

European Securitized Products Weekly

Will NPL Trickle Turn to Flood? Regulators, Stock Markets Decide

- **Regulatory Push Probably Behind Nationwide Sales** — The building society had agreed last summer with the UK regulator (PRA) a timetable to meet its capital and leverage ratio requirements. Its proposed sale of a €850 million German commercial loan portfolio for which it just selected finalists could improve financial ratios. We describe initiatives from other UK lenders to reduce their NPL exposure.
- **Bad Banks To Boost Spain and Ireland Supply, Potential Italian Supply** — Without regulatory pressure from individual regulators or initiatives as NAMA, bank disposals should be opportunistic. Higher provisions on Italian bank portfolios could help supply. A new deal shows banks are willing to buy protection versus selling.
- **Lack of NPL Experience Appears Limiting for Most Investors** — The frequency with which a few funds are mentioned in the asset disposal auctions suggests that new entrants may find it hard to achieve the same economies of scale. New entrants could, however, increase discount prices and boost supply.
- **Euro CLOs Deal with Yell After Vivarte** — The European loan universe is dealing with a spike in the volume of loans that are rated triple-Cs or default. Such downgrades threaten cashflow to junior tranches. We illustrate how documentation can lead to different outcomes depending on a triple C or default rating. Demand for new CLOs is still robust, with a recent deal from CVC upsized to €450 million.
- **New UK Deal Illustrates Value of RMBS for Certain Issuers** — The RMBS from Aldemore Bank is consistent with originators' differing motivations, while the deal's uptake along with a previously retained Quadrivico bond shows investor appetite.
- **Solvency II Backtrack Helpful but not Game-changer** — Senior tranches of simple securitizations should attract half the capital proposed 3 months ago, but we do not believe it will dramatically increase the appeal of ABS versus corporates.

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

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Contents

UK Bank Asset Sales: Will Others Follow?	3
Regulatory Push A UK Driver	3
National Initiatives in Spain and Ireland	3
Others Likely to Be Opportunistic	3
Early Starter Advantages	4
Still Room for new UK RMBS	4
Lower Solvency II Cap Not A Game-changer	5
Euro CLOs: Vivarte and Yell Impairments	6
Vivarte and Yell situations continue	6
Triple-C or Default? There is a catch	6
Ways to Skin a Triple-C Haircut	6
New Issuance	7
European ABS Outstanding and Technicals	8
BWIC Tracker	9
Housing Markets and Mortgage Lending	11
CMBS Loan Tracker	13
Sovereign Ratings and Economics Forecasts	15
Core RMBS Spreads and Relative Value	16
Peripheral RMBS and Relative Value	17
CMBS and CLO Spreads and Relative Value	18
Auto and Credit Card ABS Spreads and Relative Value	19
Rating Actions and Trends	20
Recent Key Publications	21
Appendix A-1	25

UK Bank Asset Sales: Will Others Follow?

Regulatory Push A UK Driver

Investors can see the hand of the UK regulator (PRA) in the spate of UK bank portfolio sales in the market. Nationwide who had a last minute surprise last year on the need to improve its regulatory ratios agreed to a timetable with the PRA to meet its capital and leverage ratio requirements. According to CoStar, the building society has selected three private equity funds to progress to the second and final stage of the bidding process for the Project Adelaide German commercial property loan portfolio. The €850 million diversified portfolio comprises loans on 200 retail office and industrial commercial properties throughout Germany, and all bids were above €600 million according to the article.

Nationwide is joining other UK banks gradually disposing of their NPL portfolios. The £625 million Project Avon portfolio that Lloyds Bank is at the early stages of selling comprises of about £406 million of commercial real estate loans. The remainder consists of residential real estate (including buy-to-let properties) and land. According to CoStar, 70% of the portfolio consists of defaulted loans and the current real estate value backing the portfolio is around £300 million.

CoStar also reports considerable interest in the disposal of the Irish subsidiary (Ulster Bank) of another UK bank (RBS). The €844 million Project Button portfolio consists of mainly office and retail. There are 72 assets, including 38 properties in Dublin over 2 million sq ft., three assets in London and two in Scotland.

In our view, the regulatory scrutiny on UK banks is one of the important motivations behind these disposals.

National Initiatives in Spain and Ireland

The second driver for disposals is the creation of national bad-bank entities such as NAMA and IBRC in Ireland and Sareb in Spain. Our note on opportunities in the Irish residential and commercial real estate market ([Dublin' Up - The €200bn Irish Real Estate Case for the Patient Buyer](#)) describes the €26 billion of Irish NPL assets that are available in the market. Most of these portfolios are backed by CRE loans and some assets are located outside Ireland too. Supply has been helped by strong investor interest and rising prices. NAMA's loan sales have received strong interest from international investors, with more than 20 private equity firms, hedge funds, and investment banks submitting their bids, according to CoStar. Some of the portfolios, notably Project Stone, are heavily distressed. Bidders, according to CoStar, include Lone Star, Deutsche Bank, CarVal, Goldman Sachs Special Situations Fund, Apollo, Cerberus and Oaktree for either the whole or parts of the portfolio.

Sareb has also been tasked to sell €50.8 billion of Spanish bad loans from lenders. According to an article in Bloomberg, it raised €3.8 billion in 2013 including a €437 million sale to Fortress for 46 per cent of the face value of the loans, and was able to pay back €2 billion of debt. Its chairman recently said that it would accelerate sales and improve the management of its assets, and was targeting to repay €3 billion of debt during 2014.

Others Likely to Be Opportunistic

Short of such regulatory focus, we believe sales will be opportunistic and will be driven by the level of bids from investors (say, versus provisions taken by banks) and other ways of raising capital (most importantly, stocks). Rising asset prices are helping the case for disposal, but improving stock markets and inadequate provisions should dampen any pressure to sell.

There is strong evidence, however, that prices are rising. For example, NAMA's recent sales include €810 million project Aspen, €373 million Project Holly, €70 million Project Club and €165 million Project Platinum. The selling price of the Project Platinum portfolio was a 37.5% premium over last year's €120 million asking price, according to CoStar. In other cases, sale prices have exceeded desktop valuations. According to Costar, Lloyds bank sold its Project Aberdonia portfolio for €280 million (a 15% premium over CBRE's desktop valuation) to Marathon Asset Management. Marathon began a Europe Credit Opportunities Fund II with \$530 million on Jan of this year to buy mortgage-backed securities, NPL and distressed corporate debt.

Moreover, some banks have shown themselves to be more willing to take provisions. Intesa just announced results this morning and posted a fourth-quarter loss on the back of, among other things, higher loss provisions. They also announced a plan to sell non-strategic assets. Intesa's results came on the back of results from Unicredit which also announced higher provisions. In a sign that the market appreciates transparency, Intesa's stock price went up after its results were announced. Higher provisions with higher bids should lead to more transactions.

On the stock side, the recent success of even banks in peripheral companies to raise capital lightens any immediate selling pressure. Eight Italian banks, for example, are believed to be getting ready to sell €8 billion of stock. Two Greek banks recently raised a similar amount from stock investors.

French and German banks, we believe, will be more in the category of opportunistic sellers. Commerzbank said earlier this year that it sold large-volume commercial real estate financing commitments and corporate loans of Hypothekbank Frankfurt in Spain with a volume of €710 million to international investors. Other banks have decided not to sell and opt for synthetic risk transfer. Deutsche Hypothekbank recently bought credit protection on a 4.64% slice of mezzanine risk on a portfolio of commercial real estate loans. The bank retained the junior 10% and senior 94.35% risk of the portfolio. There are 57 performing loans in the portfolio, ranging from €3m to €84m in size – mainly in the office and retail space. Presumably, the bank decided along with its regulator that this was the best option to reduce capital at risk.

Early Starter Advantages

Although anecdotal evidence indicates the presence of a moderate number of buyers for distressed NPL (such as the NAMA auctions), there are only a handful of buyers whose names recur with regularity. They are Lone Star, Oaktree, Apollo and Cerberus. Oaktree and Cerberus were also two of the three finalists, according to CoStar, in the Project Adelaide auction by Nationwide that we described earlier.

Many other entrants, we suspect, will not share the information advantages that these early movers have acquired as a result of having serviced a few portfolios, and may take longer to build up that knowledge. As the prices of portfolios rise with the weight of new money and the willingness of dealers to provide financing, we feel that average returns may drop and that there will be divergence in performance among the funds.

Still Room for new UK RMBS

A major issue that we and RMBS investors had been grappling with is the prospect of new UK RMBS issuance this year (see [Stick to UK Prime Issuance Guns Despite](#)

[Last FLS Shot](#) for our detailed projections and motivations for RMBS issuance). In the last period for FLS usage for mortgages UK lenders borrowed £18.8 billion from FLS in the four months ending January 2014 (nearly 44% of the total FLS drawdown) signaling little need for RMBS. In the end we concluded that there was little overlap between the users of the FLS money and the potential RMBS issuers. Smaller and lower-rated lenders did not borrow much from FLS and would prefer RMBS funding over unsecured and covered debt. We expect smaller lenders to lend more in 2014 because overall mortgage lending in the UK is increasing and the share of smaller lenders in new lending is also rising.

So, the recent deal from Aldermore Bank does not come as a surprise to us. Aldermore Bank is a relatively new retail bank which has been in operation since 2009 and was set up with backing from private equity sponsors. The deal which is being marketed has a £333 million triple-A tranche and a senior-friendly structure similar to what has been used in several post-crisis deals. The structure features a turbo mechanism where all revenue that sits beneath the replenishment of the reserve fund is diverted to pay down the senior tranche if it is not called on the May 2019 optional redemption date. The portfolio consists entirely of owner-occupied mortgages with an average size of £134.8k, a weighted average indexed LTV of 63.4% and 1.5 years' seasoning.

Investors' hunger for RMBS is also visible in more Italian deals being taken out of the ECB retained universe. Quadrivio RMBS 2011 is being re-offered. The originator and servicer is Credito Valtellinese. The outstanding has reduced to €347 million from its original notional of €550 million in 2011, with the result that the credit support below the bond has increased to approximately 25%. The price talk for the 2.4year average life bond is a DM of 115bps.

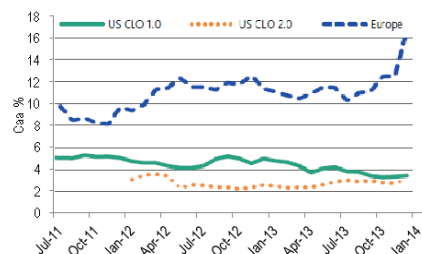
Lower Solvency II Cap Not A Game-changer

The Financial Times, according to them, have seen a revised draft of technical rules to implement Solvency II, the law governing the European insurance industry. The report indicates that officials are planning to halve the capital requirements on securitizations deemed to be of high enough quality. The changes to the Solvency II rules only affect Type A securities, which are more senior tranches of securitizations that EIOPA considers transparent (residential mortgages, SME loans, auto loans, leases, consumer finance assets, credit card receivables). Under the changes, the capital requirements on senior tranches of such Type A securitizations would be sliced in half from 4.3 per cent (as described in the EIOPA Technical Report of 19th December 2013) to 2.1 per cent per year of duration. But even if the changes are passed, the capital requirements on insurers' holdings of asset-backed securities will remain far more onerous than those for the most highly-rated corporate bonds. Senior tranches of such Type A securitizations have spreads substantially below 100bp, and would not look appealing versus other assets on a return on capital. Note senior tranches of all other securitizations have much more punitive charges of 12.5% per year of duration.

Euro CLOs: Vivarte and Yell Impairments

Vivarte and Yell situations continue

Figure 1. Rise in triple-C rated loans within Moody's rated Euro CLO universe



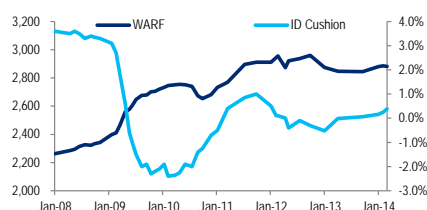
Source: Moody's

The Euro CLO market is grappling with at least four credit situations (PSH, Autobar, Vivarte and Yell Finance) but different CLOs will see different results on their cash diversion haircuts based on where the final ratings on these credits emerge. Vivarte is the most visible (but also not publicly rated) and we believe is shadow-rated triple-C based on a recent spike in Moody's data (Figure 1) showing a rise in triple-C loans within CLOs. It could transition into default (D) as its arrangement with lenders may lead it to suspend payments imminently. Yell ([Euro Loan Restructurings Affect CLOs - Yell Finance Case Highlights Diverging Outcomes](#)) also announced a restructuring on 3rd March. The company will reduce its borrowing to about £1.5 billion from about £2.3 billion. Approximately £700 billion of debt was written off. The new capital structure includes term loans of about £500 million from the operating company maturing in five years and £920 million of payment-in-kind notes from the holding company maturing in 10 years. We have not seen a public rating for the new loans but conceivably, having just come out of a restructuring, the loans could be rated triple-C or lower by one or more agencies.

Triple-C or Default? There is a catch

Legacy Euro CLOs until recently had been showing some stabilization in their overcollateralization ratios and cash diversion tests through deleveraging. Vivarte and Yell Finance combined with the growing number of triple-Cs in the Euro CLO universe are reversing that trend. Looking into the future, we think a healthy prepayment speed of the performing loan universe will lock horns with a worsening of average credit quality in many legacy pools. How different CLOs come out on their cash diversion triggers will depend on their collateral pools as well as on their documentation for ratings-related haircuts. In some ways, a default is straightforward as the asset can only be given the lower of par or market value for the purposes of its over-collateralization. If, however, it is rated triple-Cs many more nuances become important. There is a haircut for triple-Cs which can vary among deals. Moreover, as loans transition from triple-C to default (or vice-versa if they come out of a temporary default or are restructured), the documentation will determine the change in over-collateralization levels.

Figure 2. Recent stabilization in Euro interest diversion cushions (right) are threatened by more defaults and triple-Cs. Also shown are Moody's rating factor (WARF, left)



Source: Intex, Citi Research

Ways to Skin a Triple-C Haircut

The most common way is that all loans which are rated triple-C and below by any agency in the deal are included and a market value haircut is imposed for the excess over a threshold (typically 7.5%). In calculating the haircut, the lowest market value is used among the loans in the triple-C pool. In many old deals, if the market price is however than a rating agency recovery value, the recovery value is used. However not all deals are the same. A few allow the use of an average price for a triple-C pool for the haircut (for example, Harvest) but can then switch to the lower of market or rating agency recovery value. Others allow investors to size the triple-C bucket based on which agency has the largest bucket. New CLOs typically just look at market value for triple-C haircuts rather than the lower of agency and market value. These situations are of great benefit to equity (who stand to lose the most from triple-C haircuts) when there is little overlap among the downgrades of different agencies and using all triple-Cs would create a large bucket. Depending on the situation we see a Yell haircut could result in a variety of outcomes. Moreover, as the loan transitions into default from triple-C there may be no impact if the loan is either marked at a recovery value or is trading at distressed prices. In other cases, where the triple-C loan has no haircut, the decrease could be substantial.

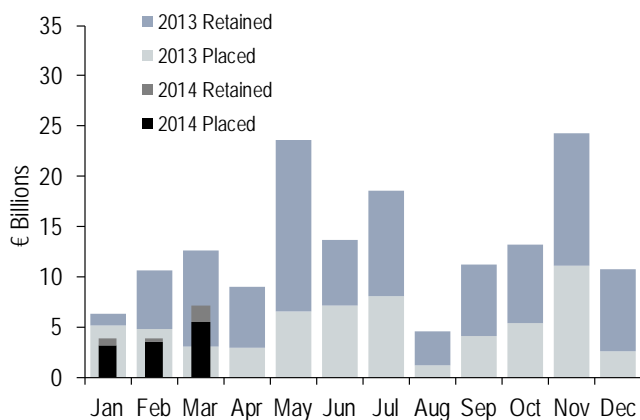
Figure 3. Haircut Scenarios for Yell assuming loan rated triple-C

Scenario	Haircut
Yell above CCC/Caa	No impact
Yell at CCC/Caa, triple-C bucket not exceeded	No impact
Yell at CCC/Caa, deal allows max of different agencies, new rating does not change max size	No impact
Yell at CCC/Caa, increase in triple-C excess, deal allows average or recovery price, assumed 70	30
Yell at CCC/Caa, increase in triple-C excess, lowest market value (or agency assigned recovery value) in excess assumed as 25	75

Source: Citi Research

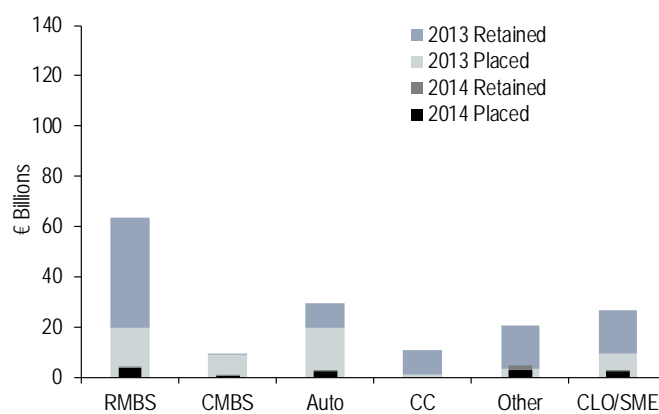
New Issuance

Figure 4. Placed and Retained Issuance by Month, 2013–2014YTD (€ billions)



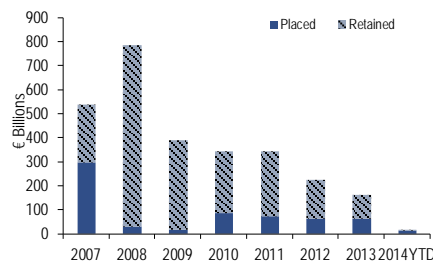
Source: Concept ABS, IFR, Informa and Citi Research

Figure 5. Placed and Retained Issuance by Sector, 2013–2014YTD (€ billions)



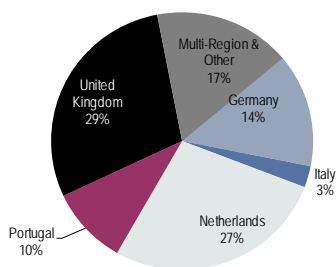
Source: Concept ABS, IFR, Informa and Citi Research

Figure 6. Annual Historical Placed and Retained Issuance, 2007–2014YTD (€ billions)



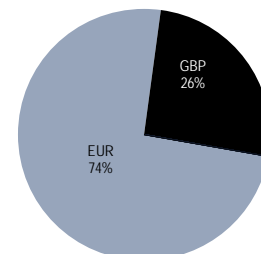
Source: Concept ABS, IFR, Informa and Citi Research

Figure 7. Placed Issuance by Region, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 8. Placed Issuance by Currency, 2014YTD (% of Total, € Equivalent)



Source: Concept ABS, IFR, Informa and Citi Research

Figure 9. Placed and Retained Issuance by Sector, 2013* and 2014YTD (€ million)

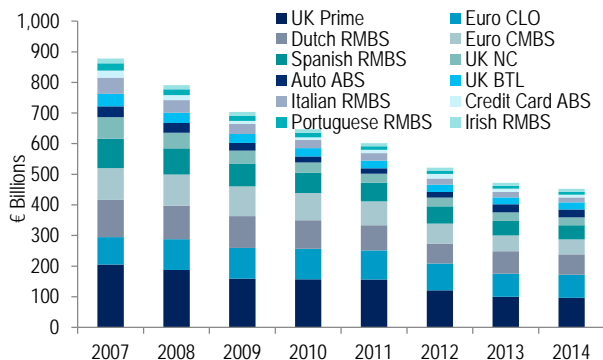
	RMBS(MM)		CMBS(MM)		Autos(MM)		Credit Card ABS(MM)		CLO/SME(MM)		Other(MM)		Total(MM)	
	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013	2014YTD	2013
Placed	3,943	19,507	665	9,081	2,276	19,825	-	1,122	2,499	9,250	2,780	3,336	12,163	62,120
Retained	269	44,189	121	202	100	9,465	-	9,650	449	17,383	1,736	17,147	2,674	98,036
Total	4,211	63,696	787	9,282	2,376	29,289	-	10,772	2,947	26,633	4,516	20,483	14,838	160,156

* 2013 complete year

Source: Concept ABS, IFR, Informa and Citi Research

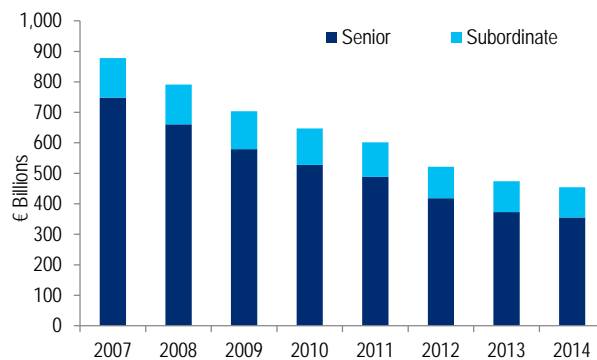
European ABS Outstanding and Technicals

Figure 10. European Securitized Products Outstanding Balance by Sectors, 2007 – 2014 (€ eq billion)



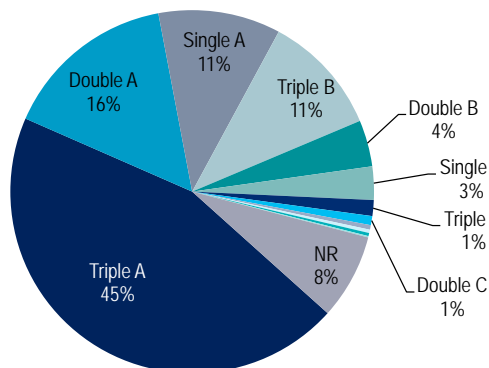
Source: Bloomberg, INTEX and Citi Research

Figure 11. European Securitized Products Outstanding Balance by Senior and Subordinate Notes, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

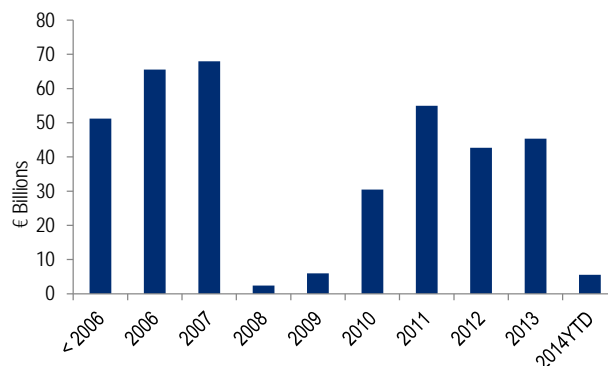
Figure 12. European Securitized Products* Current Placed Outstanding by Rating#



#Bloomberg composite rating, *Excludes Euro CLO

Source: Bloomberg, INTEX and Citi Research

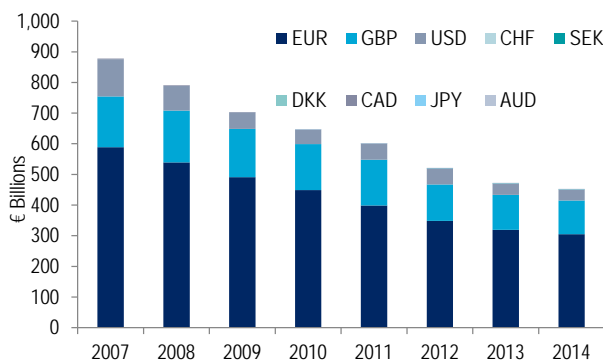
Figure 13. European Securitized Products* Current Placed Outstanding by Vintage (€ eq billion)



*Excludes Euro CLO

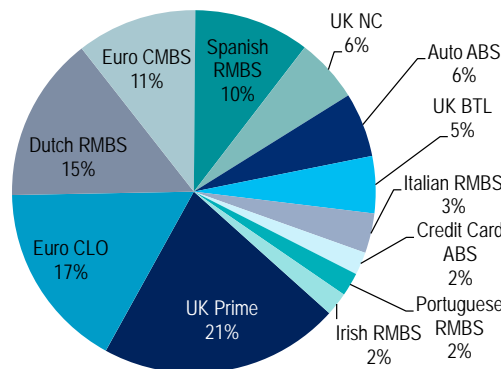
Source: Bloomberg and Citi Research

Figure 14. European Securitized Products Outstanding Balance by Currency, 2007 – 2014 (€ eq billion)



Source: Bloomberg, INTEX and Citi Research

Figure 15. European Securitized Products Current Placed Outstanding by Sector

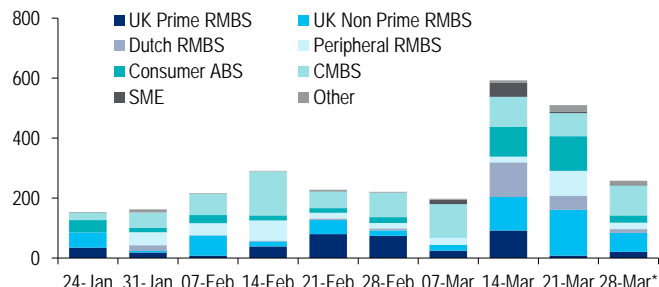


Source: Bloomberg, INTEX and Citi Research

BWIC Tracker

Weekly and Monthly BWIC Volume

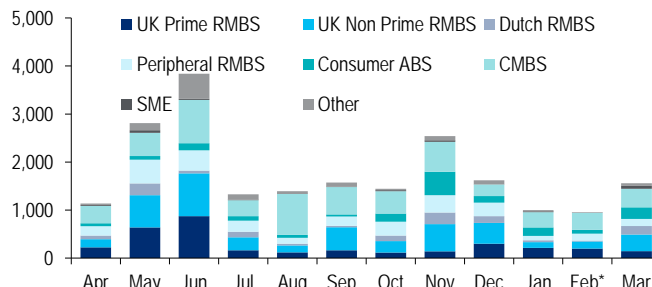
Figure 16. Weekly BWIC Volume by Sector, Jan 14–Mar 14* (\$ eq. million)



* Data until 28 Mar

Source: Citi Research

Figure 17. Monthly BWIC Volume by Sector, Apr 2013 – Mar 2014 (\$ eq. million)

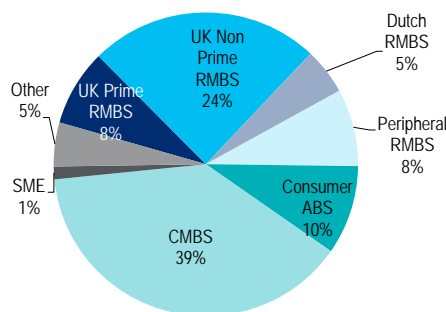


* Data until 28 Mar

Source: Citi Research

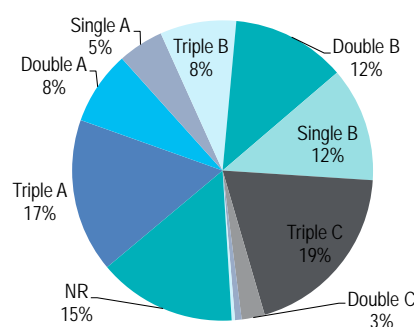
Last Week's BWIC Distribution by Sector, Rating and Currency

Figure 18. BWIC Volume Distribution by Sector, 21 Mar – 28 Mar 2014 (%)



Source: Citi Research

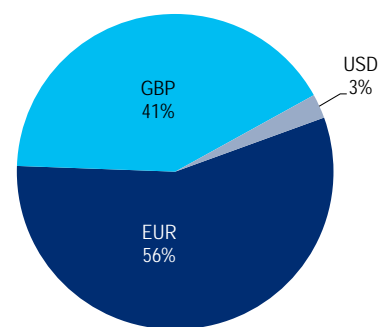
Figure 19. BWIC Volume Distribution by Current Rating*, 21 Mar – 28 Mar 2014 (%)



* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

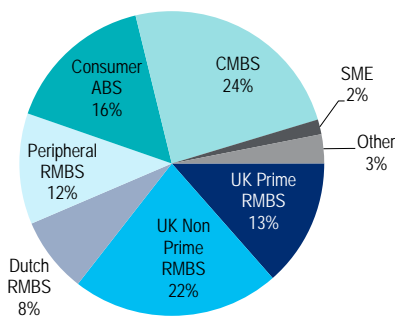
Figure 20. BWIC Volume Distribution by Currency 21 Mar – 28 Mar 2014 (%)



Source: Citi Research

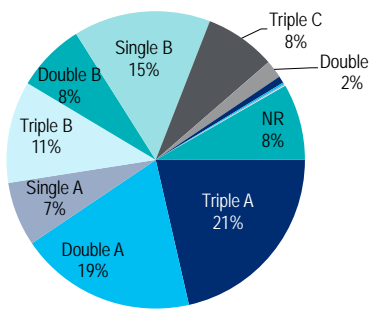
YTD BWIC Distribution by Sector, Rating and Currency

Figure 21. BWIC Volume Distribution by Sector, 2014YTD (%)



Source: Citi Research

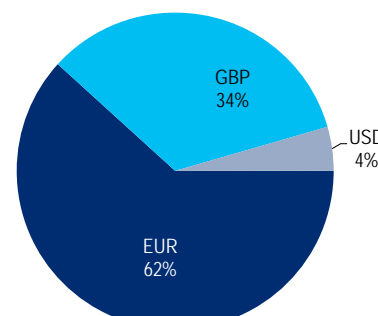
Figure 22. BWIC Volume Distribution by Current Rating*, 2014YTD (%)



* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

Figure 23. BWIC Volume Distribution by Currency, 2014YTD (%)



Source: Citi Research

Figure 24. BWIC Volume and Number of Bonds by Sector and Current Rating*, 21 Mar – 28 Mar 2014 and 2014 YTD

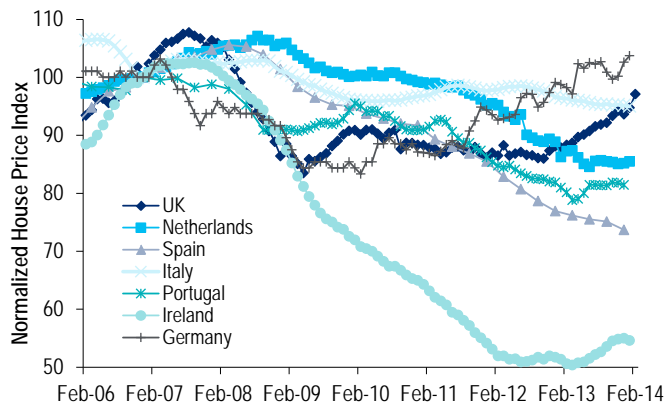
Sector	Rating*	21 Mar – 28 Mar		YTD	
		Volume (MM USD EQ)	Number of Bonds	Volume (MM USD EQ)	Number of Bonds
UK Prime RMBS	Triple A	14.4	7	207	83
	Double A	6.5	5	273	121
	Single A	-	-	27	7
	Lower and Not Rated	-	-	53	10
	Total	21.0	12	560	221
UK Non Prime RMBS	Triple A	-	-	76	12
	Double A	2.1	1	258	46
	Single A	1.2	2	42	13
	Lower and Not Rated	59.9	14	237	46
	Total	63.1	17	613	117
Dutch RMBS	Triple A	9.9	3	216	49
	Double A	2.8	1	3	2
	Single A	-	-	12	7
	Lower and Not Rated	-	-	0	1
	Total	12.7	4	232	59
Peripheral RMBS	Double A	-	-	29	7
	Single A	5.1	1	17	13
	Triple B	3.2	2	91	20
	Double B	7.1	2	7	2
	Single B	-	-	103	8
	Triple C	-	-	20	3
	Lower and Not Rated	5.8	3	114	16
	Total	21.2	8	382	69
CMBS	Triple A	-	-	4	1
	Double A	0.1	1	30	5
	Single A	2.9	2	82	22
	Lower and Not Rated	96.7	27	940	152
	Total	99.7	30	1,057	180
Consumer ABS	Triple A	18.4	8	237	103
	Double A	0.5	1	55	15
	Single A	0.4	2	4	5
	Lower and Not Rated	5.2	2	204	27
	Total	24.5	13	500	150
SME	Double A	-	-	10	3
	Single A	1.5	1	29	4
	Triple B	-	-	1	1
	Double B	-	-	7	1
	Single B	2.1	1	12	3
	Lower and Not Rated	-	-	29	4
	Total	3.6	2	88	16
Other	Triple A	-	-	12	6
	Double A	8.5	4	12	7
	Single A	1.5	1	33	10
	Triple B	-	-	11	4
	Double B	-	-	-	-
	Single B	-	-	1	1
	Triple C	-	-	-	-
	Lower and Not Rated	2.1	1	13	5
	Total	12.1	6	81	33
Grand Total		257.9	92	3,512.1	845

* We use Bloomberg composite ratings

Source: Bloomberg and Citi Research

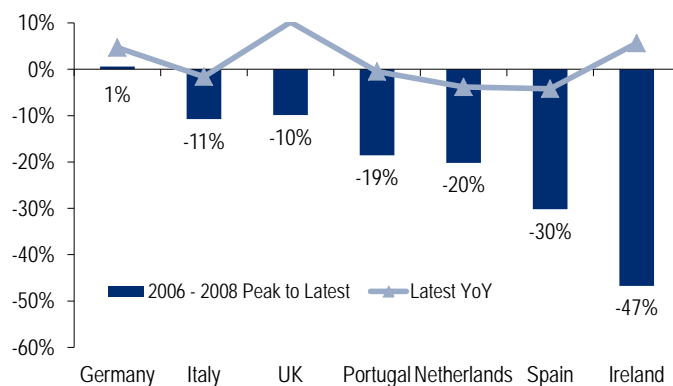
Housing Markets and Mortgage Lending

Figure 25. Normalized House Price Indexes, Jan 06 – Jan 14 (Dec 2006 = 100)



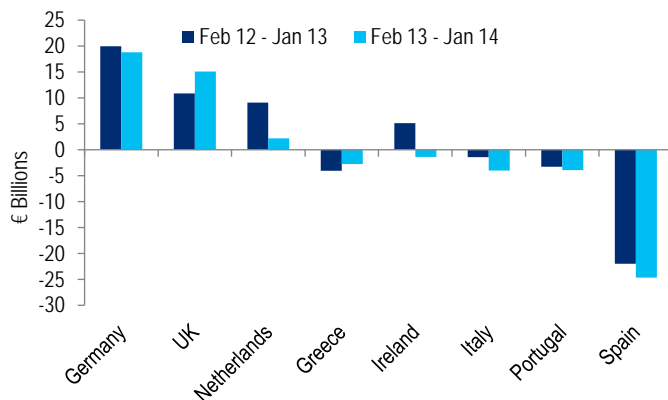
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 26. Euro Area 2006 – 2008 Peak to Latest House Price Change and Latest Y-o-Y Change



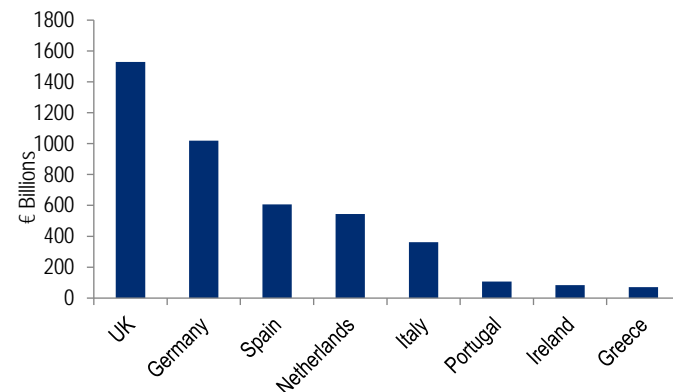
Source: Lloyds, Central Statistics Office Ireland, CBS Statline, Fotocasa, INE Portugal, Scenari Immobiliari Spa and Citi Research

Figure 27. Net lending Rolling Year Totals (€ eq billion)



Source: ECB, BOE and Citi Research

Figure 28. Outstanding Mortgages as of Dec 2013 (€ eq billion)



Source: DNB, BOE, ECB and Citi Research

Figure 29. Recent Housing News and Market Data Releases

Country	Indicator	Period	Current Value	Y-o-Y	2005 - 2012 Peak to Current	Comment
UK	ONS House Price Index	Jan-14	191.3	6.8%	3.1%	ONS house price index increased to 191.3 in January from 188.5 in the previous month. House prices increased 6.8% year-over-year in January 2014.
UK	BBA Loans for House Purchase	Feb-14	47,550	53.0%	-39.1%	BBA loans for house purchase declined to 47,550 in February from 49,341 in the previous month. BBA loans for house purchase increased 53% year-over-year but remain 39.1% below their pre-crisis peak
Ireland	House Price Index	Feb-14	69.6	8.1%	-46.7%	Irish house price index increased to 69.6 in February from 69.5 in the previous month. Irish house prices increased 8% year-over-year but remain 46.6% below their pre-crisis peak
Netherlands	House Price Index	Feb-14	85.3	-0.6%	-20.3%	Dutch house price index increased to 85.3 in January 2014 from 85.0 in the previous month. Dutch house prices seem to have bottomed but still remain 20% below their pre-crisis peak
Spain	Total Mortgage Lending	Dec-13	€2.28 billion	-26.3%	-92.4%	Total mortgage lending declined to €2.28 billion in December 2013 from €2.6 billion in the previous month. Mortgage lending has continued to fall and is now 92% below its pre-crisis peak
Spain	House Mortgage Approvals	Dec-13	12,329	-30.1%	-85.8%	House mortgage approvals declined to 12,329 in December from 13,933 in the previous month.
Other Developments						
Country	Event	Detail				
UK	Help to Build Scheme	The UK government is consulting on a "Right to Build Scheme" which would provide £150 million to people, enabling them to build their own homes, reported Financial Times. The government is considering giving custom builders the right to buy plots of land from councils and making "Right to Build" a part of the "Help to Buy" scheme which has been extended until 2020.				
Netherlands	Households in Negative Equity	Proportion of Dutch households in negative equity increased to a current level of 33% from 13% in the beginning of 2008 reported DutchNews.nl				

Source: ONS, BBA, CSO Ireland, Dutch Statistics Office, INE, FT, DutchNews.nl and Citi Research

CMBS Loan Tracker

Figure 30. CMBS Loan Update

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
26-Mar-14	TMAN 4	DT-12	€ 163	66%	Updated Valuation	The valuation of the DT-12 properties declined to €90.6 million on 1 February 2014 from €132.8 million on 1 November 2014.
26-Mar-14	TMAN 4	Valentine Loan	€ 74	34%	Updated Valuation	The valuation of the Valentine properties declined to €46.6 million on 1 February 2014 from €59.3 million on 1 November 2012.
26-Mar-14	FOX 1	Fordgate Loan	£261.8	100%	Standstill Extension	The standstill has been extended until 8 April 2014.
26-Mar-14	LEMES 2006-1	-	-	-	-	The borrower undertakes to comply with its obligations pursuant to clause 22.9.1 of the senior facilities agreement by providing a valuation prepared by a valuer. In case of failed compliance, the issuer can propose refinancing the tranche. The borrower also confirmed that the properties listed in annex I to the letter will be subject to the first refinancing tranche falling in August 2014.
25-Mar-14	UTREF 1X	-	-	-	Irrevocable prepayment notice	On 14 March 2014, the Issuer received an irrevocable prepayment notice from the borrower, informing the Issuer that the borrower intends to make a repayment of € 10.0 million to the tranche A loan balance on the interest payment date falling on 29 April 2014.
25-Mar-14	TMAN 5	Monkey Loan	€ 41	20.91%	Standstill Extension	The standstill on the loan has been extended to September 30 2014, from March 24, to give the new asset manager time to reposition the property and lease vacant space. The sponsor has also injected additional equity of €0.75mm which can be used to finance tenant improvements or repay the loan.
24-Mar-14	TITN 2007-CT1X	Koblenz/Pforzh eim Loan	€ 9	1.45%	Sale of property	The final property situate in Koblenz has been sold at a gross sale price of €2.35 million. In addition, notwithstanding the sale of the property situate in Koblenz the borrower under the loan has retained the rental income in respect of that property for the period from 1 January 2014 to 30 June 2014 in the amount of €185,697.78. The net sale proceeds from the sale of the property situate in Koblenz, together with the retained rental income in respect of that property, will be paid to the noteholders on 23 April 2014.
24-Mar-14	EURO 27X	-	-	-	Cheyne appointed as the Operating Adviser	The extraordinary resolution set out in the notice of the meeting was duly passed by the holders of the notes. Accordingly, Cheyne Capital Management (UK) LLP has been appointed as the Operating Adviser in respect of the loan.
21-Mar-14	WINDM X-X	Built Loan	€ 4	0.52%	Standstill and Consensual Sale agreement	The general special servicer has granted a forbearance on acceleration and enforcement of the loan until 7 September 2014. A sales agent agreement has also been entered with a third party sales agent on 10 March 2014.
21-Mar-14	LEMES 2006-1	-	-	-	Noteholder Meeting	A first meeting of Noteholders of each class of notes (for the avoidance of doubt, other than the class X noteholders) on 4 April 2014. A second meeting of noteholders of each class of notes (for the avoidance of doubt, other than the Class X noteholders) on 11 April 2014, in relation to any such Class of Notes at the time as specified under each such class of notes in the header hereof, during which a certain extraordinary resolution will be submitted for adoption. The agenda of second meeting would be introduction and voting on the submitted extraordinary resolution and any other business.
21-Mar-14	WINDM XII-X	Coeur Defense office complex in Paris	€ 1,519	100%	Lone Star's bid wins holders' approval	Lone Star's Real Estate Fund III won clearance to buy owners of office campus on March 7 and offered to repay €1.3 billion of €1.64 billion of the transaction. Three resolutions unanimously adopted in March 21 Vote. Class A and B noteholders will be fully repaid.
21-Mar-14	TMAN 4	DT-12 Loan and Valentine Loan	€ 236	70.56%	Noteholder conference call	A conference call with noteholders has been convened by Hatfield Phillips International Limited and will be held on 28 March 2014 at 12:00 noon (London time) to discuss the current work-out strategies and new valuations relating to the loans.

Source: Investor Notices, Investor Reports and Citi Research

Figure 31. CMBS Loan Update Continued

Date	CMBS Deal	Loan Name	Current Loan Size(MM)	Loan as a % of the Deal	Action	Comments
20-Mar-14	FOX 1	Fordgate Loan	£261.8	100%	New Lease on Pennine Centre	A new lease has been signed with HSBC bank at the Pennine Centre in Sheffield for 10 years. The lease is worth £2.8 million of gross annual rent with break options in December 2018, March 2019 and June 2019. The new lease covers the period running from December 25, 2013 to December 24 2023.
20-Mar-14	EPICP CULZ	Prime A Reference Obligation	£24	30.02%	Repayment	On 14 March 2014, the entire principal amount outstanding under the obligation, equal to £23,996,717.39, together with accrued interest thereon, was repaid in full. The funds shall be applied on the next IPD (being 22 April 2014) towards redeeming the Notes.
19-Mar-14	DECO 2006-E4X	DFK Portfolio Loan	€ 32	9.51%	Sale of Kelkheim Property and standstill	On 13 February 2014, a sale and purchase agreement has been notarized at a confidential price ranging between the allocated loan amount and the specified minimum release percentage as per agreement. The standstill was granted until and including 22 April 2014.
19-Mar-14	DECO 2006-C3X	-	-	-	Amendments to the Liquidity Facility Agreement	On 7 March 2014, the Note Trustee informed the Issuer that it had not received objections from a significant proportion of noteholders by value to the proposed amendments to the liquidity facility agreement by the deadline for objections of 6 March 2014 specified in the February 2014 Notice. Hence, on 12 March 2014, the parties to the Liquidity Facility Agreement executed a restructuring agreement relating thereto.
19-Mar-14	ECLIP 2007-2X	Monheim Reference Obligation	€ 15	3.84%	Standstill Extension	The Entity has requested that the Sub Special Servicer enters into a further temporary standstill agreement, which expires on 10 June 2014, in order to finalize a sale of the Property secured under the Obligation with the potential purchaser. The Sub Special Servicer has agreed to enter into the Standstill Agreement.
18-Mar-14	TITN 2006-1	Nurnberg Retail Distribution Centre borrower	€ 16	7.67%	Installment of the DPO received	A €1.45mm instalment of the €14.65 million discounted pay-off agreed for a property owned by the borrower was received and applied in accordance with the documents earlier this month. The remaining €13.2 million has been received and will be applied on the April IPD. The DPO was agreed back in April 2013, and over the subsequent 11 months it received €1.65 million of income, which was used to reduce the loan amount to €16.3 million.
18-Mar-14	EPICP DRUM	Magnum portfolio	€ 72	8.31%	Disposal Proceeds received	Net disposal proceeds from the Cologne property were received on March 13. The sale was agreed on November 28 2013 for €8 million. The borrower is now in discussion with the service about the disposal plan for the remaining properties.
18-Mar-14	DECO 8-C2X	Fairhold Whole Mortgage Loan	£63	12.71%	Standstill Extension	A standstill has been agreed to May 21 2014 on the defaulted loan.
14-Mar-14	ECLIP 2006-3	-	-	-	Noteholder Meeting	A conference call has been scheduled for Class A investors on Wednesday to discuss how their interests are to be represented and safeguarded in the application to the English High Court for directions on how funds are collected on the loan and how they are allocated for the defaulted loan.

Source: Investor Notices, Investor Reports and Citi Research

Sovereign Ratings and Economics Forecasts

Figure 32. 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	2.1	6.7	5.1	-	-	0.54	1.67	2.5	2.71	3.13	3.6	3.75	3.9
Euro-Area	1.3	1.6	1.6	1.7	11.8	11.3	-	-	0.16	0.1	0.11	0.42	1.71	1.95	2.2	2.45
Germany	2.2	2.3	2.2	1.9	5	4.7	-	-	*	*	*	*	1.71	1.95	2.2	2.45
France	1	1.2	1.5	1.7	9.8	9.5	-	-	*	*	*	*	2.36	2.6	2.85	3.1
Spain	0.9	1.2	1.5	1.7	25.6	24.5	-	-	*	*	*	*	3.38	3.35	3.6	3.85
Italy	0.6	0.9	0.7	0.7	12.6	12.3	-	-	*	*	*	*	3.49	3.48	3.73	3.98
Portugal	1.5	1.7	1.4	1.5	14.7	13.6	-	-	*	*	*	*	-	-	-	-
Netherlands	1.2	1.3	1.6	1.9	8.8	8.6	-	-	*	*	*	*	1.99	2.2	2.45	2.7
Ireland	1.3	2.9	2.6	2.8	11.4	10.7	-	-	*	*	*	*	-	-	-	-
Greece	-0.9	0.8	1.4	1.6	27.5	26.4	-	-	*	*	*	*	-	-	-	-

* Same Euro-area policy rate

Source: Citi Research

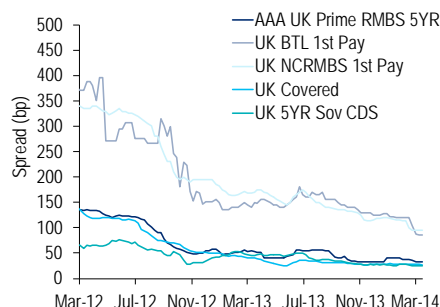
Figure 33. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

Country	S&P Ratings				Moody's Ratings			
	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Long-term (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Long-term (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	A a a
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)	Aa2 ↓↓
Italy	BBB	Neg	BBB (Neg)	BBB- ↓↓	Baa2	Stable	Baa2 (Stable)	Baa3 ↓↓
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	A a a
Belgium	AA	Stable	AA (Stable)	AA	Aa3	Stable	Aa3 (Stable)	Aa3
Finland	AAA	Stable	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

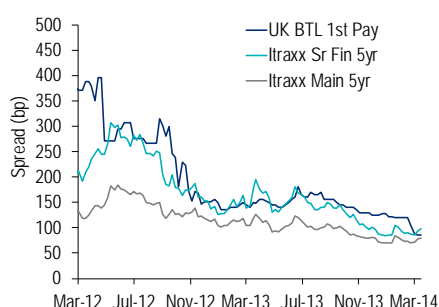
Core RMBS Spreads and Relative Value

Figure 34. UK RMBS Seniors Versus Indexes, Mar 12 – Mar 14



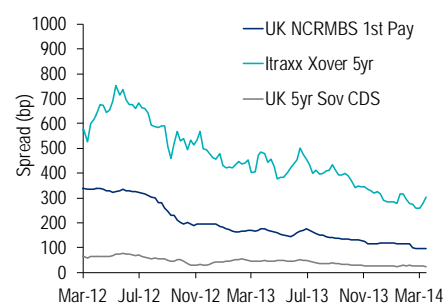
Source: Markit and Citi Research

Figure 35. UK BTL RMBS Seniors Versus Indexes, Mar 12 – Mar 14



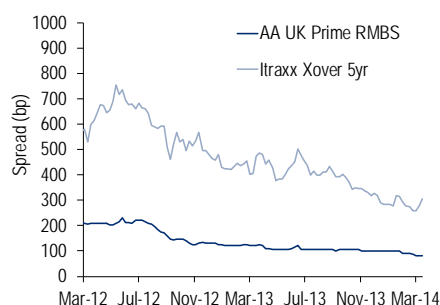
Source: Markit and Citi Research

Figure 36. UK NCRMBS Seniors Versus Indexes, Mar 12 – Mar 14



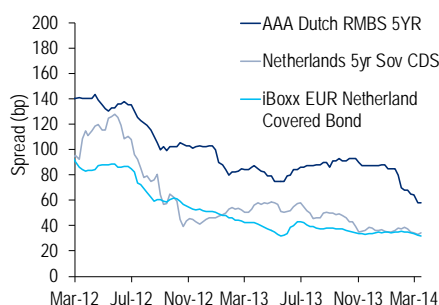
Source: Markit and Citi Research

Figure 37. UK Prime RMBS Subordinates Versus Index, Mar 12 – Mar 14



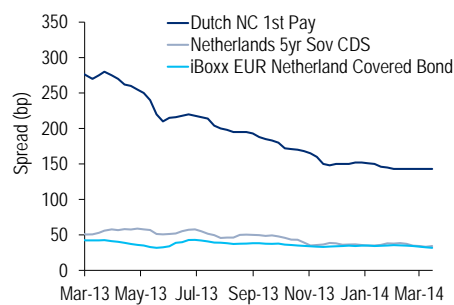
Source: Markit and Citi Research

Figure 38. Dutch RMBS Seniors Versus Indexes, Mar 12 – Mar 14



Source: Markit and Citi Research

Figure 39. Dutch NC 1st Pay Versus Indexes, Mar 13 – Mar 14



Source: Markit and Citi Research

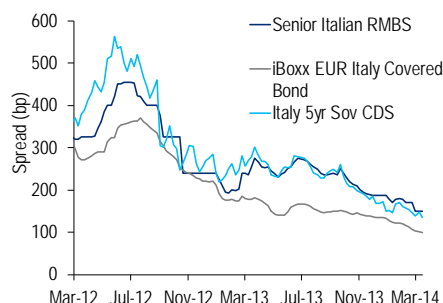
Figure 40. UK Prime, UK NC, UK BTL, Dutch Prime and Dutch NC Spread Changes and Statistics, 2014YTD

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	20	0	-2	-7	-11	20	0	38	-18
		AAA 3YR	27	0	-3	-3	-15	27	0	47	-20
		AAA 5YR	33	0	-5	1	-20	32	1	56	-23
		Mezz	80	0	-10	-20	-43	80	0	125	-45
	Buy to Let	PARGN 1st Pay	85	0	-35	-42	-65	85	0	180	-95
		PARGN 2nd Pay	175	0	-35	-57	-80	175	0	275	-100
		PARGN 3rd Pay	275	0	-25	-61	-95	275	0	375	-100
		AIREM AAA	83	0	-7	-22	-54	83	0	160	-77
		AIREM AA	135	0	-25	-30	-85	135	0	250	-115
		AIREM BBB	250	0	-20	-35	-65	250	0	350	-100
	Non-Conforming RMBS	NC 1st Pay	95	0	-5	-25	-75	95	0	183	-88
		NC 2nd Pay	165	0	-10	-32	-89	165	0	315	-150
Netherlands	Covered Bonds	iBoxx EUR UK	27	0	-1	-1	-13	24	3	50	-23
		Sovereign CDS	25	0	-3	-3	-21	24	0	53	-29
	Prime RMBS	AAA 1YR	35	0	-8	-18	-2	33	2	55	-20
		AAA 3YR	50	0	-8	-22	-19	50	0	76	-26
		AAA 5YR	58	0	-10	-30	-28	58	0	100	-42
		Mezz	80	0	-10	-28	-103	80	0	200	-120
	Non-Conforming	NC 1st Pay	143	0	0	-9	-132	143	0	320	-177
		NC 2nd Pay	205	0	-5	-13	-113	205	0	365	-160
		NC 3rd Pay	345	0	-8	-21	-215	208	137	675	-330
	Covered Bonds	iBoxx EUR Netherland	32	-1	-3	-2	-10	32	0	51	-19
	Sovereign CDS	Sovereign 5YR	34	1	-3	-2	-19	33	1	59	-24

Source: Markit and Citi Research

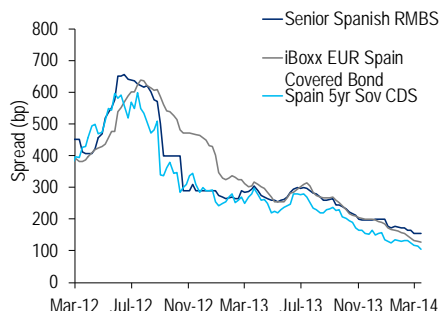
Peripheral RMBS and Relative Value

Figure 41. Italian RMBS Seniors Versus Indexes, Mar 12 – Mar 14



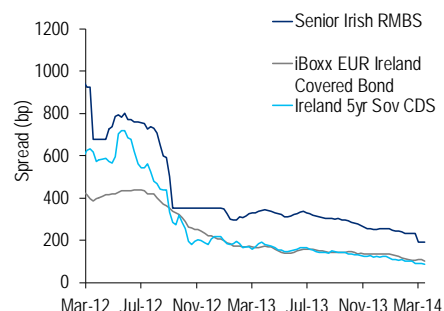
Source: Markit and Citi Research

Figure 42. Spanish RMBS Seniors Versus Indexes, Mar 12 – Mar 14



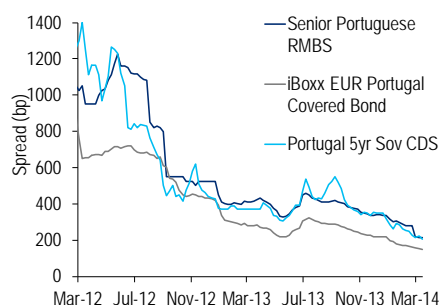
Source: Markit and Citi Research

Figure 43. Irish RMBS Seniors Versus Indexes, Mar 12 – Mar 14



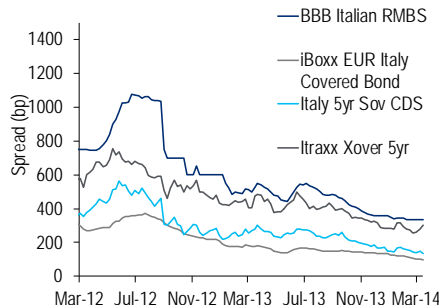
Source: Markit and Citi Research

Figure 44. Portuguese RMBS Seniors Versus Indexes, Mar 12 – Mar 14



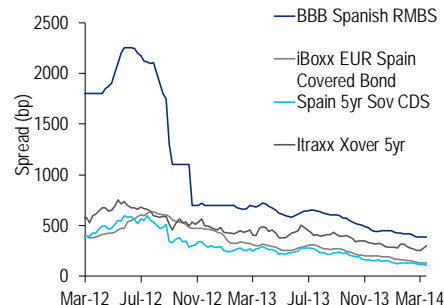
Source: Markit and Citi Research

Figure 45. Italian RMBS Subordinates Versus Indexes, Mar 12 – Mar 14



Source: Markit and Citi Research

Figure 46. Spanish RMBS Subordinates Versus Indexes, Mar 12 – Mar 14



Source: Markit and Citi Research

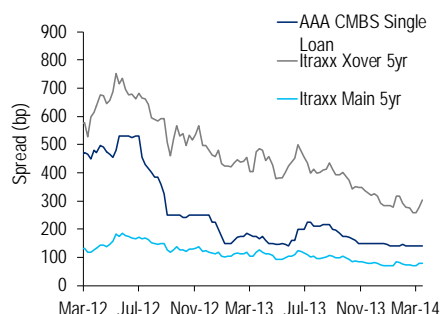
Figure 47. Peripheral RMBS Spread Changes and Statistics, 2014YTD

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	150	0	-20	-36	-105	150	0	275	-125
		AA Italy	210	0	-25	-36	-75	210	0	325	-115
		A Italy	285	0	0	-15	-95	285	0	440	-155
		BBB Italy	335	0	0	-23	-190	335	0	600	-265
	Covered Bonds	iBoxx EUR Italy	99	-2	-13	-36	-79	99	0	211	-112
	Sovereign CDS	Italy Sovereign 5YR	135	-12	-18	-37	-143	135	0	300	-165
Spain	RMBS	AAA Spain	155	0	-10	-45	-140	155	0	305	-150
		AA Spain	230	0	-40	-76	-155	230	0	410	-180
		A Spain	350	0	-10	-53	-235	350	0	690	-340
		BBB Spain	390	0	-10	-56	-310	390	0	725	-335
	Covered Bonds	iBoxx EUR Spain	127	-2	-21	-62	-177	127	0	401	-274
	Sovereign CDS	Spain Sovereign 5YR	106	-9	-27	-51	-173	106	0	296	-190
Portugal	RMBS	AAA Portugal	215	0	-65	-123	-200	215	0	460	-245
		AA Portugal	330	0	-30	-76	-155	330	0	595	-265
		A Portugal	440	0	0	-54	-160	440	0	740	-300
		BBB Portugal	490	0	0	-65	-210	490	0	840	-350
	Covered Bonds	iBoxx EUR Portugal	147	-4	-19	-71	-130	147	0	392	-244
	Sovereign CDS	Portugal Sovereign 5YR	204	-20	-47	-145	-168	204	0	548	-344
Ireland	RMBS	AAA Ireland	190	0	-43	-65	-145	190	0	349	-159
		AA Ireland	400	0	-40	-76	-140	400	0	600	-200
		A Ireland	550	0	0	-50	-140	550	0	750	-200
		BBB Ireland	785	0	0	-45	-155	750	35	1000	-215
	Covered Bonds	iBoxx EUR Ireland	103	-5	-3	-33	-64	103	0	200	-97
	Sovereign CDS	Ireland Sovereign 5YR	85	-3	-14	-37	-97	85	0	197	-112

Source: Markit and Citi Research

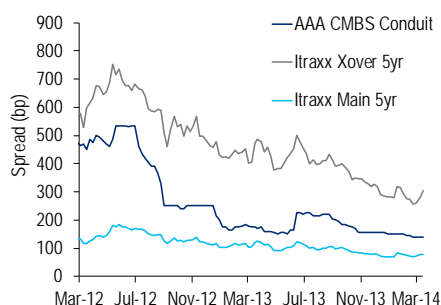
CMBS and CLO Spreads and Relative Value

Figure 48. AAA CMBS Single Loan Versus Indexes, Mar 12 – Mar 14



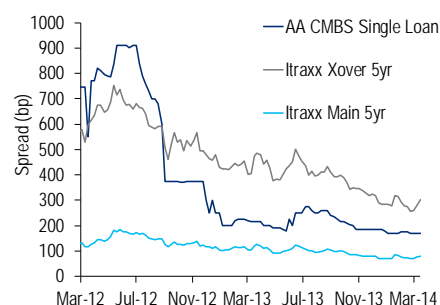
Source: Markit and Citi Research

Figure 49. AAA CMBS Conduit Versus Indexes, Mar 12 – Mar 14



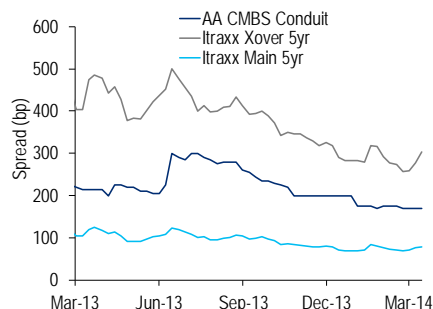
Source: Markit and Citi Research

Figure 50. AA CMBS Single Loan Versus Indexes, Mar 12 – Mar 14



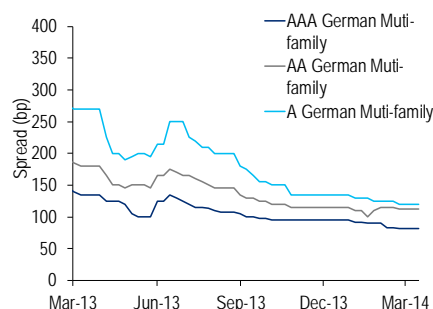
Source: Markit and Citi Research

Figure 51. AA CMBS Conduit Versus Indexes, Mar 13 – Mar 14



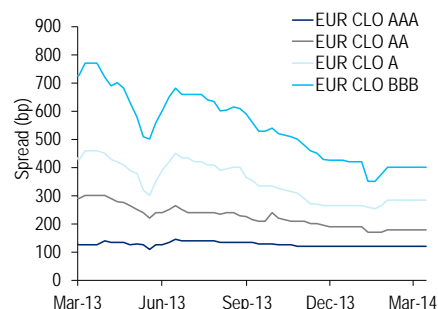
Source: Markit and Citi Research

Figure 52. German Multifamily Spreads, Mar 13 – Mar 14



Source: Citi Research

Figure 53. EUR CLO Spreads, Mar 13 – Mar 14



Source: Citi Research

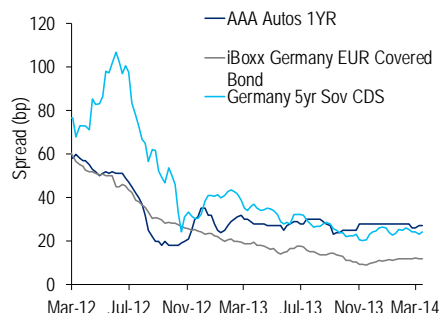
Figure 54. CMBS, WBS and CLO Spread Changes and Statistics, 2014YTD

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	81	0	-2	-14	-54	81	0	150	-69
		AAA Single Loan	140	0	0	-10	-35	140	0	225	-85
		AAA Conduit	140	0	-5	-15	-35	140	0	225	-85
		AAA Fixed	95	0	-5	-5	-80	90	5	225	-130
		AA German Multi	112	0	-3	-3	-68	100	12	225	-113
		AA Single Loan	170	0	-5	-15	-45	170	0	275	-105
		AA Conduit	170	0	-5	-30	-45	170	0	300	-130
		AA Fixed	120	0	20	20	-80	90	30	250	-130
		A German Multi	120	0	-5	-15	-150	120	0	350	-230
		A Single Loan	320	0	-5	-40	10	250	70	450	-130
		A Conduit	325	0	-25	-70	15	270	55	475	-150
		A Fixed	180	0	-5	-15	-120	175	5	495	-315
	CLO	AAA	120	0	0	0	-5	110	10	150	-30
		AA	180	0	0	-10	-120	170	10	300	-120
		A	285	0	0	20	-175	255	30	460	-175
		BBB	400	0	0	-20	-370	350	50	800	-400
	WBS	AAA	115	0	-10	-15	-95	115	0	300	-185
		AA	125	0	0	-8	-135	120	5	350	-225
		A	185	0	-5	-10	-175	180	5	425	-240
		BBB	325	0	0	-5	-165	315	10	600	-275

Source: Markit and Citi Research

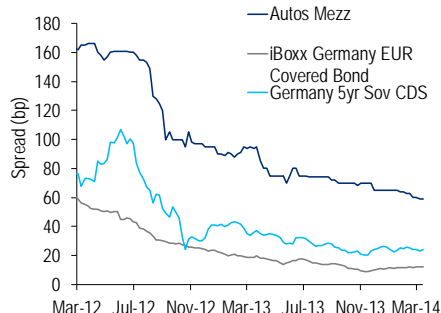
Auto and Credit Card ABS Spreads and Relative Value

Figure 55. European Auto Seniors Versus Indexes, Mar 12 – Mar 14



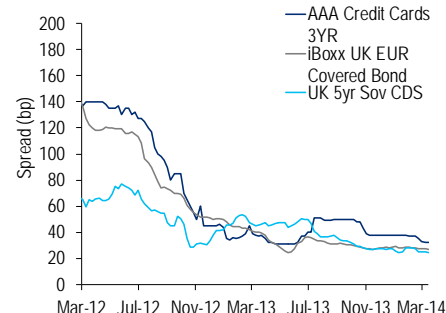
Source: Markit and Citi Research

Figure 56. European Auto Mezz Versus Indexes, Mar 12 – Mar 14



Source: Markit and Citi Research

Figure 57. UK Credit Card ABS Versus Indexes, Mar 12 – Mar 14



Source: Markit and Citi Research

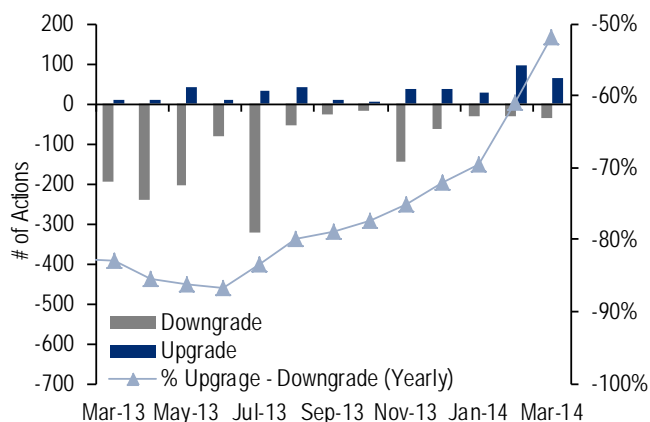
Figure 58. European Autos and UK Credit Card ABS Spread Changes and Statistics, 2014YTD

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	27	0	-1	-1	-2	23	4	32	-5
		3YR	37	0	-3	-3	-6	37	0	45	-8
		5YR	46	0	-4	-4	-14	46	0	63	-17
		Mezz	59	0	-4	-6	-35	59	0	95	-36
Germany	Automobile and Parts Index	iBoxx EUR Automobile & Parts	69	1	-2	-3	5	47	21	91	-22
		Covered Bonds iBoxx EUR Germany	12	0	0	1	-7	9	3	23	-11
		Sovereign CDS Sovereign 5YR	24	1	-1	-2	-12	20	4	43	-19
UK	Credit Cards	1YR	25	0	-3	-4	-4	25	0	38	-13
		3YR	32	0	-5	-6	-5	31	1	51	-19
		5YR	34	0	-6	-9	-15	34	0	63	-29
		Mezz	82	0	-18	-23	-11	82	0	127	-45
	Covered Bonds	iBoxx EUR UK	27	0	-1	-1	-13	24	3	50	-23
		Sovereign CDS	25	0	-3	-3	-21	24	0	53	-29
		Sovereign 5YR	25	0	-3	-3	-21	24	0	53	-29

Source: Markit and Citi Research

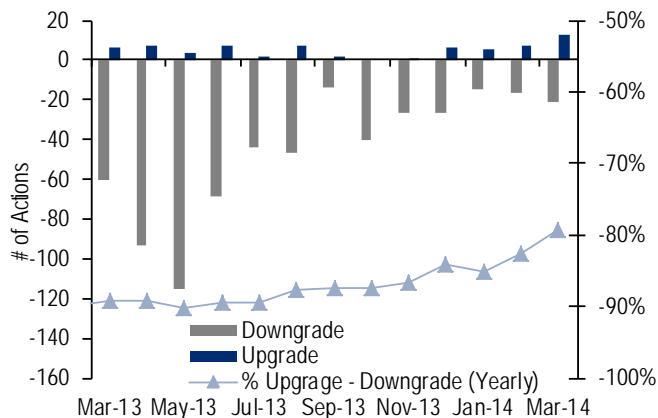
Rating Actions and Trends

Figure 59. European RMBS Rating Upgrades and Downgrades, Mar 13 – Mar 14



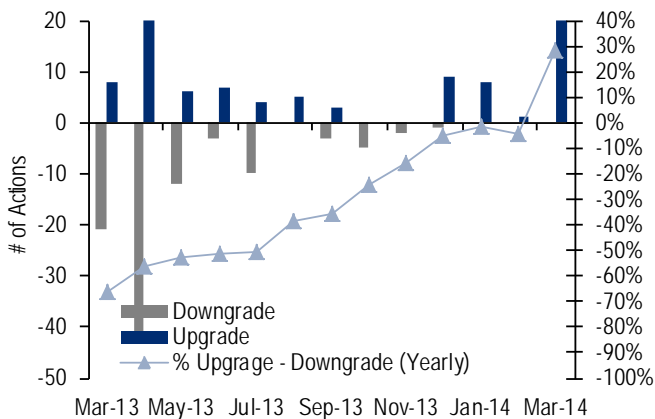
Source: Moody's, S&P and Fitch

Figure 60. European CMBS Rating Upgrades and Downgrades, Mar 13 – Mar 14



Source: Moody's, S&P and Fitch

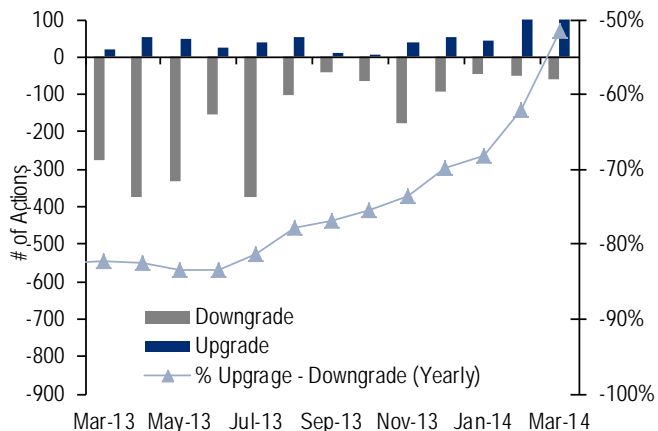
Figure 61. European ABS* Rating Upgrades and Downgrades Mar 13 – Mar 14



* 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 62. European Total Securitized Products Rating Upgrades and Downgrades, Mar 13 – Mar 14



Source: Moody's, S&P and Fitch

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Notes

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