 May		YTD	
		Volume (MM USD EQ)	Number of Bonds	Volume (MM USD EQ)	Number of Bonds
UK Prime RMBS	Triple A	7.1	2	293	111
	Double A	67.6	12	386	184
	Single A	-	-	53	16
	Lower and Not Rated	-	-	84	16
	<b>Total</b>	<b>74.7</b>	<b>14</b>	<b>816</b>	<b>327</b>
UK Non Prime RMBS	Triple A	-	-	86	17
	Double A	-	-	723	74
	Single A	-	-	107	29
	Lower and Not Rated	-	-	284	55
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,200</b>	<b>175</b>
Dutch RMBS	Triple A	26.6	8	311	80
	Double A	-	-	5	3
	Single A	-	-	12	7
	Lower and Not Rated	-	-	3	2
	<b>Total</b>	<b>26.6</b>	<b>8</b>	<b>331</b>	<b>92</b>
Peripheral RMBS	Double A	-	-	54	12
	Single A	21.9	1	57	20
	Triple B	27.3	2	221	33
	Double B	4.2	1	14	6
	Single B	3.9	1	121	11
	Triple C	20.5	4	41	7
	Lower and Not Rated	14.0	3	129	20
	<b>Total</b>	<b>91.7</b>	<b>12</b>	<b>637</b>	<b>109</b>
CMBS	Triple A	4.8	1	9	2
	Double A	0.4	1	115	12
	Single A	6.2	2	274	43
	Lower and Not Rated	99.0	21	1,705	229
	<b>Total</b>	<b>110.4</b>	<b>25</b>	<b>2,103</b>	<b>286</b>
Consumer ABS	Triple A	1.5	1	315	143
	Double A	6.0	2	72	15
	Single A	0.1	1	12	16
	Lower and Not Rated	13.1	1	385	40
	<b>Total</b>	<b>20.7</b>	<b>5</b>	<b>784</b>	<b>214</b>
SME	Double A	-	-	12	6
	Single A	-	-	28	5
	Triple B	-	-	1	1
	Double B	-	-	8	2
	Single B	-	-	12	3
	Lower and Not Rated	-	-	29	5
	<b>Total</b>	<b>-</b>	<b>-</b>	<b>92</b>	<b>22</b>
Other	Triple A	-	-	17	23
	Double A	-	-	18	11
	Single A	0.0	2	33	13
	Triple B	-	-	19	5
	Double B	-	-	13	3
	Single B	-	-	1	1
	Triple C	-	-	-	-
	Lower and Not Rated	7.0	1	20	6
	<b>Total</b>	<b>7.1</b>	<b>3</b>	<b>120</b>	<b>62</b>
<b>Grand Total</b>		<b>331.1</b>	<b>67</b>	<b>6,082.7</b>	<b>1,287</b>

\* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

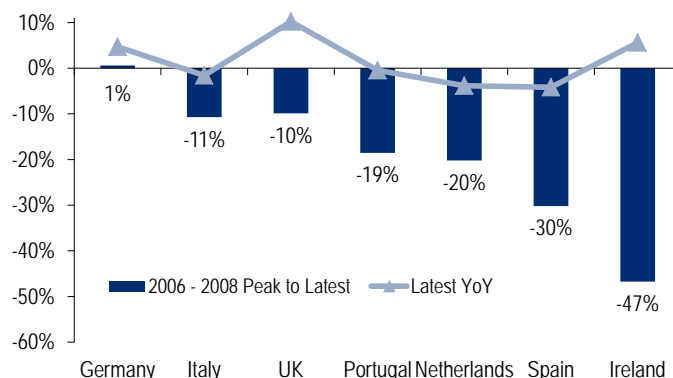
## Housing Markets and Mortgage Lending

Figure 32. Normalized House Price Indexes, Mar 06 – Mar 14 (Dec 2006 = 100)



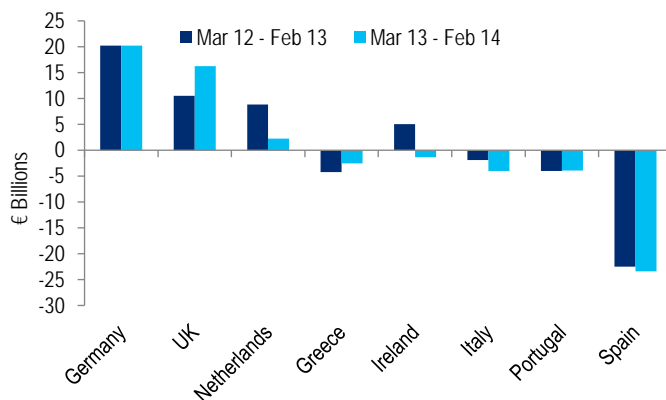
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 33. Euro Area 2006 – 2008 Peak to Latest House Price Change and Latest Y-o-Y Change



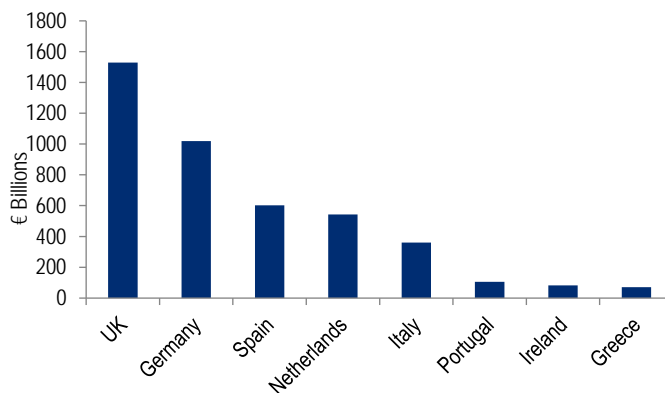
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 34. Net lending Rolling Year Totals (€ eq billion)



Source: ECB, BOE and Citi Research

Figure 35. Outstanding Mortgages as of Feb 2014 (€ eq billion)



Source: DNB, BOE, ECB and Citi Research

Figure 36. Recent Housing News and Market Data Releases

Country	Indicator	Period	Current Value	Y-o-Y	2005 - 2012 Peak to Current	Comment
UK	Nationwide House Price Index	Apr-14	183,577	11%	-1%	Nationwide average house price increased to £183,577 in April from £180,264 in the previous month. Average house prices increased 11% year-over-year and have almost regained their pre-crisis peak.
UK	Net Lending Secured on Dwellings	Mar-14	£1.79 billion	350%	-83%	Net lending secured on dwellings increased to £1.79 billion in March from £1.55 billion in the previous month. Net lending secured on dwellings has more than tripled over the past year but still remains 87% below its pre-crisis peak of September 2007
UK	BOE Mortgage Approvals	Mar-14	67,135	25%	-48%	Mortgage approvals declined to 67,135 in March from 69,592 in the previous month
Ireland	House Price Index	Mar-14	69	8%	-47%	Irish house price index declined to 69.1 in March from 69.6 in the previous month. Irish house prices increased 8% year-over-year in March but remain 47% below their pre-crisis peak of September 2007

Source: Nationwide, BOE, CSO Ireland and Citi Research

## CMBS Loan Tracker

Figure 37. CMBS Loan Update

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
1-May-14	DECO 7-E2X	Karstadt Kompakt Loan	€ 120	33.6%	Sale of property	The sale of Niebull property was completed on 19 March 2014 for a gross sale price of €350,000. Funds are expected to be received before IPD falling in July 2014.
30-Apr-14	TITN 2007-3X	Bacchus Loan	€29	8.4%	Final Recovery Determination	Following the final determination of all costs related to this loan workout, the final recovery determination in respect of the loan results in a realized principal loss of £28,769,281.75
30-Apr-14	TITN 2007-3X	Quadrant House Loan	€59	17.1%	Final Recovery Determination	The final recovery determination in respect of the loan is £44,503,535.92, representing a realized principal loss of £14,994,966.54. The final recovery proceeds were distributed to the holders of the notes in accordance with the applicable waterfall on 25 April 2014
30-Apr-14	TITN 2007-3X	Norwich Union House Loan	€41	11.9%	Final Recovery Determination	The final recovery determination in respect of the loan is £31,083,380.26, representing a realized principal loss of £10,173,891.95. The final recovery proceeds were distributed to the holders of the notes in accordance with the applicable waterfall on 25 April 2014.
30-Apr-14	TMAN 6	Coconut Loan	€ 126	15.9%	Sale of property	The sale of Pobneck property completed on 29 April 2014 at price of €2,280,000
30-Apr-14	TITN 2007-2X	Caprice Loan	€ 6	0.9%	Discounted Pay-off	The discounted pay-off proposal (DPO), consisting sale and refinancing of remaining security, has been executed for a combined amount of €4,825,000. The special servicer anticipates that an NAI amount will be applied to the notes on the July 2014 payment date.
30-Apr-14	DECO 2006-C3X	Starcharm Limited Loan	€34	11.1%	Sale of property	The sale of Starcharm property completed on 29 April 2014 at price of €38,000,000. The net disposal proceeds from sale will result in full repayment of loan.
30-Apr-14	TITN 2007-CT1X	Koblenz/Pforzheim Loan	€ 9	1.9%	Post sale liquidation	Following sale of properties, the borrower under Koblenz/Pforzheim loan needs to be liquidated and the orderly liquidation process will protect the noteholders by avoiding the risk of an attack from a bankruptcy trustee, should one be appointed in the future
30-Apr-14	OPERA GER2	Opera Germany No.2 Senior Loan	€ 500	100.0%	Sale of property	The special servicer announced that a sale and purchase agreement was signed on 24 April regarding Schwanenmarkt property. The net disposal proceeds regarding Ko-Galerie property is ~€280-290 million, regarding Schwanenmarkt property ~€ 40 million. The net disposal proceeds will be applied in full to the Facility A-1 which is the securitized Senior Loan.
29-Apr-14	TITN 2007-2X	Urbis Loan	€ 42	7.1%	Standstill Agreement	Due to non-repayment on maturity date 25 April 2014, the special servicer has granted a standstill until 18 July 2014 to enter into discussions with borrower regarding repayment of outstanding amount.
28-Apr-14	ECLIP 2006-2	ATU Germany Loan	€ 11	9.3%	Grace period for Refinancing Waiver Condition	The servicer has agreed to give a grace period of 10 business days until 12 May 2014 to meet the Refinancing Waiver Condition (Progress in relation to full refinancing of loan by April 2014)
28-Apr-14	TMAN 6	Mango Loan	€ 56	7.2%	Standstill extension	The special servicer has agreed to extend standstill until 15 July 2014 provided borrower continues to give monthly updates on disposal of properties
28-Apr-14	DECO 7-E2X	Schmeing Loan	€ 9	3.9%	Termination of loan sale agreement	The purchasers failed to deliver requisite closing documents and the total consideration of €7,500,000 on or prior to 15 April 2014. Consequently the Loan Sale Agreement was terminated and the initial deposit of €375,000 was forfeited and paid to issuer.
28-Apr-14	EMC 6	Henderson 5 (Bardowick) Loan	€ 5	1.6%	Standstill agreement	Due to non-repayment on maturity date 16 April 2014, the special servicer has granted a standstill until 16 July 2014 to consider options available to maximize recovery.
28-Apr-14	TMAN 7	Bruckner Loan	€ 53	10.0%	Standstill agreement	Due to non-repayment on maturity date 15 April 2014, the special servicer has granted a standstill until 30 June 2014 to facilitate a consensual sale.
25-Apr-14	TMAN 7	Hof Loan	€ 7	1.3%	Loan event of default and review of partial repayment	Hof borrower failed to make final repayment of €7,081,950 on maturity date 15 April 2014. The special servicer is reviewing an offer by borrower for a partial repayment.

Source: Investor Notices and Citi Research

## Sovereign Ratings and Economics Forecasts

Figure 38. Citi Euro-Area Economic Forecasts, 2014F – 2017F

	Real GDP (% , YY)				Unemployment Rate (% , Annual Average)				Policy Rate (% , Annual Average)				10 YR Yields (% , Annual Average)			
	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F	2014F	2015F	2016F	2017F
UK	3.5	3.6	2.5	2.0	6.6	5.1	-	-	0.54	1.67	2.5	2.71	3.05	3.60	3.75	3.90
Euro-Area	1.3	1.8	1.9	1.9	11.8	11.3	-	-	0.16	0.1	0.11	0.42	1.63	1.75	2.00	2.25
Germany	2.2	2.4	2.4	2.1	5.0	4.7	-	-	*	*	*	*	1.63	1.75	2.00	2.25
France	1.0	1.5	1.8	2.0	9.8	9.5	-	-	*	*	*	*	2.14	2.15	2.40	2.65
Spain	1.0	1.6	2.0	1.9	24.9	23.5	-	-	*	*	*	*	3.19	2.95	3.05	3.15
Italy	0.6	1.1	1.0	1.1	13.1	13.0	-	-	*	*	*	*	3.13	2.75	2.85	2.95
Portugal	1.5	2.0	1.7	1.7	14.7	13.5	-	-	*	*	*	*	-	-	-	-
Netherlands	1.3	1.4	1.8	2.1	8.8	8.6	-	-	*	*	*	*	1.90	2.00	2.25	2.50
Ireland	1.8	3.1	2.8	2.9	11.4	10.6	-	-	*	*	*	*	-	-	-	-
Greece	-0.8	1.2	1.6	1.5	27.5	26.4	-	-	*	*	*	*	-	-	-	-

\* Same Euro-area policy rate

Source: Citi Research

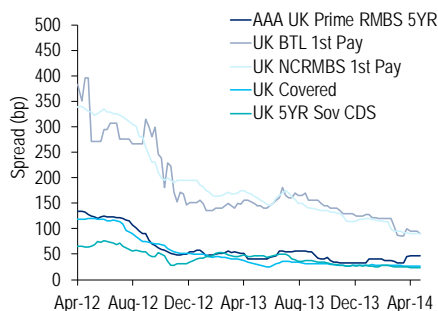
Figure 39. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

Country	S&P Ratings				Moody's Ratings			
	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Canada	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3 (Stable)	A1 ↓↓
Germany	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1 ↓
Italy	BBB	Neg	BBB (Neg)	BBB-	Baa2	Stable	Baa2 (Stable)	Baa2
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Belgium	AA	Stable	AA (Stable)	AA	Aa3	Stable	Aa3 (Stable)	Aa3
Finland	AAA	Neg	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Greece	B-	Stable	B- (Stable)	B-	Caa3	Stable	Caa3 (Stable)	Caa3
Ireland	BBB+	Positive	A- (Stable) ↑	A- ↑	Baa3	Positive	Baa2 (Stable)	A3 ↑↑↑↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Portugal	BB	Neg	BB+ (Pos) ↑	BBB-↑↑	Ba3	Stable	Ba2 (Pos)	Baa3 ↑↑↑
UK	AAA	Neg	AAA (Stable)	AAA	Aa1	Stable	Aa1 (Pos)	Aaa ↓↑
Switzerland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Sweden	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Denmark	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Norway	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. NA Not available. Sources: Moody's, S&P and Citi Research

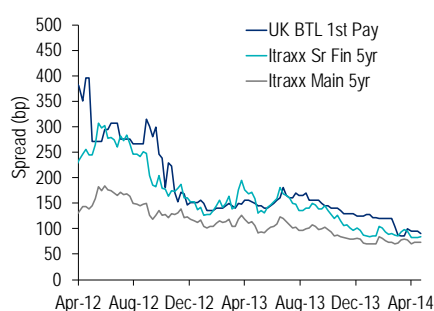
## Core RMBS Spreads and Relative Value

Figure 40. UK RMBS Seniors Versus Indexes, Apr 12 – Apr 14



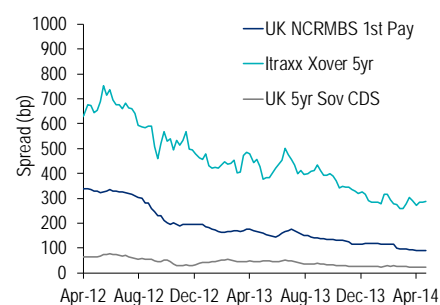
Source: Markit and Citi Research

Figure 41. UK BTL RMBS Seniors Versus Indexes, Apr 12 – Apr 14



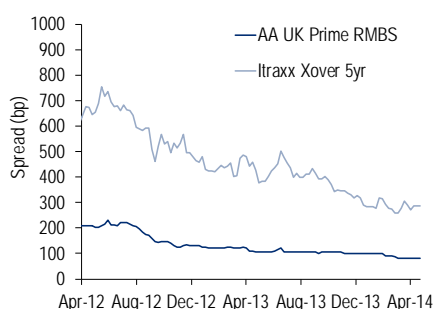
Source: Markit and Citi Research

Figure 42. UK NCRMBS Seniors Versus Indexes, Apr 12 – Apr 14



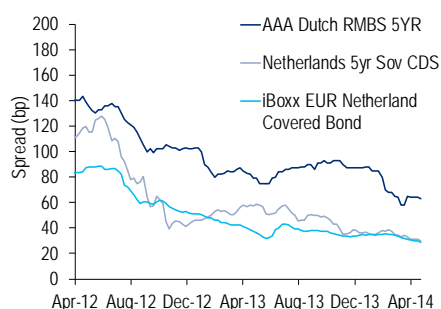
Source: Markit and Citi Research

Figure 43. UK Prime RMBS Subordinates Versus Index, Apr 12 – Apr 14



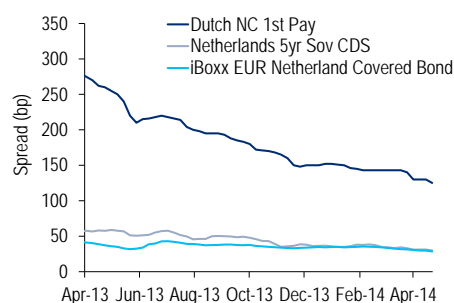
Source: Markit and Citi Research

Figure 44. Dutch RMBS Seniors Versus Indexes, Apr 12 – Apr 14



Source: Markit and Citi Research

Figure 45. Dutch NC 1st Pay Versus Indexes, Apr 13 – Apr 14



Source: Markit and Citi Research

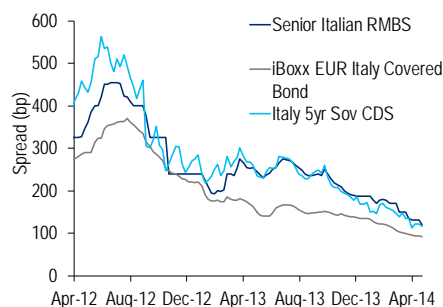
Figure 46. UK Prime, UK NC, UK BTL, Dutch Prime and Dutch NC Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ From Low	2013 High	Δ From High
UK	Prime RMBS	AAA 1YR	22	-1	-1	-3	-4	20	2	38	-16
		AAA 3YR	31	0	1	1	-1	27	4	47	-16
		AAA 5YR	46	0	1	6	6	32	14	56	-10
		Mezz	80	0	0	-20	-25	80	0	125	-45
	Buy to Let	PARGN 1st Pay	90	-5	-10	-30	-60	85	5	180	-90
		PARGN 2nd Pay	110	-5	-10	-110	-130	110	0	275	-165
		PARGN 3rd Pay	150	0	-10	-170	-180	150	0	375	-225
		AIREM AAA	78	0	-4	-22	-43	78	0	160	-82
		AIREM AA	123	-7	-12	-37	-97	123	0	250	-127
		AIREM BBB	0	0	-250	-275	-298	0	0	350	-350
	Non-Conforming RMBS	NC 1st Pay	90	0	-2	-25	-74	90	0	183	-93
		NC 2nd Pay	135	0	-5	-50	-111	135	0	315	-180
Netherlands	Covered Bonds	iBoxx EUR UK	26	-1	-1	-2	-5	24	2	50	-24
		Sovereign CDS	23	0	-1	-5	-24	23	0	53	-30
	Prime RMBS	AAA 1YR	37	-3	-4	-13	-2	33	4	55	-18
		AAA 3YR	48	-1	-2	-20	-7	48	0	76	-28
		AAA 5YR	63	-1	-2	-17	-16	58	5	100	-37
		Mezz	80	0	0	-15	-105	80	0	200	-120
	Non-Conforming	NC 1st Pay	125	-5	-15	-20	-135	125	0	320	-195
		NC 2nd Pay	180	-10	-20	-33	-123	180	0	365	-185
		NC 3rd Pay	305	-15	-35	-52	-230	208	97	675	-370
	Covered Bonds	iBoxx EUR Netherland	28	-1	-3	-6	-9	28	0	51	-22
		Sovereign CDS	30	-1	-3	-8	-28	30	0	59	-29

Source: Markit and Citi Research

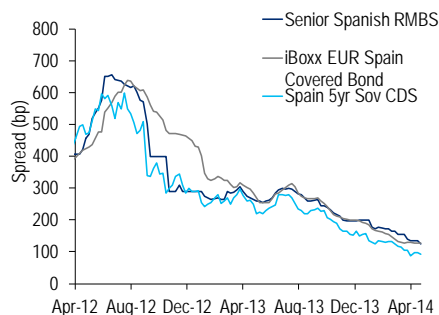
## Peripheral RMBS and Relative Value

Figure 47. Italian RMBS Seniors Versus Indexes, Apr 12 – Apr 14



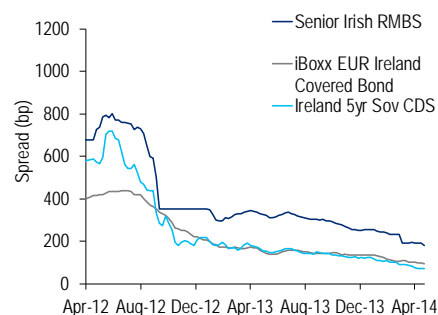
Source: Markit and Citi Research

Figure 48. Spanish RMBS Seniors Versus Indexes, Apr 12 – Apr 14



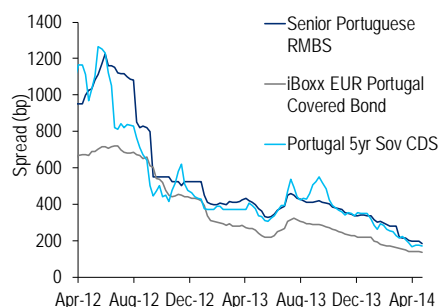
Source: Markit and Citi Research

Figure 49. Irish RMBS Seniors Versus Indexes, Apr 12 – Apr 14



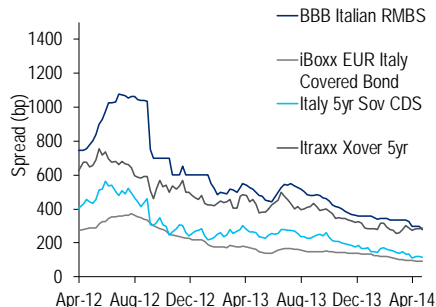
Source: Markit and Citi Research

Figure 50. Portuguese RMBS Seniors Versus Indexes, Apr 12 – Apr 14



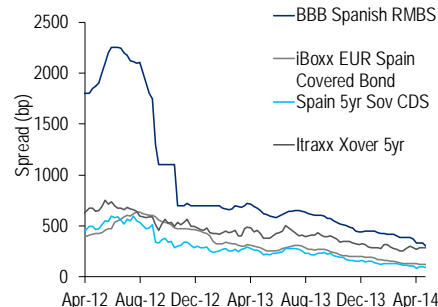
Source: Markit and Citi Research

Figure 51. Italian RMBS Subordinates Versus Indexes, Apr 12 – Apr 14



Source: Markit and Citi Research

Figure 52. Spanish RMBS Subordinates Versus Indexes, Apr 12 – Apr 14



Source: Markit and Citi Research

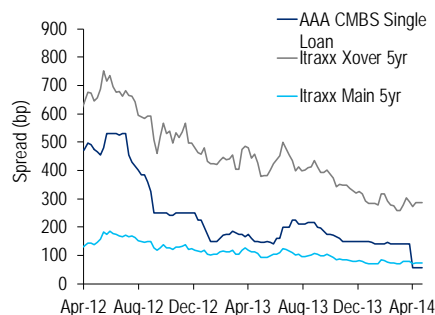
Figure 53. Peripheral RMBS Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ 1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Italy	RMBS	AAA Italy	120	-10	-15	-60	-135	120	0	275	-155
		AA Italy	150	0	-30	-96	-145	150	0	325	-175
		A Italy	185	-20	-40	-112	-175	185	0	440	-255
		BBB Italy	280	-20	-45	-65	-220	280	0	600	-320
	Covered Bonds	iBoxx EUR Italy	92	-1	-5	-29	-70	92	0	211	-119
	Sovereign CDS	Italy Sovereign 5YR	116	-5	-19	-55	-144	111	5	300	-184
Spain	RMBS	AAA Spain	125	-10	-15	-50	-140	125	0	305	-180
		AA Spain	175	-15	-35	-120	-205	175	0	410	-235
		A Spain	290	-20	-50	-98	-260	290	0	690	-400
		BBB Spain	300	-30	-75	-122	-350	300	0	725	-425
	Covered Bonds	iBoxx EUR Spain	127	0	-2	-35	-158	127	0	401	-275
	Sovereign CDS	Spain Sovereign 5YR	93	-3	-13	-40	-157	88	5	296	-203
Portugal	RMBS	AAA Portugal	185	-10	-15	-110	-210	185	0	460	-275
		AA Portugal	275	-15	-45	-120	-205	275	0	595	-320
		A Portugal	380	-20	-35	-92	-185	380	0	740	-360
		BBB Portugal	400	-20	-90	-125	-275	400	0	840	-440
	Covered Bonds	iBoxx EUR Portugal	133	-5	-8	-40	-126	133	0	392	-259
	Sovereign CDS	Portugal Sovereign 5YR	170	-4	-18	-112	-205	164	6	548	-378
Ireland	RMBS	AAA Ireland	180	-10	-15	-58	-150	180	0	349	-169
		AA Ireland	315	-15	-35	-137	-255	315	0	600	-285
		A Ireland	450	-25	-25	-115	-270	450	0	750	-300
		BBB Ireland	600	-50	-100	-202	-375	600	0	1000	-400
	Covered Bonds	iBoxx EUR Ireland	92	-6	-9	-24	-66	92	0	200	-107
	Sovereign CDS	Ireland Sovereign 5YR	70	-1	-12	-38	-92	70	0	197	-127

Source: Markit and Citi Research

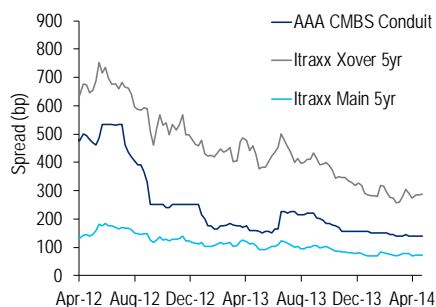
## CMBS and CLO Spreads and Relative Value

Figure 54. AAA CMBS Single Loan Versus Indexes, Apr 12 – Apr 14



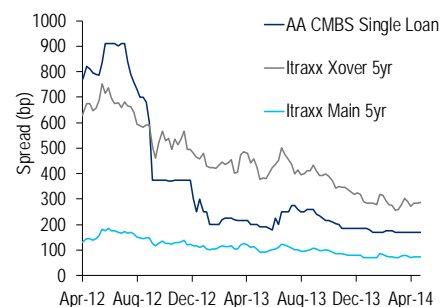
Source: Markit and Citi Research

Figure 55. AAA CMBS Conduit Versus Indexes, Apr 12 – Apr 14



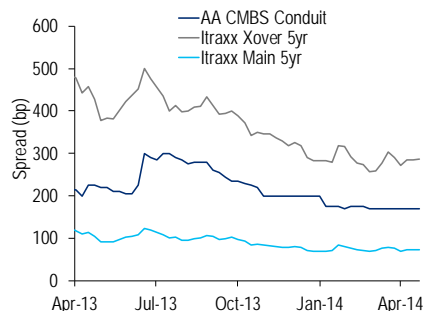
Source: Markit and Citi Research

Figure 56. AA CMBS Single Loan Versus Indexes, Apr 12 – Apr 14



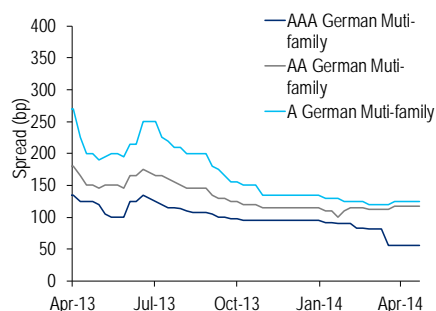
Source: Markit and Citi Research

Figure 57. AA CMBS Conduit Versus Indexes, Apr 13 – Apr 14



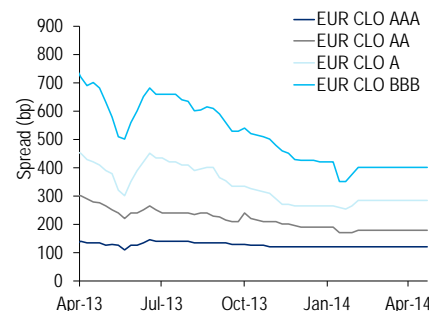
Source: Markit and Citi Research

Figure 58. German Multifamily Spreads, Apr 13 – Apr 14



Source: Citi Research

Figure 59. EUR CLO Spreads, Apr 13 – Apr 14



Source: Citi Research

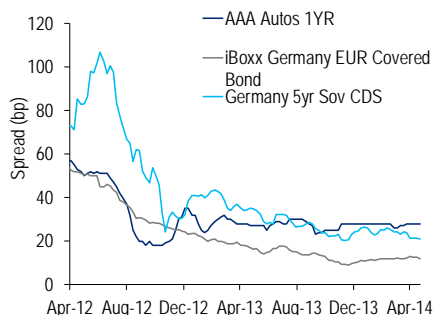
Figure 60. CMBS, WBS and CLO Spread Changes and Statistics, 2014YTD

Country	Product	Product Detail	Current	Δ1-week	Δ1-month	Δ 1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Europe	CMBS	AAA German Multi	56	0	0	-34	-69	56	0	150	-94
		AAA Single Loan	56	0	-84	-84	-94	56	0	225	-169
		AAA Conduit	140	0	0	-10	-20	140	0	225	-85
		AAA Fixed	90	0	-5	-5	-40	90	0	225	-135
		AA German Multi	117	0	0	7	-33	100	17	225	-108
		AA Single Loan	170	0	0	0	-30	170	0	275	-105
		AA Conduit	170	0	0	0	-55	170	0	300	-130
		AA Fixed	115	0	0	20	-60	90	25	250	-135
		A German Multi	125	0	0	0	-75	120	5	350	-225
		A Single Loan	320	0	0	0	45	250	70	450	-130
		A Conduit	320	-5	-5	-30	20	270	50	475	-155
		A Fixed	170	0	5	-10	-80	165	5	495	-325
	CLO	AAA	120	0	0	0	-15	110	10	150	-30
		AA	180	0	0	10	-95	170	10	300	-120
		A	285	0	0	20	-125	255	30	460	-175
		BBB	400	0	0	25	-280	350	50	800	-400
	WBS	AAA	115	5	0	-10	-80	110	5	300	-185
		AA	120	0	-2	-5	-125	120	0	350	-230
		A	170	-5	-5	-20	-150	170	0	425	-255
		BBB	320	-5	-5	-10	-150	315	5	600	-280

Source: Markit and Citi Research

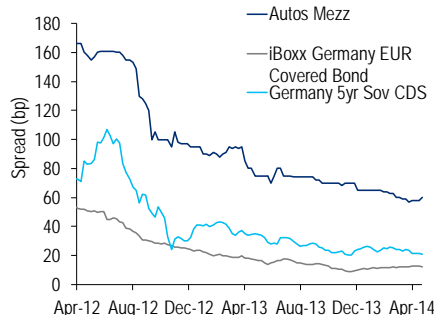
## Auto and Credit Card ABS Spreads and Relative Value

Figure 61. European Auto Seniors Versus Indexes, Apr 12 – Apr 14



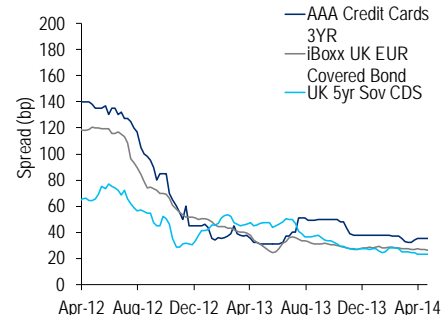
Source: Markit and Citi Research

Figure 62. European Auto Mezz Versus Indexes, Apr 12 – Apr 14



Source: Markit and Citi Research

Figure 63. UK Credit Card ABS Versus Indexes, Apr 12 – Apr 14



Source: Markit and Citi Research

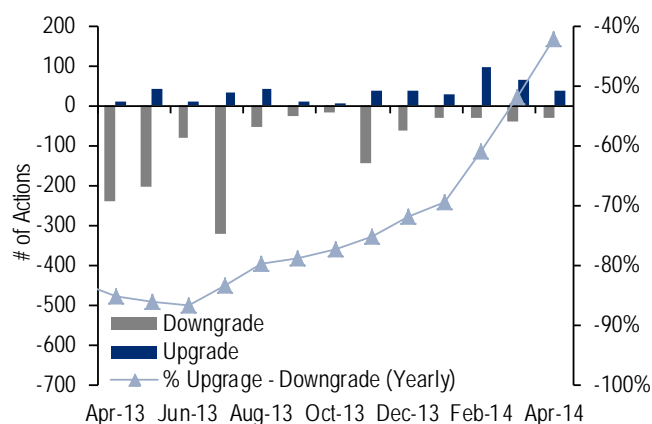
Figure 64. European Autos and UK Credit Card ABS Spread Changes and Statistics, 2014YTD

Country	Product	Product	Current	Δ1-week	Δ1-month	Δ1-quarter	Δ1-year	2013 Low	Δ from Low	2013 High	Δ from High
Europe	Autos	1YR	28	0	0	0	1	23	5	32	-4
		3YR	39	0	0	0	-2	37	2	45	-6
		5YR	48	0	0	-2	-11	46	2	63	-15
		Mezz	60	2	3	-4	-15	57	3	95	-35
Germany	Automobile and Parts Index	iBoxx EUR	83	-3	12	16	12	47	36	91	-8
		Covered Bonds	12	-1	0	0	-5	9	3	23	-11
		Sovereign CDS	21	0	-3	-4	-14	20	1	43	-22
UK	Credit Cards	1YR	25	-2	-2	-3	0	25	0	38	-13
		3YR	35	0	1	-3	4	31	4	51	-16
		5YR	40	2	3	-2	-2	34	6	63	-23
		Mezz	80	0	0	-20	-14	80	0	127	-47
	Covered Bonds	iBoxx EUR UK	26	-1	-1	-2	-5	24	2	50	-24
		Sovereign CDS	23	0	-1	-5	-24	23	0	53	-30

Source: Markit and Citi Research

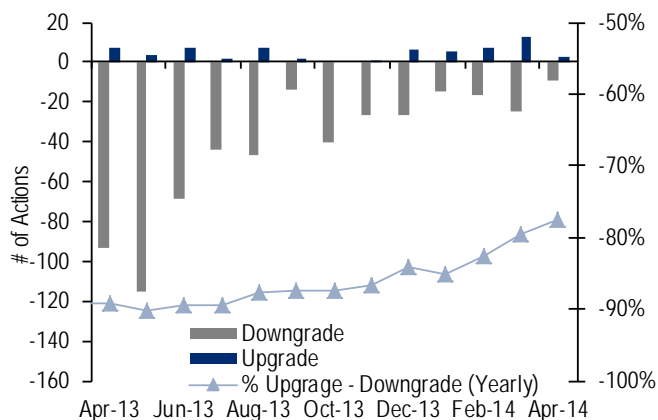
## Rating Actions and Trends

Figure 65. European RMBS Rating Upgrades and Downgrades, Apr 13 – Apr 14



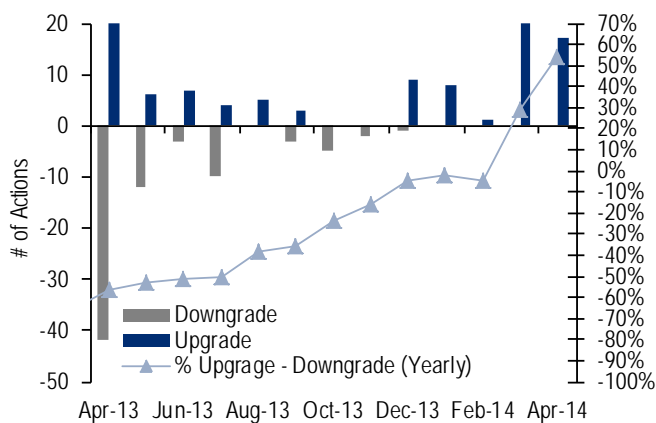
Source: Moody's, S&P and Fitch

Figure 66. European CMBS Rating Upgrades and Downgrades, Apr 13 – Apr 14



Source: Moody's, S&P and Fitch

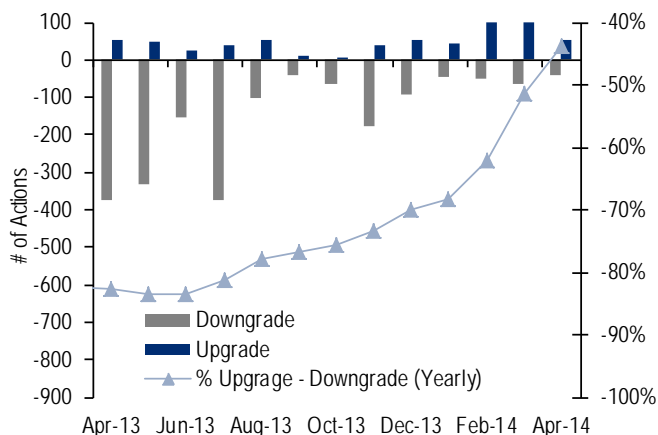
Figure 67. European ABS\* Rating Upgrades and Downgrades Apr 13 – Apr 14



\* ABS includes – European Lease ABS, European Consumer ABS, SME ABS, Auto ABS, UK Credit Card ABS, NPL ABS

Source: Moody's, S&P and Fitch

Figure 68. European Total Securitized Products Rating Upgrades and Downgrades, Apr 13 – Apr 14



Source: Moody's, S&P and Fitch

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**Notes**

## Appendix A-1

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