European Structured Finance: Investor Appetite; Rating Methodology; Credit Performance Update

Hosted by: The Bank of New York Mellon

June 2010
London
Credit Rating Agencies to Outline Recent Changes in Rating Methodologies and Summary of the European Securitisation Credit Performance from the Beginning of the Crisis

**Moderator:**
- Rick Watson, COO, AFME and Managing Director, AFME/ESF

**Speakers:**
- Ian Linnell, *Group Managing Director, Fitch Ratings*
- Marie-Jeanne Kerschkamp, *Team Managing Director, Moody's Deutschland GmbH*
- Simon Collingridge, *Managing Director, Head of Outreach, Standard & Poor's*
EMEA Structured Finance
Fitch Rating Actions: Past, Present and Future
Rating Action Summary - EMEA Structured Finance

01/07/2007 to 31/03/2010

Source: Fitch
Rating Action Summary – By Asset Class
01/07/2007 to 31/03/2010

Source: Fitch
‘AAA’ Ratings Impact – Criteria v. Performance

WA Rating Migration

Source: Fitch
Impairment Rates: July 2007 – April 2010

by Number of Tranches

Source: Fitch
Impairment Rates: July 2007 – April 2010

by Original Tranche Balance

Source: Fitch
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-07</td>
<td>Embargo on New CDO Ratings</td>
<td>CDOs</td>
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<tr>
<td>Dec-07</td>
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<td>Market Value Structures</td>
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<td>Feb-08</td>
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<td>Corporate CDOs</td>
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<td>Apr-08</td>
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<td>Structured Finance CDOs</td>
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<td>Jun-08</td>
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<td>Aug-08</td>
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<td>Oct-08</td>
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<td>Dec-08</td>
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<td>Feb-09</td>
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<td>Apr-09</td>
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<td>Jun-09</td>
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<td>Aug-09</td>
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<td>Oct-09</td>
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<td>Structured Finance CDOs</td>
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<tr>
<td>Dec-09</td>
<td></td>
<td>Counterparties</td>
</tr>
<tr>
<td>Feb-10</td>
<td></td>
<td>Exit Draft: NHG in Dutch RMBS</td>
</tr>
</tbody>
</table>
Fitch Response: Ratings

- Screening committees
- Risk Officers established
- Increased independent reviews of criteria
- Formalised role of rating caps
- Enhanced surveillance criteria
- Model validation procedures enhanced
- Criteria changes
- Macro/sector reviews
Fitch Response: Transparency

> Ratings stress tests
> Break-even analysis - RMBS Loss Metrics
> Loss Severity ratings
> Recovery Ratings
> Global application of Rating Outlooks
> Increased research: From Credit News to Sector Reviews
> Revised Pre-sale report format
> Global asset level transition and default studies
> Enhanced surveillance tools
  – Deal Compare, SME Compare etc
Moody’s Rating Methodology Updates and Asset/Ratings Performance in Europe

Marie-Jeanne Kerschkamp, Managing Director – EMEA
Structured Finance

June, 2010
Agenda

1. Rating Methodologies – An Update
2. Underlying Asset Performance
3. Ratings Performance
4. EMEA structured finance market outlook
Thoughts on Rating Methodologies – An Update

» Operational Risk – Request for Comment
- A disruption to the effective performance of key transaction parties can be disruptive to the transaction
- Outlines our considerations when analysing:
  » Servicing arrangements for Aaa-rated securitisations which feature a true sale of the collateral to an issuing entity
  » Cash manager/calculation agents when assumed by a third party unrelated to the servicer
  » Liquidity standards necessary to achieve Aaa ratings.
- Rating Committee will review operational risk factors and determine whether additional credit enhancement and/or liquidity is needed in light of the operational risk inherent in the transaction parties, country, structure and asset class
- Principles categorised into three sections:
  » Servicer (Investment Grade vs Non-Investment Grade Sponsors)
  » Cash Manager
  » Liquidity
Thoughts on Rating Methodologies – An Update

» Methodology changes since beginning of financial crisis affecting European Securitisation are limited to:

1. Change to the methodology for small and medium sized company loans

2. Dutch RMBS (NHG, set-off, HIGH LTV)

3. Change of assumptions
   - E.g. Revised assumptions for the Spanish RMBS
   - E.g. Revised assumptions for German RMBS

» Details updated weekly in Moody’s SF Quick Check/Rating Statistics including rating impact
Delinquency Trends - two Examples

Spanish RMBS 60+ Day Delinquency Rate Index

Italian RMBS 60+ Day Delinquency Rate Index
Delinquency Trends - UK

**UK Non-Conforming RMBS Indexes**
- 90+ Delinquent/Outstanding
- Repossession/Outstanding

**UK Prime RMBS Indexes**
- 90+ Delinquent/Outstanding*
- Repossession/Outstanding*
Auto ABS Performance Indicators

Moody's EMEA Auto Loan Index
Monthly Net Losses

Moody's EMEA Auto Loan Index
Monthly 60+ Delinquency Rate

Moody's Investors Service
AFME/ESF, June 2010
Spanish SME ABS Performance Indicators

Spanish SME 90-360 Days Delinquency by Vintage Year

Spanish SME Cumulative Defaults by Vintage Year

Moody's Investors Service

AFME/ESF, June 2010
» Rating migration is limited. Performance typically within/not far from initial expectations.
» Originators/Servicers are typically highly rated financial institutions.
» House price depreciation has been contained in certain European countries.
ABS – Aaa Rating Performance

- EMEA ABS ratings have performed quite well during this crisis, although slightly less so than EMEA RMBS.
- Originators/Servicers are typically highly rated financial institutions.
- Key consideration: Size of markets and guarantees by governments
The update of Moody’s EMEA CMBS Central Scenarios in early 2009 resulted in a broad-based review of the portfolio (108 transactions)
## Outlook and Possible Rating Migration Path

<table>
<thead>
<tr>
<th>Asset Class (broad)</th>
<th>Asset Outlook</th>
<th>Expected Rating Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA RMBS</td>
<td>Negative</td>
<td>Negative drift expected, limited severity</td>
</tr>
<tr>
<td>EMEA ABS</td>
<td>Negative</td>
<td>Negative drift expected, limited severity</td>
</tr>
<tr>
<td>EMEA CMBS</td>
<td>Negative</td>
<td>Negative drift expected, limited severity</td>
</tr>
<tr>
<td>EMEA CLO</td>
<td>Negative</td>
<td>Negative drift expected, limited severity</td>
</tr>
</tbody>
</table>

» Semi-annual updates, next in July 2010.
European Structured Finance Market Outlook

» We expect a slight increase in the number of transactions over the next years in certain ABS, RMBS and CLO sectors as the economy starts to improve.

» Primarily, we will see straightforward asset classes such as conforming RMBS, consumer ABS, granular SME, cash CLO transactions and covered bonds. There will be a lack of esoteric and emerging market transactions.

» We expect the established, larger, investment grade sellers and small finance companies with historically well performing transactions to be prevalent.

» Transparency will continue to increase. A higher degree of standardisation to promote transaction comparisons may be seen.
European Structured Finance: Ratings Performance Update

Simon Collingridge
Managing Director
Standard & Poor’s

June, 2010
The European Structured Finance Landscape

By rating grade

- 'AAA' 82%
- Other investment grade 16%
- Speculative grade 2%

By asset class

- RMBS 43%
- Covered bonds 17%
- CDO 18%
- ABS 12%
- CMBS 7%
- Corp. Sec. 3%
- Other investment grade 16%

Source: Standard & Poor's CreditPro

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2007 – 2009 Ratings Transitions
Some downgrades, but less than 0.5% of issuance defaulted

Mid-2007 to end 2009 performance, European Structured Finance

<table>
<thead>
<tr>
<th></th>
<th>Downgrade rate*</th>
<th>Default rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>'AAA'</td>
<td>0.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Investment grade</td>
<td>0.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Speculative grade</td>
<td>31.6</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>0.4</td>
<td>12.0</td>
</tr>
</tbody>
</table>

* Excluding defaults
Source: Standard & Poor's CreditPro

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How does that compare with the U.S.?

Mid-2007 to end 2009 performance, Europe vs. U.S.

* Default rate
* Excluding defaults

Source: Standard & Poor’s CreditPro

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Performance has diverged between asset classes

Mid-2007 to end 2009 performance, Europe vs. U.S.

* Excluding defaults

Source: Standard & Poor’s CreditPro

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Fewer European structured finance defaults than U.S.

### S&P structured finance default rates* (%)

<table>
<thead>
<tr>
<th>Mid-2007 rating category</th>
<th>ABS</th>
<th>CDO</th>
<th>CMBS</th>
<th>RMBS</th>
<th>Covered bonds</th>
<th>All European</th>
<th>All U.S.</th>
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</thead>
<tbody>
<tr>
<td>AAA</td>
<td>0.00</td>
<td>1.62</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.30</td>
<td>2.49</td>
</tr>
<tr>
<td>AA</td>
<td>0.00</td>
<td>0.97</td>
<td>0.00</td>
<td>0.00</td>
<td>na</td>
<td>0.59</td>
<td>11.71</td>
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<tr>
<td>A</td>
<td>0.00</td>
<td>2.43</td>
<td>0.00</td>
<td>0.04</td>
<td>na</td>
<td>0.79</td>
<td>14.70</td>
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<tr>
<td>BBB</td>
<td>0.49</td>
<td>1.36</td>
<td>0.51</td>
<td>0.03</td>
<td>na</td>
<td>0.69</td>
<td>17.10</td>
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<tr>
<td>BB</td>
<td>2.45</td>
<td>0.29</td>
<td>4.37</td>
<td>1.01</td>
<td>na</td>
<td>1.52</td>
<td>26.49</td>
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<tr>
<td>B</td>
<td>0.00</td>
<td>0.00</td>
<td>49.69</td>
<td>0.58</td>
<td>na</td>
<td>1.11</td>
<td>28.86</td>
</tr>
<tr>
<td>Overall</td>
<td>0.13</td>
<td>1.51</td>
<td>0.08</td>
<td>0.03</td>
<td>0.00</td>
<td>0.39</td>
<td>4.29</td>
</tr>
</tbody>
</table>

* Mid-2007 to end 2009, by initial issuance volume
Timeline

May 13, 2008

- Modified Approach to Non-investment Grade Ratings

Oct. 15, 2008

- Published “Standard & Poor’s to Explicitly Recognize Credit Stability as an Important Ratings Factor”

April 21, 2009

- Revised Exchange Offer / Buyback Criteria

May 12, 2009

- Developed Risk-Adjusted Capital (RAC) Framework for Banks

June 3, 2009

- Revised methodological Definitions” to promote ratings comparability

June 26, 2009

- Revised Criteria for US CMBS

July 21, 2009

- Revised Covered Bond Asset-Liability Mismatch Criteria

June 29, 2009

- Revised methodology for rating Government-Related Entities (GREs)

Sept. 10, 2009

- Revised Criteria for rating U.S. RMBS Securities and surveillance US RMBS

Dec. 29, 2009

- Revised Exchange Offer / Buyback Criteria

Sept. 17, 2009

- Revised Covered Bond Asset-Liability Mismatch Criteria

Dec. 16, 2009

- Revised Covered Bond Asset-Liability Mismatch Criteria

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Incentives to Invest in Structured Finance

Moderator:
• Marco Angheben, Director, AFME/ESF

Speakers:
• Rob Collins, Structured Finance Consultant, Coleva Solutions

• Steve L. Gandy, Head of Securitisation, Santander Global Banking & Markets

• Edward Panek, Senior Portfolio Manager, Henderson Global Investors

• Dominic Swan, Global Head of Fixed Income, Halbis