

Special Report

**EMEA Structured Finance
RMBS Outlook - May 2009****Analysts**

Gregg Kohansky
+44 20 7682 7491
gregg.kohansky@fitchratings.com

Lara Patrignani
+44 20 7417 4262
lara.patrignani@fitchratings.com

Alastair Bigley
+44 20 7417 6278
alastair.bigley@fitchratings.com

Paris
Natalia Bourin
+33 1 44 29 91 76
natalia.bourin@fitchratings.com

Frankfurt
Susanne Matern
+49 69 7680 76237
susanne.matern@fitchratings.com

Madrid
Rui Pereira
+34 91 702 5774
rui.pereira@fitchratings.com

Milan
Michele Cuneo
+39 2 879 087 230
michele.cuneo@fitchratings.com

Emerging Markets
Jaime Sanz
+44 20 7682 7279
jaime.sanz@fitchratings.com

South Africa
Alfons Ideler
+27 11 380 0901
alfons.ideler@fitchratings.com

Performance Analytics
Andy Brewer
+44 20 7417 3481
andy.brewer@fitchratings.com

Executive Summary

This report updates Fitch Ratings' outlook for the European RMBS sector, which was published on 18 February 2009. In this issue, Fitch extends its RMBS outlooks to include emerging markets and South African structured finance transactions.

In March 2009, the agency revised its forecasts for a number of economic and monetary variables in both the euro area and the UK as follows:

- Forecasts for GDP growth in the euro area were revised significantly from -0.6% in 2009 and 0.9% in 2010 to -3.2% in 2009 and 0.4% in 2010. Forecasts for UK GDP growth were reduced further from -1.4% in 2009 and 1% in 2010 to -3.4% in 2009 and 0.2% in 2010.
- Expectations for unemployment in the euro area, were increased from 8.8% in 2009 and 9.3% in 2010 to 9.4% in 2009 and 10.7% in 2010. In the UK, unemployment expectations were increased from 7.3% in 2009 and 7.9% in 2010 to 7.7% in 2009 and 9.0% in 2010.
- Inflation forecasts in the euro area were revised from 2.6% in 2009 and 1.9% in 2010 to 0.7% in 2009 and 0.9% in 2010. Forecasts for UK inflation were lowered from 2.3% in 2009 and 1.5% in 2010 to 2.0% in 2009 and 0.8% in 2010.

The impact of these changes and other factors on the agency's outlook for specific sub-sectors in Q2 is as follows:

- Further deterioration in the global economy and the intensification of the credit crisis is putting more negative pressure on the RMBS sector. The general reduction in interest rates that will benefit borrower affordability in a number of floating-rate mortgage markets is expected to be offset by rising unemployment. Asset performance deterioration is expected to continue across the UK and has started to manifest itself in many euro area countries as a result of weaker economic fundamentals and declining house prices. Ratings are likely to continue to be affected, especially for the junior classes.
- Fitch expects further house price corrections in the UK, Spain and Ireland. Moreover, house prices in other European countries also started to experience downward pressure, which will likely result in rising losses in terms of number and value throughout 2009.
- Government measures were announced in many European countries with the aim of supporting mortgage borrowers having difficulty repaying their mortgage loans and preventing repossessions. The details of many of these programmes have yet to be fully disclosed or the schemes have not yet been implemented with sufficient scale; consequently the implications for the ratings are still uncertain.
- The asset performance outlook for Belgian RMBS has been revised from stable to stable/negative in expectation of the negative implications from the deteriorating economic environment.
- The asset performance outlook for French RMBS has also been revised from stable/declining to declining to account for deteriorating economic conditions on mortgage performance, also in consideration that the majority of French RMBS is backed by loans originated by specialised mortgage lenders and granted to lower income borrowers.

- The asset performance outlook for Greek RMBS has been revised from stable/declining to declining in consideration of the weakening economy and housing market, which will weigh negatively on mortgage performance.
- Fitch has not changed any of its ratings outlooks on RMBS in any country, as the agency's current outlooks already incorporate the deterioration in economic conditions that the economies are undergoing.

The table below summarises Fitch's expectations on peak-to-trough house prices as well as average mortgage default rates for the main four issuing European countries over an expected recessionary period.

Fitch RMBS Expectations

(%)	House price decline ^a : peak-to-trough	Average mortgage default rates
UK conforming	30	6
UK non-conforming	30	17 to 26
Ireland	30 to 35	2.5
Spain	30	4 to 6
The Netherlands	15	2.5

^a Nominal terms

Expectations for other European countries will be rolled out in subsequent outlook issues

Source: Fitch

Fitch's outlook in terms of asset performance and rating for each sector and country are summarised below:

EMEA RMBS Outlook Table - May 2009

Europe Asset class/country	Outlook		Areas to watch
	Asset performance	Ratings	
Belgium	Stable/Declining	Stable	Defaults remain well within base cases; unemployment and consumer indebtedness remain low.
France	Declining	Stable	Decreasing house prices now evident but highly seasoned portfolios and dominance of fixed-rate loans should protect ratings.
Germany non-conforming	Declining	Negative	High early stage delinquencies and low recoveries have already led to negative rating actions; more likely to follow.
Germany prime	Stable/Declining	Stable/Negative	Adjustments are proposed to market value decline (MVD) assumptions as observed recovery rates have been significantly lower than previous base case assumptions. Negative rating actions could impact all rating classes as new criteria are implemented, with synthetic deals less vulnerable at the senior levels.
Greece	Declining	Stable	Higher prepayments have magnified the levels of arrears in transactions and house prices have shown signs of falling. However, ratings are expected to be resilient.
Ireland	Declining	Stable	The sharp fall in house prices since the spring of 2007, combined with an economy in the midst of a deep recession, have not yet been manifested in significantly higher arrears but this may not continue if unemployment rises. Asset performance has deteriorated in the non-conforming transactions and the transaction performance is at risk from the worsening macro-economic outlook.
Italy	Stable/Declining	Stable/Negative	High LTV lending is rare in Italy and arrears and losses are within expectations. Reduced Euribor has improved borrower affordability, but the impact of the current economic crisis on the general economy could feed through to defaults and negatively affect RMBS ratings.
Netherlands	Stable/Declining	Stable	Arrears and losses are likely to see a moderate increase as a result of the deteriorating economic environment and housing market but no negative impact on RMBS ratings is expected.
Portugal	Declining	Stable/Negative	Deteriorating economic conditions and increasing arrears trends likely to impact both performance and ratings, particularly at the junior level.
Spain	Declining	Stable/Negative	Performance differentiation across Spanish RMBS transactions has become more pronounced in recent quarters. <ul style="list-style-type: none"> • Transactions originated by specialist lenders, most high LTV collateral pools and transactions comprising "affordability" products, which offer borrowers payment holidays, discounted margins or adjustable maturities, are exhibiting the weakest credit performance and are subject to additional rating actions. • Older (pre-2006), seasoned, transactions have benefited from prepayments and transaction deleveraging and, for the most part, continue to maintain sufficient credit enhancement to support current ratings.
UK non-conforming	Declining	Negative	Borrowers' options for refinancing elsewhere at the end of teaser rates have disappeared, arrears are expected to rise and counterparty risk is expected to be a significant factor in negative rating actions, especially when coupled with peak-to-trough house price declines, already at 16% and expected to increase to 30%.
UK prime	Declining	Stable/Negative	Increases in arrears, coupled with house price declines, already at approximately 16% and expected to increase to 30%. Negative rating actions remain possible on junior tranches of transactions where credit enhancement has not built up.

EMEA RMBS Outlook Table - May 2009 (Cont.)

Emerging markets Asset class/country	Outlook		Areas to watch
	Asset performance	Ratings	
Russia	Declining	Negative	Asset performance is expected to continue to deteriorate, likely leading to further rating downgrades for Russian RMBS.
Kazakhstan	Declining	Negative	Weak economic conditions and financial crisis should impact delinquencies and defaults in future, while falling house prices and a very weak property market will affect recoveries.
United Arab Emirates	Stable	Stable	Stable performance though an increase in delinquencies cannot be excluded due to deteriorating economic conditions in Dubai.
Ukraine	Declining	Negative	The rapid depreciation of the Ukrainian hryvnia (UAH) will start to put a lot of pressure on borrowers and lead to performance deterioration.
South Africa	Declining	Stable/Negative	Deteriorating economic conditions and declining house prices are starting to put pressure on households. Delinquencies and losses are on a rising trend. Performance is expected to come under some pressure. Fitch anticipates potential rating actions, especially on speculative-grade rated notes.

Source: Fitch

UK Non-Conforming

Asset Performance Outlook: Declining

Ratings Outlook: Negative

There have been no public issuances of UK non-conforming RMBS since July 2007. Arrears and defaults have risen, especially in the more recent vintages, and a number of downgrades have already been made. The most significant downgrades have been in the excess spread and collateralised junior notes.

The outlook for the subprime sector in 2009 is negative. With the market all but closed down for new lending, those lenders that remain in business are experiencing funding constraints and/or exhibiting a reduced appetite for lending, meaning that funding options for borrowers have been significantly reduced. This has had two notable consequences. Firstly, borrowers who had previously been able to refinance to another cheaper teaser rate following the end of their initial teaser rate are now being forced to pay the higher non-discounted margin, leading to payment shock and higher delinquencies. Secondly, borrowers who enter arrears on their current mortgage are unlikely to be able to re-mortgage away from repossession and are more likely to be repossessed before they can re-mortgage away. Delinquency and repossession rates continue to rise and, with negative events unfolding in the wider economy, further declines in these key metrics are expected to continue well into 2009. Higher repossession rates are also being exacerbated by higher loss severities on sold repossessions. Falling house prices are expected to further increase losses throughout 2009. As a result, continued discouraging performance is expected to negatively affect ratings for the remainder of 2009 and into 2010, particularly since UK house prices are expected to remain under significant pressure during this timeframe.

However, Fitch's non-conforming index shows a wide array of performance and continued upgrades in the higher rating categories can still happen for transactions that have experienced significant deleveraging and where arrears and loss performance are currently materially better than original expectations.

The potentially beneficial effects of reduced interest on arrears levels will not, to date, have impacted some of the less seasoned vintages, which tend to have a high percentage of fixed-rate loans within the portfolios that back the transactions. As the loans revert to flexible rates linked to bank base rate or Libor over the coming months, for borrowers who cannot pay rather than merely will not pay, there should be some respite as long as interest rates remain low.

UK Prime

Asset Performance Outlook: Declining

Ratings Outlook: Stable/Negative

Fitch expects a peak-to-trough house price decline in nominal terms of around 30% despite data from the Nationwide Building Society (NBS) that revealed that house prices were positive in the month ending March 2009. The agency expects a further decline as mortgage credit availability and the number of borrowers in negative equity will severely limit the demand for mortgage finance in the short term. For further information on the agency's expectations for the UK please refer to "*Impact of Expected Housing Market Deterioration on UK Prime RMBS Ratings*" and "*Ratings Stress Test: Impact of UK Housing Market Downturn Scenarios on UK Non-Conforming RMBS Ratings*", dated 27 January 2009 and available at www.fitchresearch.com and "*Ratings Stress Test: Impact of UK Housing Market Downturn Scenarios on UK Non-Conforming RMBS Ratings*", dated 8 July 2008, available at www.fitchresearch.com.

Depending on the index used, house prices have, to the end of March 2009, fallen approximately 18-20%. As mentioned above, the Nationwide Building Society has reported an increase in average house prices in March and the Halifax House Price

Index showed a decline for March. Given the relatively low levels of mortgage originations each month, there is potential that individual monthly figures may show reversals from the overall trend. Despite the recent lowering of interest rates, the availability of mortgage credit still remains tight and with the real life implications of a recessionary economy being felt in the form of higher unemployment and salary reductions, Fitch still expects house prices to fall throughout 2009 and into 2010.

The impact on ratings of recently announced government support schemes is difficult to predict. The UK government has launched a number of schemes designed to keep borrowers experiencing difficulty in paying their mortgage loan from being repossessed. The details of these schemes have not been finalised and until this is done the potential impact of these schemes on ratings remains uncertain. Despite the UK government's Homeowner Mortgage Support Scheme (HMSS) recently gaining approval from the EU Competition Commissioner, it is not clear which lenders have agreed to participate and, to the extent they do, how this scheme will be implemented. The outlook for the remainder of 2009 is for a further deterioration in arrears performance and an increase in loss severities, especially given that the UK has already seen an approximate 16% house price decline. Despite this deterioration in performance, it should be noted that these are from historically low levels and ratings are intended to withstand stresses of this nature. Negative rating actions remain possible on junior tranches of transactions where credit enhancement has not built up.

Spain

Asset Performance Outlook: Declining

Ratings Outlook: Stable/Negative

Spanish RMBS continues to experience deterioration in collateral performance with rising arrears and default levels. Nevertheless, the agency does not expect significant rating volatility throughout the Fitch-rated Spanish RMBS universe as many older, seasoned, transactions have benefited from prepayments and transaction de-leveraging and, for the most part, continue to maintain sufficient credit enhancement.

Weakening macro-economic fundamentals and individual transaction performance trends have been the key drivers behind rating actions in recent quarters in the Spanish RMBS sector. Rating actions have been largely concentrated in recent vintages (2006 and 2007) with more aggressive collateral composition and significantly weaker performance relative to the overall average. In the more challenging economic landscape with limited refinancing opportunities, pools backed by more aggressively underwritten loans with greater risk layers (ie high loan-to-value (LTV), broker originations, affordability features) have reported significantly higher arrears and defaults and this trend is expected to continue over the near term. Positively, older RMBS transactions continue to benefit from significant seasoning, growing credit enhancement driven by transactions de-leveraging and better credit performance metrics.

According to Ministry of Housing data, Spanish home prices fell 3.0% in 1Q2009 compared to year-end 2008 and have declined by 6.8% on average from their peak in 1Q2008. Fitch believes that the ongoing Spanish housing correction will accelerate in 2009 and expects home prices to decline by 15% in nominal terms over the next 12 months with further declines in 2010. Key drivers behind the home price correction include stretched borrower affordability, the deteriorating economy, the large stock of unsold homes and more limited credit availability. Fitch expects house prices to decline by 30% peak-to-trough on a cumulative basis.

While Spanish mortgage borrowers should gain some relief from the continued ECB easing, Fitch believes that affordability benefits derived from lower interest rates are likely to be offset by sharply deteriorating labour conditions, which may see

unemployment reach 20% in future quarters. Likewise, the Spanish government sponsored temporary debt moratorium or specific lender loss mitigation programmes focused on the unemployed and other eligible mortgage borrowers, but this has not yet been implemented with sufficient scale by lenders to have a direct impact on credit performance over the near term. As such, Fitch believes that accelerating job losses will continue to pressure Spanish mortgage credit performance over the near term.

With arrears and defaults showing few signs of stabilising over the near-term, lender servicing and recovery processes will play a key role in driving performance. In response to weakening performance trends, many Spanish mortgage originators have reinforced their collection staff and implemented more collection and loss mitigation strategies. Given the sharp decline in home sales and declining property values as noted above, Fitch is actively monitoring property repossessions, liquidation timelines and loan recoveries across lenders and RMBS programmes.

Germany Non-Conforming

Asset Performance Outlook: Declining

Ratings Outlook: Negative

Fitch has rated three transactions, originated by GMAC RFC in Germany, which are classified as non-conforming based on their high LTVs (E-MAC DE transactions). In addition, there is a fourth high LTV transaction, Eurohome Mortgages 2007-1, which contains German and Italian assets. All four transactions show very high levels of arrears at a relatively early stage in the transactions' lives and the few recoveries received so far have been lower than recovery rates initially assumed. Consequently, Fitch has downgraded numerous tranches in all four transactions.

The agency expects this segment of the market to remain under pressure with high levels of arrears and low recoveries. As prepayments are generally very low, transactions are not protected through deleveraging.

Germany Prime

Asset Performance Outlook: Stable/Declining

Ratings Outlook: Stable/Negative

Most of the German prime RMBS transactions are synthetic.

Except for Provide Gems, which was downgraded again in 2008, the performance of these transactions is generally stable. Fitch announced on 3 February 2009 proposals that would see significant increases in its loss severity assumptions for foreclosed residential property (see report entitled "*Exposure Draft: Revised Market Value Decline Assumptions for German Residential Mortgage-Backed Transactions*" available at www.fitchratings.com). The proposals follow a review of historical data, which indicates much higher loss severities in forced sale situations in the German market than expected. The revised market value decline (MVD) proposals form part of a broad German RMBS criteria review, which Fitch expects to complete no later than 31 July 2009. For most of the synthetic transactions, lower recoveries have so far not negatively affected transaction performance as defaults have generally been relatively low and, in some transactions, mitigated by low LTVs. In some cases, the relatively low number of defaults can be explained by significant removals of delinquent loans that were found to be ineligible before a loss would have been allocated to the transaction. The extent of any potential rating action will ultimately depend on the conclusions reached following the agency's German RMBS criteria review.

Fitch expects to see some performance deterioration, especially increasing arrears, in the second half of 2009 based on the general economic downturn and the expected increase in unemployment. The agency forecasts unemployment to rise to 9.9% in 2010 up from 7.8% for 2008. Most of the prime RMBS transactions are seasoned and should therefore be less vulnerable to increasing delinquencies.

Moreover, German house prices have been generally stable and are expected to continue this trend, which protects borrowers against dilution of the perceived equity in their properties.

Ireland

Asset Performance Outlook: Declining

Ratings Outlook: Stable

House prices in Ireland started falling in March 2007 and to the end of January 2009 were down 15.3% according to data from The Economic and Social Research Council in Ireland. Fitch expects house prices to fall between 30% and 35% from peak-to-trough. Against this backdrop of declining house prices and deepening recession, the performance of Irish prime transactions has hitherto remained strong with late stage arrears and repossessions still low. The housing market in Ireland continues to be constrained in a similar way to the UK market in that lenders have tightened criteria and lowered LTVs so as not to be seen as “the lender of last resort”. Turmoil in the Irish banking sector means that any easing in credit availability remains unlikely for the foreseeable future. Whilst prime banks remain open for business, criteria have tightened significantly and the fledgling subprime market has all but closed down. This means that for prime borrowers who get into trouble on their prime mortgages, the options to remortgage will be much more limited. However, any decline in performance is not expected at this stage to be in excess of initial expectations.

There are two non-conforming transactions in Ireland: Lansdowne Mortgage Securities 1 and 2. Both deals include a portion of loans to borrowers with adverse credit history. Arrears levels are rising in both deals but are still in line with Fitch’s expectations. The impact of the recession in Ireland will likely affect asset performance; however, given the relatively low LTVs and de-leveraging in these deals, Fitch does not expect the ratings to be affected.

In February 2009, the Irish Financial Regulator launched the Code of Conduct on Mortgage Arrears. The code applies to all lenders in Ireland and applies as law. The major impact on Irish lenders is that they are now legally required to consider remedial action such as extending the term of loans for repayment loans, capitalising arrears and changing repayment mortgages to interest-only mortgages. As with all schemes designed to limit repossessions in the short term, their success can only be measured in the future. There is a risk with such schemes that actions intended to ease foreclosure merely delay the inevitable and lead to assets being sold at a later date to a market that is even more depressed than currently. In addition to the Code of Conduct on Mortgage Arrears, the Irish government has announced plans to limit the amount of tax relief available to buy-to-let landlords and also reduce tax incentives for residential borrowers in the future. Such policies, on the grounds that they will reduce the attractiveness of home ownership, could potentially lead to house values in Ireland being depressed for longer than would otherwise have been the case.

Belgium

Asset Performance Outlook: Stable/Declining

Ratings Outlook: Stable

Belgium is characterised by a relatively high savings rate and moderate indebtedness levels, but the current deteriorating economic environment is also weighing on the Belgian economy, which has started to slow. However, the unemployment rate remains below the EU average and despite a slight increase in the last quarter of 2008, currently stands at a lower level than in past years. Defaults remain very low, a performance which is also reflected in Belgian transactions rated by Fitch. Although there are some differences in transactions’ performance where loans were originated by retail versus specialist banks, default rates are well within initial base case assumptions and are expected to remain so.

Fitch has revised its asset performance outlook from stable to stable/declining in expectation of the negative implications from the deteriorating economic environment.

France

Asset Performance Outlook: Declining

Ratings Outlook: Stable

Due to the current economic environment, residential property prices are decreasing in France, with the exception of Paris, and the time necessary to sell a property has continued to lengthen. However, Fitch does not expect that this will affect RMBS transactions as price drops are still well below those assumed by the agency in its rating analysis. The impact of worsening economic conditions is expected to be limited, as French borrowers have relatively low levels of indebtedness and are less affected by interest rate variations since a large part of the mortgage stock is fixed rate while the rest is often capped for the life of the loan. Additionally, the development of riskier product segments has been limited in the French mortgage market and these have not been included in transactions rated by Fitch. Moreover, securitised pools include highly seasoned loans, where the agency expects to have lower performance volatility.

French borrowers are generally well armed for the recession, with low indebtedness levels and high saving rates. Nevertheless, the deteriorating economic conditions have started to be reflected in transactions' performance levels, with increased arrears and defaults, notably for recent vintages and high LTV loans. As a result, Fitch has amended its asset performance outlook to declining from stable/declining. Bear in mind that the majority of French RMBS deals are backed by loans originated by specialised mortgage lenders whose client base is concentrated in lower income and more fragile borrower segments, although loan products themselves do not imply a higher risk than that of high street banks.

The agency has not modified its ratings Outlooks which remain Stable, as the worsening performance expectations are mitigated by more seasoned collateral, and the transactions are sufficiently covered by available credit enhancement.

Greece

Asset Performance Outlook: Declining

Ratings Outlook: Stable

Arrears levels in Greek RMBS transactions have maintained their increasing trend, primarily driven by market conditions and high levels of prepayment. Borrowers who are in arrears, and unable to refinance, are therefore becoming a larger proportion of each pool.

The immediate economic outlook for Greece is negative. GDP growth is now expected to fall to negative territory (around -2.0%, from the 2.9% recorded in 2008), marking the first recession in the country since 1993. According to provisional figures, in January 2009 unemployment rose to 9.4%, from 8.0% in January 2008. Over the same period, the volume of private construction activity (as measured by building permits) fell by 33.5%.

While the benign operating environment over the previous decade helped Greek banks to improve asset quality indicators and record strong credit expansion, the risk from rapid loan growth has been exacerbated, in the aftermath of the credit crisis. According to the Bank of Greece (BoG), the ratio of non-performing loans (NPL) across the Greek banking sector rose to 5.0% at end-2008, from 4.5% at end-2007. This development is entirely attributed to loans to households, whereby an increase in the NPL ratio was registered for both mortgage and consumer loans.

In response, over the last year, lenders focused increasingly on credit risk, tightening their underwriting standards, adjusting interest margins upwards and

often withdrawing certain products from the market (eg teaser rates). The increased vigilance of the Greek lenders is further evident in their loan impairment provisions, which more than doubled in 2008, driving an overall drop in profits by 35% (on an adjusted basis) for the domestic banking sector.

According to BoG, business and household confidence have also declined significantly, leading to lower residential investment and reduced demand for credit by households. Nevertheless, the Greek property market has not yet seen an annual price decline, while house price appreciation has historically been rather steady and moderate. Based on unofficial market sources, Fitch understands house prices are currently experiencing considerable downward pressures, largely in line with international standards. Despite the adverse environment, a strong home ownership culture in Greece is expected to support domestic house prices against a severe downturn scenario.

In April, the government announced support measures to stimulate mortgage credit demand by reducing transaction costs (ie notary fees) as well as expanding the tax deductibility scope for residential mortgage loans originated in 2009 and 2010. In addition, the government separately announced guarantees on loan amounts granted in excess of 75% LTV, and up to 100% LTV for loans disbursed by the end of 2010 - whereby the state would be liable for the first 25% of credit losses. Overall, Fitch expects these initiatives to have a positive impact on the housing market. The agency does not expect the measures to have any immediate rating implication on outstanding Greek RMBS. However, given the reduced costs and increased tax incentives in place, loan prepayments could potentially increase from borrowers seeking to benefit from the new regime. Nevertheless, no major prepayment impact is foreseen at this stage, owing to the high prevailing interest rates on offer.

Fitch revised its expectations on Greek mortgage asset performance to declining from stable/declining to reflect the expected further deterioration in Greek mortgage asset performance. The outlook for Greek RMBS ratings remains stable in 2009.

Italy

Asset Performance Outlook: Stable/Declining

Ratings Outlook: Stable/Negative

Although the overall Italian economy is starting to suffer the effects caused by the international financial crisis, Italian RMBS performance has not yet shown strong signals of deterioration. The upward trend experienced by 90+ day arrears during 2008 has been mainly a consequence of interest rate increases observed from 2006 up to the first 10 months of 2008, which affected debt-to-income ratios. Higher arrears led to a reduction of excess spread for many Italian deals but only a few have been affected by reserve drawings. Despite the higher arrears levels, the overall performance of Italian RMBS transactions remains relatively stable and their defaults are within Fitch's initial expectations. Among others, the low level of indebtedness of Italian households (currently at 49% of disposable income) and relatively more conservative credit standards applied by Italian lenders compared to their European peers are the two key factors that have contributed to support the performance of Italian RMBS.

The rapid increase in voluntary prepayment rates between 2007 and 2008 was mainly a result of the combined effect of legal changes reducing the level of prepayment penalties and increasing competition among Italian banks on existing mortgage borrowers. Although competition between lenders still remains high, voluntary prepayments seem to have stabilised at around 8-10% on Fitch-rated transactions. These levels are still within the agency's stressed assumptions and therefore do not impact the Italian RMBS ratings.

The residential mortgage market has been gradually slowing as a result of reduced housing demand but its deceleration has not been as dramatic as seen in other

countries and property prices were fairly stable in 2008. Major real estate market players expect a possible drop in house prices in 2009 and their forecasts on nominal house price falls range between 1% and 10%, still well below the market-value-decline assumptions made by Fitch in its rating analysis.

The outlook on asset performance will depend on the impact that the global recession will have on the Italian economy and its effect on the unemployment rate and borrowers' incomes. Fitch expects the Italian economy to deteriorate in line with the other countries of the euro area, with real GDP decreasing by 3.4% in 2009 (-1.9% in 2008) as a result of falling exports and investments, while unemployment is expected to increase from the current 7% to 8.9% in 2010. At the moment it is difficult to assess the magnitude of such trends on the future performance of the securitised pools and whether they will actually be counterbalanced by decreasing interest rates and lower commodity prices, which are positively affecting households' debt service burden and disposable income.

In February 2009, the Italian government issued a decree that enables Italian banks to receive government funds in exchange for a commitment to support mortgage borrowers. This support includes increased lending commitments and payment holidays for at least 12 months for qualifying distressed borrowers. Fitch believes that the decree has potentially negative ramifications for Italian RMBS transactions and is currently seeking feedback from RMBS originators and servicers to understand the operational implementation of the payment holiday and any structural mitigation to the liquidity risk that could derive from it.

Until the operational terms of such decree have been clarified, Fitch will factor the liquidity risk in its analysis for new deals and will monitor the situation for outstanding RMBS so that it may take appropriate action. The agency expects the impact of this decree on RMBS will be mitigated by the fact that its application is limited to 2009 only and to qualified distressed borrowers subject to certain criteria.

The Netherlands

Asset Performance Outlook: Stable/Declining

Ratings Outlook: Stable

The economic environment in The Netherlands is showing the first signs of deterioration. GDP declined by 0.6% year-on-year in the fourth quarter of 2008, exports fell and increasing numbers of business bankruptcies across all sectors were reported according to Statistics Netherlands.

The level of unemployment remains stable, but Fitch expects it to increase to 5% in 2009 from 2.8% in 2008 while inflation continues to be at the 2% mark in March 2009 and is expected to drop to around 1% in 2010.

The outlook for the mortgage market is also deteriorating with decreasing numbers of housing transactions completed and a longer average time to sell properties. After more than two decades of constant house price growth, average house prices dropped for the second month in a row. In March, house prices recorded a negative growth of 1.5% year-on-year, according to the Kadaster index. Fitch expects a downward correction in house prices of around 15% peak-to-trough in the next three years. For further information on the agency's expectations for The Netherlands, please refer to "*Ratings Stress Test: Impact of a Housing Market Downturn on Dutch RMBS*", dated 2 February 2009 and available at www.fitchresearch.com.

The Dutch Financial Markets Authority (AFM) has announced plans to tighten mortgage lending regulation in The Netherlands. The proposal envisages setting a maximum loan-to-market-value (LTMV) ratio of 100% and a limit on the maximum loan amount of 4.5x to 5x the borrower's income. The proposed measures may lead to further downward pressure on house prices and, as a result, aggravate loan level loss severities on outstanding transactions. However, the announced proposal has

been subject to debate by the government as well as by a number of market participants. The AFM is expected to release a detailed consultation document in May that will incorporate feedback so far received from different parties. Fitch will comment on the consultation document once it is released and its potential implications on the ratings of Dutch RMBS.

Dutch RMBS transactions continue to exhibit the lowest arrears and loss levels among all European countries. As of yet, RMBS transactions do not report significant deterioration in performance. However, the unfavourable economic conditions combined with the housing market deterioration will have a negative impact on arrears levels and, in particular, will put pressure on loss levels. The outlook for asset performance remains stable/declining and the ratings Outlook Stable

Portugal

Asset Performance Outlook: Declining

Ratings Outlook: Stable/Negative

The arrears level in Portuguese RMBS continues to rise. More recent originations are showing a higher level of delinquent loans than earlier vintages, with borrowers falling into arrears sooner after loan origination.

Difficult conditions in the credit market, together with the deterioration in the Portuguese labour market and slowdown in economic activity are driving consumer spending down. The high dependence of Portugal on key EU markets, in particular on Spain, is adversely affecting its growth prospects and financial performance. Consumer confidence is well below its long-term average and has reached its lowest level since 1986. According to the Institute of National Statistics, in the past six months, unemployment expectations contributed the most to the negative evolution of the confidence indicator.

Portuguese nominal house prices have steadily grown since late 2002. In March 2009, the house price index released by Confidencial Imobiliario - which tracks the average asking prices of mortgaged and non-mortgaged houses - still showed a 1% year-on-year annual growth rate in nominal terms. The same index has decreased by 0.67% since the previous quarter ending December 2008 and 0.13% over the last month. Unlike Confidencial Imobiliario, the Institute of National Statistics (INE) provides the average valuation provided by banks on properties financed with a mortgage in mainland Portugal. According to INE, the average valuation provided by banks on properties financed with a mortgage in mainland Portugal (as of Q408) has reversed to 2003 levels, representing significant falls across all regions (approximately 10% on average from the peak).

Overall, the volume of mortgage lending has weakened in recent months in line with declining economic growth. The majority of mortgage debt has a variable interest rate, and is expected to benefit from the reduction in the reference interest rates. The interest rate on housing loans stood at 5.315% in February, down 0.493% compared with the previous month, after a decrease of 0.169% in January. Recent RMBS have featured mortgage loans with longer maturities and higher LTVs as well as non-standard products such as interest-only loans, partially non-amortising loans and increasing instalment loans. The introduction of these practices, combined with a strong upward trend in average LTV ratios, is expected to put pressure on collateral performance in the near term. Fitch expects to see some deterioration in asset performance with some negative impact on ratings, most likely restricted to the junior tranches. The outlook for Portuguese RMBS in 2009 is stable/negative; the latest data confirmed that the Portuguese economy is undergoing a severe downturn and asset performance is expected to come under pressure, especially for more recent vintages.

Fitch is currently updating its Portuguese residential mortgage default model criteria. The updated criteria will most likely result in higher default and MVD

assumptions across all rating levels and will lead to a review of the outstanding ratings of Portuguese RMBS transactions.

Kazakhstan/Russia/Ukraine

Asset Performance Outlook: Declining

Ratings Outlook: Negative

As economic conditions continue to deteriorate, the performance of rated RMBS transactions in Russia, Kazakhstan and Ukraine is on a markedly negative outlook, which is likely to result in further ratings downgrades in coming months. The quarterly outlook is affected by a combination of potentially damaging trends:

- Weak economic prospects, with depressed commodity prices, falling GDP and rising unemployment are all likely to affect the financial condition of borrowers and their ability to remain current on their mortgage payments.
- Steady pressure on the currencies of all three countries will also affect the capacity of borrowers to service their mortgages, which in most cases are denominated in or indexed to foreign currencies, generally the USD. Where the depreciation takes place in large steps, such as in the case of the recent adjustment of the Kazakh tenge/USD rate in April, the effect may be more immediately negative, as borrowers' burdens may increase overnight or sharply after reset dates.
- Property markets remain weak and illiquid. Property prices are estimated to have fallen by about 25% on average in the region's most inflated property areas, including the largest cities. While these MVD levels are well within Fitch's stressed base case assumptions, a bigger risk is that few property sales may be realised in a very illiquid market, which will lengthen repossession procedures as mortgage delinquencies grow and will lower the prospect for meaningful recoveries out of defaulted loans.
- As the financial crisis deepens, RMBS originators, servicers, back-up servicers and other transaction parties are coming under growing strain. In current conditions, it has become increasingly likely that some of these parties may face insolvency in the near term. This prospect will affect the performance of transactions where the servicer had taken an active role in managing delinquencies and occasionally repurchasing delinquent loans. Furthermore, the potential replacement of servicers if their financial condition deteriorates beyond repair is also likely to create operational disruptions, which could hasten losses to the portfolios.

In these conditions, Fitch expects losses in rated mortgage portfolios in Russia, Kazakhstan and Ukraine to increase beyond their initial base cases in the coming one or two quarters.

United Arab Emirates - Dubai

Asset Performance Outlook: Stable

Ratings Outlook: Stable

Tamweel ABS No. 1, the only RMBS transaction rated by Fitch in the Middle East, continues to perform in line with the agency's expectations at closing despite the deteriorating economic conditions in Dubai. As of March 2009, the transaction has not reported any defaults. However, Fitch believes that the worsening economic conditions in the Emirate combined with an oversupply of residential properties might have a negative impact on the transaction performance in the future. At the same time, the prepayment rates are expected to continue to fall from current levels, which, on an annualised basis, are 14%.

Fitch has tested whether the transaction can withstand stresses above those applied when the transaction was originally rated. The results show that due to the rapid amortisation of the transaction, the senior tranche, rated 'AA', is able to

withstand a weighted-average foreclosure frequency of 38.4% and MVVD of 70% compared to 29.4% and 63.5%, respectively, at closing.

The transaction's originator is currently on Rating Watch Evolving. In Fitch's view, a limited downgrade of Tamweel would not necessarily exert downward pressure on the rating of the notes. As a result, Fitch believes that the Stable Outlook is commensurate with the rating of the notes at this time.

South Africa

Asset Performance Outlook: Declining

Ratings Outlook: Stable/Negative

Disposable household income in South Africa came under considerable pressure during 2008. The consumer price index (CPI) peaked at about 13.7% in August 2008, with the reserve bank's repo interest rate having risen to 12%. The global economic crisis also started to materially affect the South African economy, with GDP falling by an annualised 1.8% during Q408.

Although consumer debt has grown significantly in recent years, the introduction of the National Credit Act in June 2007 put a limit on excessive borrowing by consumers. More recently, South African banks have reduced the availability of types of consumer credit, such as mortgage loans, by requesting higher deposits.

CPI fell rapidly to 8.6% in February 2009, however, and moderate relief for consumers has come via the reserve bank cutting interest rates in recent months. Further interest rate cuts are expected in 2009, which should bring more relief for consumers.

However, the slowdown in global growth has affected the economy. Job losses continue, mainly in the manufacturing and mining sectors, while, although in a better financial position than their European counterparts, South African banks have been experiencing rising bad debts. Company liquidations climbed significantly over the 12 months to January 2009.

Owing to high inflation, house price declines in South Africa have largely been restricted to real term declines. However, house prices have recently been declining in nominal terms.

Mortgage lenders have reined in their mortgage underwriting guidelines so that products such as 100%+ LTV mortgages are no longer available. The contraction in mortgage credit availability is likely to suppress demand in the housing market during 2009.

Fitch rates 17 South African RMBS securitisations. At end-2008, the agency noted substantially increased delinquency and loss provision levels in the mortgage books of lenders compared with a year before.

However, these developments did not materially affect the performance of outstanding South African RMBS transactions. Originators tend to repurchase or replace delinquent loans in the securitised portfolios, leaving transactions with relatively low non-performing assets. Although, to date, this has been positive for the transactions, there is no obligation for originators to do this. Consequently, non-performing loans in transactions could rise sharply if repurchase or replacement were to stop.

Most of the transactions are still revolving. From an analytical perspective, this means that they have not yet de-leveraged, meaning that credit enhancement is still the same as at inception and has not yet increased for the senior notes. With potentially higher level of delinquencies and further nominal house price declines expected during 2009, South African RMBS performance is expected to come under some pressure. Fitch expects potential rating actions, particularly Outlook revisions, to affect speculative-grade rated notes.

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