Letter from the Editors

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Just Another Emerging Market Story? European ABS/MBS

All may have been quiet on the western front of the ABS and MBS markets in 1998 but this is a surface calm and may be due in large to the turmoil in the east and *Eurofication* in the west. A single currency will give European financial institutions support on the supply and demand sides of the market. After January 1st, 1999 it will be less costly for European financial institutions to originate, accumulate, and refinance large pools of assets.

Was it disruption in the credit markets during the second half of 1998 that put a damper on the various European MBS and ABS markets or anticipation of the Euro? With liquidity at a premium and an increase in risk aversion it is not surprising that the various European ABS and MBS markets stalled in 1998.

As spreads between the AAA markets and the low investment grade markets began to increase late in the summer of 1998, the cost of creating the necessary credit enhancement for securitization transactions through the subordination of a class of securities increased. Margins narrowed and the value of securitization transactions was depressed. Exhibit 1 illustrates the spread between the yield on the 10 year French Government OAT and the yield on paper issued by single A rated French Financial institutions from March, 1998 through December, 1998. Yield and price spreads between two indices can be found on the Bloomberg by typing {index ticker} <Index> {index ticker} <Index> <GO>.

Although credit spreads widened in the U.S. as well, ABS and MBS issuance continued to grow. The U.S. market was driven by historically low mortgage rates which prompted significant growth in new originations and in refinancings. Activity in the U.S. markets is summarized in exhibit 2. This information is available via Bloomberg by typing <Mtge> {CAMP}.

Exhibit 3 summarizes the number of AAA rated mortgage European currency asset and mortgage backed security transactions that were executed from 1996 through December 10th, 1998. Beyond the small number of deals lies a more interesting fact. If the U.S. credit card banks are taken out of the picture, the number of deals in 1998 falls dramatically. It is not investors for European ABS that are lacking but rather a generic European structure that can be filled by various issuers. Currently it is the American Credit Card banks that are supplying the ABS to European investors. Ford via its Global Drive Program domiciled in the Netherlands is also poised to tap the Euro market on a continuous basis.

European corporate and financial receivables which are

Exhibit 1

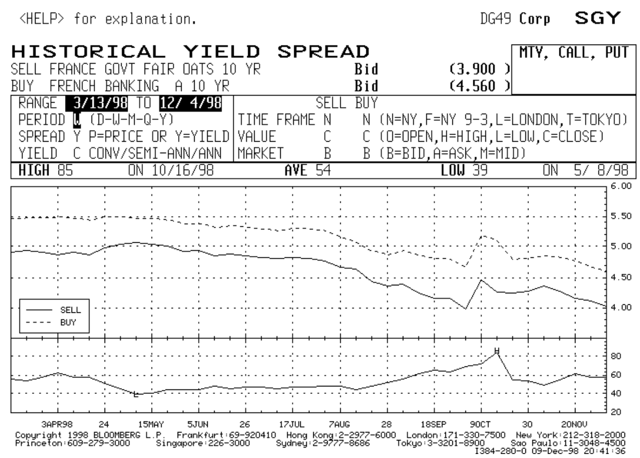

Exhibit 2

Bloomberg CMO — CMO/ABS MARKET PROFILE 11/30/98 $Billion — Page 1 of 6

	Orig Issued	Outst*	- November - New	- November - PayDown	Year-to-Date New	Year-to-Date PayDown	11-Mths-1997 New	11-Mths-1997 PayDown
Total CMO	**2597.4**	**1037.0**	**21.8**	**30.7**	**332.5**	**271.4**	**220.6**	**119.9**
Agency collat	1944.0	745.8	10.5	22.1	206.3	199.6	165.4	86.6
Whole Loan "	653.4	291.4	11.3	8.6	126.3	71.8	55.2	33.3
Total ABS	**1134.2**	**631.3**	**20.0**	**12.2**	**239.9**	**131.6**	**203.4**	**74.3**
CARDS	325.6	200.8	5.4	3.5	39.8	31.3	44.5	20.3
Other	808.6	430.4	14.6	8.7	200.0	100.2	158.9	54.0

Exhibit 3

Number of AAA rated ABS and MBS transactions issued in European currencies. Numbers in Parenthesis are deals issued to refinance U.S. dolla credit card receivables.			
	1996	1997	1998
British Pound	14 (0)	12 (1)	8 (1)
French Franc	3 (0)	8 (3)	7 (4)
German Mark	7 (5)	3 (2)	6 (6)
Italian Lira	0 (0)	2 (1)	1 (1)
Swiss Franc	0 (0)	1 (1)	1 (1)
Belgian Franc	1 (0)	1 (0)	1 (0)
Finnish Markka	1 (0)	0 (0)	0 (0)
Dutch Guilder	0 (0)	4 (0)	3 (1)
Spanish Pesetas	2 (0)	1 (0)	1 (0)

Exhibit 4

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EUROPEAN MBS/ABS Found: 58

	SHORT NAME	ISSUE DT	COUNTRY	CURRENCY	COLLATERAL	COMPOSITE
1)	FIN PEOPLE NO 2	01/27/98	UNITED KING	GBP	MORTGAGE BA	AAA
2)	FIN PEOPLE NO 2	01/27/98	UNITED KING	GBP	MORTGAGE BA	AAA
3)	FIN PEOPLE NO 2	01/27/98	UNITED KING	GBP	MORTGAGE BA	A2
4)	FIN PEOPLE NO 2	01/27/98	UNITED KING	GBP	MORTGAGE BA	BBB3
5)	RESIDENTIAL MTG	02/09/98	UNITED KING	GBP	MORTGAGE BA	BB2
6)	RESIDENTIAL MTG	02/09/98	UNITED KING	GBP	MORTGAGE BA	A2
7)	RESIDENTIAL MTG	02/09/98	UNITED KING	GBP	MORTGAGE BA	AAA
8)	BOS (SAMS) NO 3	02/13/98	UNITED KING	GBP	MORTGAGE BA	AAA
9)	BOS (SAMS) NO 4	02/13/98	UNITED KING	GBP	MORTGAGE BA	AAA
10)	BOS (SAMS) NO 3	02/13/98	UNITED KING	GBP	MORTGAGE BA	AAA
11)	BOS (SAMS) NO 4	02/13/98	UNITED KING	GBP	MORTGAGE BA	AAA
12)	ILSE NO 1 PLC	02/26/98	UNITED KING	GBP	MORTGAGE BA	AAA
13)	ILSE NO 1 PLC	02/26/98	UNITED KING	GBP	MORTGAGE BA	A1
14)	CHESTER ASSET 5	03/26/98	CAYMAN ISLA	GBP	ASSET BACKE	AAA
15)	SOUTHERN PAC SEC	03/30/98	UNITED KING	GBP	MORTGAGE BA	A2
16)	SOUTHERN PAC SEC	03/30/98	UNITED KING	GBP	MORTGAGE BA	BBB2
17)	SOUTHERN PAC SEC	03/30/98	UNITED KING	GBP	MORTGAGE BA	AAA
18)	SASCO EUROPE	04/06/98	UNITED KING	GBP	MORTGAGE BA	AA2
19)	SASCO EUROPE	04/06/98	UNITED KING	GBP	MORTGAGE BA	BB2
20)	SASCO EUROPE	04/06/98	UNITED KING	GBP	MORTGAGE BA	BBB2

EUROPEAN MBS/ABS Found: 58

	SHORT NAME	ISSUE DT	COUNTRY	CURRENCY	COLLATERAL	COMPOSITE
1)	NEW INVESTMENT	05/01/98	UNITED KING	GBP	ASSET BACKE	AA2
2)	NEW INVESTMENT	05/01/98	UNITED KING	GBP	ASSET BACKE	BBB2
3)	NEW INVESTMENT	05/01/98	UNITED KING	GBP	ASSET BACKE	A2
4)	BCI US FUNDING	07/15/98	UNITED STAT	GBP	ASSET BACKE	BBB1
5)	CAPITAL ONE MSTR	07/31/98	UNITED STAT	GBP	ASSET BACKE	AAA
6)	CAPITAL ONE MSTR	07/31/98	UNITED STAT	GBP	ASSET BACKE	AAA
7)	CHESTER ASSET 6	09/24/98	CAYMAN ISLA	GBP	ASSET BACKE	AAA
8)	FLORIMMO	02/10/98	FRANCE	FRF	MORTGAGE BA	AAA
9)	FLORIMMO	02/10/98	FRANCE	FRF	MORTGAGE BA	AAA
10)	CHASE CCMT A2	02/12/98	UNITED STAT	FRF	ASSET BACKE	AAA
11)	ARIES FUNDING CP	03/27/98	CAYMAN ISLA	FRF	ASSET BACKE	AAA
12)	EURO MORTG SECS	05/13/98	NETHERLANDS	FRF	MORTGAGE BA	A2
13)	EURO MORTG SECS	05/13/98	NETHERLANDS	FRF	MORTGAGE BA	AAA
14)	DISCOVER CRD OFF	06/12/98	CAYMAN ISLA	FRF	ASSET BACKE	AAA
15)	CITIBK CCMT EURO	06/19/98	UNITED STAT	FRF	ASSET BACKE	AAA
16)	FCC DOMOS 4	07/06/98	FRANCE	FRF	ASSET BACKE	AAA
17)	FCC DOMOS 4	07/06/98	FRANCE	FRF	ASSET BACKE	A1
18)	FCC DOMOS 4	07/06/98	FRANCE	FRF	ASSET BACKE	AAA
19)	FCC DOMOS 4	07/06/98	FRANCE	FRF	ASSET BACKE	AAA
20)	FCC DOMOS 4	07/06/98	FRANCE	FRF	ASSET BACKE	AAA

EUROPEAN MBS/ABS Found: 58

	SHORT NAME	ISSUE DT	COUNTRY	CURRENCY	COLLATERAL	COMPOSITE
1)	CHASE CCMT A1	02/12/98	UNITED STAT	DEM	ASSET BACKE	AAA
2)	CITIBANK CCMT 1	04/07/98	UNITED STAT	DEM	ASSET BACKE	A2
3)	CITIBANK CCMT 1	04/07/98	UNITED STAT	DEM	ASSET BACKE	AAA
4)	MBNA AMER EUROP	04/15/98	CHANNEL ISL	DEM	ASSET BACKE	AAA
5)	EUROPEAN CRED CD	06/03/98	CAYMAN ISLA	DEM	ASSET BACKE	AAA
6)	EUROPEAN CRED CD	06/03/98	CAYMAN ISLA	DEM	ASSET BACKE	A2
7)	DISCOVER CRD OFF	06/12/98	CAYMAN ISLA	DEM	ASSET BACKE	AAA
8)	CHASE CCMT 98-4	07/28/98	UNITED STAT	DEM	ASSET BACKE	AAA
9)	CRED CARDS TWO	03/02/98	CAYMAN ISLA	ITL	ASSET BACKE	AAA
10)	CITIBANK CCMT 1	04/16/98	UNITED STAT	CHF	ASSET BACKE	AAA
11)	HOME LOAN INV N1	04/30/98	BELGIUM	BEF	MORTGAGE BA	AA3
12)	HOME LOAN INV N1	04/30/98	BELGIUM	BEF	MORTGAGE BA	AAA
13)	CHASE CCMT A3	02/12/98	UNITED STAT	NLG	ASSET BACKE	AAA
14)	LABS II	05/05/98	NETHERLANDS	NLG	ASSET BACKE	AAA
15)	LABS II	05/05/98	NETHERLANDS	NLG	ASSET BACKE	AAA
16)	EURO MORTG SECS	05/13/98	NETHERLANDS	NLG	MORTGAGE BA	AAA
17)	BANCAJA 2	10/27/98	SPAIN	ESP	MORTGAGE BA	AAA
18)	BANCAJA 2	10/27/98	SPAIN	ESP	MORTGAGE BA	A2

being securitized via asset backed commercial paper programs are one dimension of the market that the search does not pick up.

Primarily, the U.S. credit card banks are diversifying their funding sources and in doing so are creating an international market for securities issued from their master trusts. U.S. credit card banks are also securing a beach head in the market for EURO ABS and MBS that will begin to grow vigorously in 1999 as currency risk is taken out of the equation and credit and liquidity risk become the factors that segment the European fixed income markets. The master trust structure is ideally suited to enable issuers to design securities that tap into profitable sectors of the credit markets as they appear. We expect to see the Master Trust structure or some derivative of this vehicle to be adopted by a number of European financial institutions after January of 1999.

According to our search on Bloomberg, only two French issuers tapped the MBS market in 1998, FLORIMMO, a French mortgage backed security was issued to refinance mortgages owned by Bank La Henin and DOMOS 4 issued to refinance a portfolio of mortgages originated by Union de Credit pour le Batiment (UCB). Both the UCB and Florimmo transactions are classic examples of how securitization enables unrated financial institutions to tap the AAA rated sector of the credit markets. The other French Franc issues in 1998 were European Mortgage Securities backed by Dutch residential mortgages and ARIES Funding Corp., asset backed commercial paper issued to refinance Yen denominated auto loan receivables and three issues by three U.S. credit card master trusts, Chase, Citibank and Discover to refinance dollar denominated credit card receivables. Exhibit 4 lists the European currency MBS and ABS issued in 1998 through December 10th. This information can be found via a Bloomberg search. Our search was not designed to capture the collateralized Bond (CBO) and Collateralized Loan (CLO) markets. Collateral for CLOs and CBOs are categorized as "secured" rather than "asset backed". Our search failed to pick up a number of transactions that were reported in the financial press such as GEFA's "securitization" of loans secured by automobiles, Bacob Bank's securitization of mortgages via the special purpose vehicle MBS-4, Deutsche Bank's May, 1998 securitization of mortgages, and Banco Commercial Portugues' securitization of consumer loans. We are investigating the sources of the wholes in our search.

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