

Special Report

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

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

ABS
Philip Walsh
+44 20 7417 3556
philip.walsh@fitchratings.com

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

CMBS
Euan Gatfield
+44 20 7417 6306
euan.gatfield@fitchratings.com

Structured Credit
Jeffery Cromartie
+44 20 7664 0072
jeffery.cromartie@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
RMBS, CMBS, ABS
Andy Brewer
+44 20 7417 3481
andy.brewer@fitchratings.com

Introduction

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

Since the publication by Fitch of the European structured finance sector outlook in Q1, credit and economic fundamentals have continued deteriorating and there are still no tangible signs of an economic recovery.

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 global economy is facing unprecedented levels of stress and the prospects for economic recovery remain uncertain. The sharp acceleration in unemployment, property price corrections, together with declines in household financial wealth and asset values, negatively impacts the outlook for many EMEA structured finance sectors.

Although most central banks have rapidly been reducing interest rates, which will benefit household affordability, this will be offset by increasing unemployment. The trend of performance in most consumer related asset classes will therefore remain very closely linked to unemployment trends. Fitch expects the pace of downgrades within the overall CDO segment to slow as the agency has completed the implementation of its revised Structured Finance CDO criteria. However, the declining asset environment continues to put significant pressure on many transactions. Meanwhile property markets in continental Europe are being affected by intensifying recessionary forces and property value declines across much of Europe.

Extraordinary measures have been introduced by governments in most countries in an effort to inject liquidity into the system, restore confidence in the financial markets and support the economy. These initiatives include fiscal stimulus packages, liquidity schemes that enable banks wider access to funding, increased deposit guarantee amounts in case of bank insolvencies and guarantees on wholesale funding. In addition, numerous governments introduced home guarantee schemes, enabling unemployed borrowers or those in severe financial distress to defer mortgage payments.

The private and corporate sectors are de-leveraging while credit availability remains scarce and lending criteria have tightened across the globe. These factors are negatively affecting the ability of consumers to service and refinance their secured and unsecured debt and in turn reduce the level of prepayments in a number of structured finance sectors, which is a significant driver of build-up in credit enhancement. Overall ratings momentum remains negative for many structured finance sectors across much of Europe and emerging economies.

The rapidly changing landscape is impacting not just underlying assets' performance and transaction ratings, but has resulted in a series of negative rating actions for the world's major banks over the course of the credit crisis. The increased risk of rising defaults amongst the private and corporate sectors may exacerbate the fall of asset prices and may increase losses on banks' balance sheets. This introduces a further source of challenges to EMEA structured finance performance given extensive exposure in the sector to counterparty risks via hedge instruments, guaranteed investment contracts and other counterparty exposures.

Fitch is currently reviewing its counterparty criteria for structured finance. The agency published an exposure draft in which it outlines a number of possible options through which counterparty risk could be addressed in the rating of structured finance transactions (see "*Exposure Draft: Counterparty Risk in Structured Finance Transactions*", published 30 March 2009). The consultation period for its proposed new structured finance counterparty criteria has been extended to 29 May 2009 following the request from numerous market participants.

Emerging economies, (including central Europe and eastern Europe) have also been severely affected with sharp drops in trade and commodity prices; with many regions experiencing a correction in real estate and asset prices. Some countries in the CIS (Commonwealth of Independent States) region have allowed their currencies to depreciate, putting significant pressure on the affordability of both the household and corporate sectors that have borrowed in foreign currency.

This report summarises Fitch's current outlooks in terms of asset performance and ratings for EMEA structured finance. Separately from this overview, Fitch has published individual reports on each of RMBS, CMBS, ABS and Structured Credit with a detailed narrative on each sub-sector, reflecting the summary tables below. The outlooks are reviewed quarterly with future reports focusing on changes to the forecasts in light of market developments and updated performance data.

Executive Summary

The outlooks in the following asset classes and countries have been revised:

- **Belgium RMBS - Asset Performance Stable/Declining & Rating Stable.** The asset performance was revised from stable to stable/declining in anticipation of the negative implications from the deteriorating economic environment.
- **France RMBS - Asset Performance Declining & Rating Stable/Negative.** The asset performance was revised from stable/declining to declining in consideration of the deteriorating economic conditions on mortgage performance; the majority of French RMBS are backed by loans originated by specialised mortgage lenders and granted to lower income borrowers. The rating outlook has remained stable as transactions are backed by seasoned collateral and sufficiently covered by credit enhancement.
- **Greek RMBS - Asset Performance Declining & Rating Stable.** The asset performance was revised from stable/declining to declining. The deteriorating economy and housing market will weigh negatively on mortgage performance.
- **Pan-European CMBS - Asset Performance Declining & Rating Negative.** The rating outlook was revised to negative to reflect worsening economic conditions in important CMBS regions such as France and Germany and expected value falls.

- **Auto Operating Leases - Asset Performance Declining & Rating Stable/Negative.** The asset performance outlook was revised from stable to declining to reflect the deteriorating economic conditions and the decline in second hand car values.
- **France ABS - Asset Performance Stable/Declining & Rating Stable/Negative.** The rating outlook was changed from stable to stable/negative due to concerns over the creditworthiness of originators and servicers combined with stressed auto markets.
- **Germany ABS - Asset Performance Stable/Declining & Rating Stable.** The rating outlook was revised from stable/negative to stable. A number of transactions have completed their revolving period and have started to build up credit enhancement. All transactions are performing in line with, and in most instances better than, Fitch's expectations, leaving cushion for anticipated asset performance deterioration.
- **Synthetic CDOs of Corporates - Asset Performance Declining & Rating Negative.** The rating outlook was revised from stable to stable/negative. Synthetic CDOs are significantly exposed to financials, autos and retailing, which are expected to see continued credit deterioration. Implementation of the revised ratings corporate CDO criteria in 2008 significantly increased loss expectations. Fitch expects increased downgrade pressure on this sector.
- **Germany Mezzanine CLOs - Asset Performance Declining & Rating Stable.** The rating outlook was revised from negative to stable. While Fitch remains concerned about the level and pace of credit deterioration, in the first quarter of 2009 all transactions have suffered substantial downgrades.
- **European Structured Finance CDOs - Asset Performance Declining & Rating Stable.** The rating outlook was revised from negative to stable. Structured finance CDO ratings were significantly affected by changes in the structured finance CDO ratings criteria ("*Global Rating Criteria for Structured Finance CDOs*", 16 December 2008). While Fitch expects underlying structured finance assets to come under pressure in a number of sectors, revised CDO ratings are viewed as stable due to the significant increases in loss expectations factored into the ratings.

Fitch has now incorporated its outlooks for emerging markets and South African structured finance transactions:

- **Kazakhstan/Russia/Ukraine RMBS - Asset Performance Declining & Rating 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.
- **Russia/Ukraine Auto Loans - Asset Performance Declining & Rating Negative.** Currency pressure is expected to weigh negatively on asset performance and ratings. Negative outlooks on Ukrainian and Russian servicers, as well as on the sovereign ratings of both countries, indicate possible further pressure that would lead to higher stresses on rated transactions and possible downgrades.
- **Turkey/Russia Diversified Payment Rights (DPRs) Flow - Asset Performance Stable & Turkey Rating Stable; Russia Stable/Negative.** DPR transactions are generally showing the kind of resilience that characterises this type of securitisation during difficult times. Flows have been affected moderately by declines in export activity and curtailed cross-border financial transactions. However, if market conditions do not change in a meaningful way in coming months, Fitch expects declines in flows of between 10-20%, which would not represent a material deterioration in the coverage ratios of transactions in Turkey and likely Russia.

- **South Africa Auto Loans - Asset Performance Declining & Rating Stable/Negative.** The South African auto loan market is under pressure. Reduced affordability and credit extension have led to significantly lower car sales volumes. Insolvencies among local auto dealers are increasing and car manufacturers are feeling the heat of the global economic crisis.
- **South Africa Small-Ticket Equipment Leases - Asset Performance Stable/Declining & Rating Stable.** This sector is linked to the financial performance of corporates and SMEs. As in the other asset classes, delinquencies are rising among small-ticket equipment leases; however, at a slower pace than the other asset classes (RMBS and auto loans). Fitch expects rating actions in the equipment lease asset class to be minimal and confined to junior classes.
- **South Africa CMBS - Asset Performance Declining & Rating Stable.** The South African commercial property sector has recently come under strain. Rising unemployment and declining consumer spending will negatively affect the profit margins of retail commercial property owners.
- **South Africa RMBS - Asset Performance Declining & Rating Stable/Negative.** South African RMBS performance is expected to come under some pressure, as potentially higher levels of delinquencies and further nominal house price declines are expected during 2009. Fitch expects potential rating actions, particularly outlook revisions, to affect speculative-grade rated notes.

Country-by-Country Summary of Areas to Watch^a

	RMBS	CMBS	ABS	Structured credit
Germany	Prime & non-conforming			Capital market securitisations
Italy	Prime & non-conforming		Healthcare receivables, leases	
Portugal	Prime			
Spain	Prime & non-conforming		Consumer loans, auto loans/leases	SME CDOs
UK	Prime & non-conforming	City offices, retail	Credit cards	
Pan-European		German multi-family housing	Aircraft	Structured finance, CDOs, CLOs of leveraged loans, CDOs of bank and insurance junior capital
Kazakhstan	Prime		Auto loans, diversified payment rights (DPRs) flow	
Russia	Prime		Auto loans, diversified payment rights (DPRs) flow	
Ukraine	Prime		Auto loans	
South Africa	Prime		Auto loans	

^a Outlook for ratings is negative or stable/negative
Source: Fitch

EMEA RMBS Outlook Table - May 2009

Europe		Outlook		Areas to watch
Asset class/country	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 well 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 peak-to-trough house price declines, already at 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

EMEA CMBS Outlook Table - May 2009

Asset class/country	Outlook		Areas to watch
	Asset performance	Ratings	
UK	Declining	Negative	Rental value declines as vacancies rise and tenant administration risk remains elevated. This risk is already somewhat factored into estimated yields although for secondary assets further widening is expected.
Pan-European	Declining	Negative	Economic indicators are worsening in important CMBS regions such as Germany and France. Widespread value falls are expected throughout Europe.
South Africa	Declining	Stable	Commercial property market is under strain due to worsening economic situation. Rated transactions include quality portfolios and perform in line with expectations.

Source: Fitch

EMEA ABS Outlook Table - May 2009

Asset class/country	Outlook		Areas to watch
	Asset performance	Ratings	
European Consumer ABS			
Austria	Stable	Positive	Continued good performance while amortisation is supporting ratings.
France	Stable/Declining	Stable/Negative	Notwithstanding expected deterioration in asset performance, defaults likely to remain within base case expectations.
Germany	Stable/Declining	Stable	Some performance deterioration expected as a result of the economic slowdown. Older vintages are protected by amortisation; more recent deals and transactions still in their revolving period are more vulnerable to deteriorating performance.
Greece	Stable	Stable	Low level of unsecured and secured consumer debt should protect from any deterioration in economy.
Italy	Stable/Declining	Stable	Some deterioration expected as economy slows down.
Portugal	Stable/Declining	Stable	Expected decline in performance likely to be offset by continued amortisation.
Spain	Declining	Stable/Negative	Sharp deterioration in Spanish macro-economic conditions will pressure arrears and defaults further; recoveries will also be pressured over the near term. Seasoned transactions are protected by transaction deleveraging, while more recent transactions are more vulnerable to deteriorating performance trends and potential rating actions.
UK auto loans	Stable/Declining	Stable/Negative	Limited issuance in this sector. Pressure on residual values could affect more recent deals but underlying vehicles are not “gas-guzzlers” so impact likely to be muted.
UK credit cards	Declining	Negative	Recent return to 2007 levels of charge-offs and increasing concerns over economy are negative for the sector. Junior notes most at risk of negative action.
Corporate ABS			
Aircraft ABS	Declining	Negative	Deteriorating economic conditions likely to have an impact on both airline profitability and aircraft values.
Auto operating leases	Declining	Stable/Negative	Netherlands and German transactions are exposed to corporates and SMEs, with negligible defaults to date. Part of the residual value risk is covered by guarantors. Negative rating actions are likely if second-hand hand car values deteriorate further.
Government securitisations	Stable	Stable	Collections continue to follow expected patterns but economic deterioration could throw them off course in certain transactions.
Italian healthcare receivables	Stable	Stable	All transactions linked to region’s ratings and therefore subject to region’s economic conditions.
Italian lease receivables	Declining	Stable/Negative	Historical out-performance of SME leases relative to SME lending, but this may not continue in the more stressed economic environment Fitch expects for Italy in 2009.
UK social housing	Stable	Stable	Payment of underlying rents remains heavily reliant on social security payments, unlikely to be threatened, even in economic slowdown.

Source: Fitch

EMEA ABS Outlook Table - May 2009 (Cont.)

Asset class/country	Outlook		Areas to watch
	Asset performance	Ratings	
Emerging Markets - ABS			
Russia auto loans	Declining	Negative	Performance broadly in line with Fitch's expectations but, looking forward, sustained negative economic conditions are likely to have a bigger impact on rated portfolios.
Ukraine auto loans	Declining	Negative	Delinquencies and defaults are likely to continue to grow at a fast pace.
Kazakhstan DPRs	Declining	Negative	Renewed weakness among Kazakh banks and in the country's trade prospects are having a very negative effect on DPR flows and should continue to put pressure on both flows and ratings.
Russia DPRs	Stable	Stable/Negative	Payment flows somewhat weaker, but it is unlikely that they will drop to the point where they threaten the transaction. However, downgrade pressure on dependent ratings may result in further downgrades to the transaction.
Turkey DPRs	Stable	Stable	Turkey remains relatively unaffected by the global credit crisis, and even though GDP growth and trade flows have slowed down, the impact on rated transactions is muted and probably will remain so in the coming quarters.
South African auto loans	Declining	Stable/Negative	High delinquencies. However, performance on majority of rated transactions in line with expectations. Speculative-grade rated notes to be watched closely.
South African small-ticket equipment leases	Stable/Declining	Stable	Rising delinquencies. Performance of all rated transactions in line with expectations. Significant levels of excess spread available in all transactions.

DPRs - Diversified payment Rights
Source: Fitch

European Structured Credit Outlook Table - May 2009

Asset class/country	Outlook		Areas to watch
	Asset performance	Ratings	
Synthetic CDOs of corporates	Declining	Negative	Declining asset environment. Sharp increase in corporate defaults. Lower than expected CDS recovery rate within the portfolio. For a significant portion of this CDO sector, default is becoming increasingly likely.
CLOs of European leveraged loans	Declining	Negative	Declining asset environment and negative sector outlooks. Continued pressure on ratings of junior tranches.
CDOs of European SMEs	Stable/Declining	Negative	Spanish asset environment declining. Other jurisdictions remain stable but could deteriorate. Many ratings likely to be affected by changes in ratings criteria.
Germany mezzanine CLOs	Declining	Stable	Although further asset-level deterioration expected, transactions heavily downgraded, reflecting both poor performance and higher loss expectations.
European structured finance CDOs	Declining	Stable	Declining performance in a number of asset classes and countries, (eg UK and Spanish RMBS, UK CMBS). Existing CDO ratings will be negatively affected by changes in ratings criteria.

Source: Fitch

Copyright © 2009 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.