Global Housing and Mortgage Outlook – 2015

Special Report

Inside This Report

Five New Markets Added

Hong Kong, Singapore, New Zealand, Denmark, and Mexico

Kevin Duignan, Global Group Head of Structured Finance, leads the Fitch panel discussing the Global Housing and Mortgage Outlook for 2015.

Analysts[a]
Andre Dahlkamp
+44 20 3530 1145
andre.dahlkamp@fitchratings.com

Gurdeep Saggu
+44 20 3530 1221
gurdeep.saggu@fitchratings.com

Stefan Hilts
+1 212 908-9137
stefan.hilts@fitchratings.com

Ben Newey
+61 2 8256 0341
ben.newey@fitchratings.com

Mark Brown
+44 20 3530 1588
mark.brown@fitchratings.com

Rui Pereira
+1 212 908-0766
rui.pereira@fitchratings.com

Ben McCarthy
+61 2 8256 0388
ben.mccarthy@fitchratings.com

Gregg Kohansky
+44 20 3530 1376
gregg.kohansky@fitchratings.com

[a] Full List in Appendix (which includes Related Research)

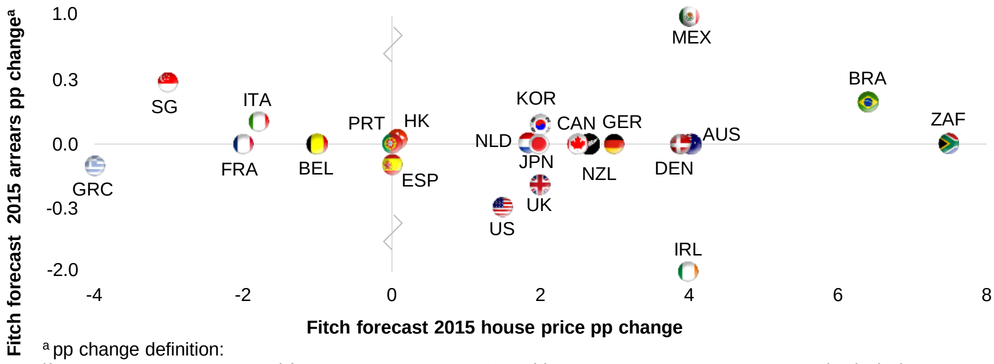
Increasingly Positive Outlook: The mortgage and housing market outlooks for most of the 22 countries in this report are either positive or stable – an improvement from last year – due to better macro-economic conditions, low rates, and for some markets, improvements in affordability.

Potential Threats Exist: Risks include the prospect of rising interest rates for some markets, deflationary pressures in the eurozone, and the after-effects of the housing and economic crises – particularly in the eurozone periphery, where our outlooks are weakest.

House Prices Rising: We expect moderate house price growth of around 2% in the Netherlands, US, Canada and the UK, although growth trends may change in the latter as the South East slows and the North picks up. Eurozone corrections should continue in Greece, France, Italy, and Belgium. Australian price growth should moderate in 2015. New Zealand prices have slowed, responding to LTV restrictions. Singapore and Hong Kong should have a soft landing, but the risk of a downturn in Hong Kong due to affordability stretch remains.

Stable Arrears Outlook: We expect stable mortgage performance in most markets in 2015, supported by low interest rates and recovering economies. Gradual rate rises are expected in the US and the UK, but the eurozone's high sensitivity to rate changes will not be tested anytime soon. Australia, Hong Kong, and Singapore also exhibit relatively high rate sensitivity, but balancing factors such as robust economic performance mitigate this.

2015 Arrears and House Price Forecast



[a] pp change definition:
if 4Q14 arrears are 2.0% and forecast 4Q15 arrears 2.2%, this represents a 0.2 percentage point (pp) change

Mortgage Lending to Grow: Gross new lending should rise in all except six countries as consumer confidence generally returns. But policy measures, borrower caution, tight credit and low savings in some markets may be a constraint. The UK and Netherlands could see annual increases of 10% due to improving housing market liquidity. US volumes will fall again as refinancing activity drops on rising rates. Anticipation of rate rises is driving demand for fixed-rate products in many markets. Lending in the eurozone periphery is likely to stay weak.

Policy Focus on Sustainability: Policy supports for housing and mortgage markets put in place post-crisis are being removed, and prudential measures now target stretched markets in APAC, Canada, the UK, and perhaps Ireland soon. While such measures reduce long-term risks, they put pressure on home prices and lending.

Falling Home Ownership: Home ownership levels continue to drop in most countries due to market dislocations post-crisis: large foreclosure pipelines should displace owners in countries such as US, Spain, and Ireland, while new lending remains well below pre-crisis levels. Stretched affordability and a preference for renting (particularly for potential first time buyers) also play a role.

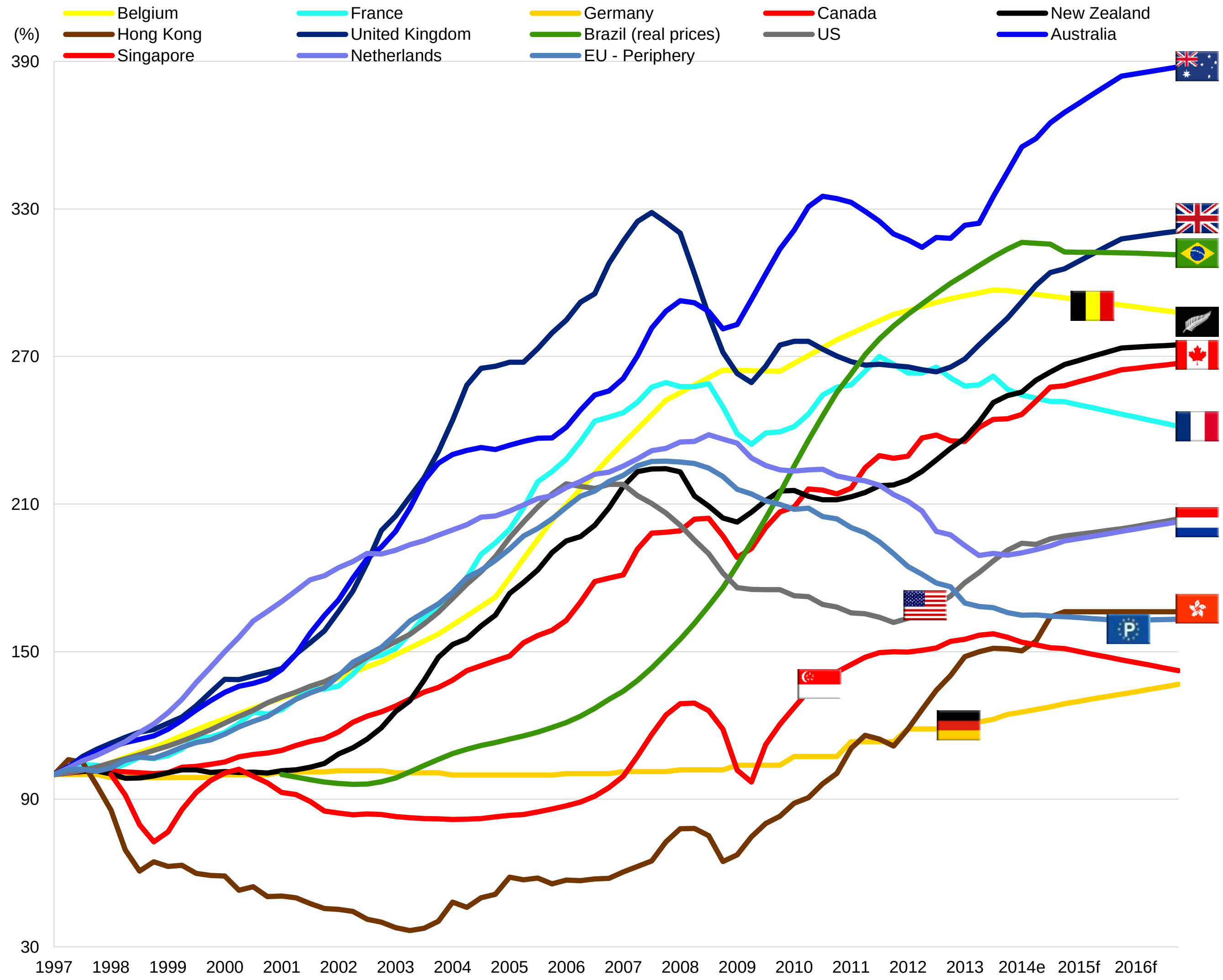
Market Indicators

	Country	Page	Nominal House Price yoy Growth (%)			Arrears[a, b] (%)			Gross New Mortgage Lending (% of Previous Year)			Mortgage Rates New Lending (%)			Overall Market Evaluation	
			2014e	2015f	2016f[c]	2014e	2015f	2016f[c]	2014e	2015f	2016f[c]	2014e	2015f	2016f[c]	Status & Outlook[d]	Change vs. 2014[e]
North America	USA	(12)	3.0	1.5	▲	8.7*	8.4	▼	60	90	▶	4.0	4.5	▲	Strong/Neutral	▶
	CAN	(14)	5.0	2.5	▲	0.3*	0.3	▶	105	105	▶	4.0	4.4	▲	Strong/Neutral	▶
Europe	UK	(15)	7.0	2.0	▲	1.4	1.2	▶	118	110	▲	3.1	3.3	▲	Strong/Neutral	▶
	GER	(17)	3.5	3.0	▲	0.5	0.5	▶	105	105	▲	2.8	2.8	▶	Strong	▶
	NLD	(18)	3.0	2.0	▲	0.9	0.9	▼	124	110	▲	3.6	3.4	▶	Strong/Neutral	▲
	FRA	(20)	-2.0	-2.0	▼	0.1	0.1	▶	75	95	▶	2.7	2.7	▶	Neutral	▶
	BEL	(21)	-1.0	-1.0	▼	0.3	0.3	▶	100	90	▶	3.5	3.5	▶	Strong/Neutral	▶
	DEN	(22)	4.0	4.0	▲	0.3*	0.3	▶	100	110	▲	3.3	3.3	▶	Strong	▲
	IRL	(23)	15.0	4.0	▲	17.9	15.9	▼	110	115	▲	4.4	4.4	▶	Neutral	▲
	ESP	(24)	0.0	0.0	▲	1.8	1.7	▼	118	115	▲	3.1	3.0	▼	Neutral/Weak	▲
	ITA	(25)	-2.0	-1.8	▼	1.5	1.6	▼	110	105	▲	4.0	3.9	▶	Neutral/Weak	▶
	PRT	(26)	0.0	0.0	▶	1.3	1.3	▼	90	100	▲	3.1	3.1	▼	Neutral/Weak	▶
	GRC	(27)	-6.0	-4.0	▼	5.3	5.2	▼	45	100	▲	3.2	3.4	▼	Very Weak	▶
Asia Pacific	AUS	(28)	7.0	4.0	▲	0.6	0.6	▶	115	105	▲	5.1	5.1	▶	Strong/Neutral	▶
	JPN	(30)	2.0	2.0	▲	0.4*	0.4	▶	97	101	▶	1.5	1.5	▶	Strong/Neutral	▶
	KOR	(31)	1.0	2.0	▲	0.5*	0.6	▲	100	105	▲	3.4	3.2	▲	Strong/Neutral	▶
	NZL	(32)	5.0	2.5	▲	0.7*	0.7	▲	95	95	▼	6.6	6.9	▲	Strong/Neutral	▶
	HK	(33)	10.0	0.0	▶	0.02*	0.02	▶	130	100	▶	2.3	2.5	▲	Neutral	▶
	SG	(34)	-3.0	-3.0	▼	0.6*	0.8	▲	60	105	▲	1.6	2.1	▲	Neutral	▶
Emerging Markets	ZAF	(35)	9.5	7.5	▲	2.0	2.0	▶	112	110	▶	9.3	10.0	▲	Neutral	▶
	BRA	(36)	7.0	6.4	▲	1.8*	2.0	▶	105	105	▲	9.0	9.5	▶	Neutral	▶
	MEX	(37)	4.0	4.0	▲	9.0	10.0	▶	100	108	▶	10.8	9.8	▶	Neutral	▶

Legend

[a] Fitch Rated RMBS 3 months plus arrears excluding defaults (* or market-wide arrears / impaired loan ratio – market-wide ratio definitions vary)
[b] Markets: US: legacy prime jumbo, UK: prime; France: France retail; Brazil: largest lender CEF
[c] Forecast: ranges from ▲ (increase) ▶ (stable), ▼ (decline)
[d] Market status and outlook: ranges on a 7-notch scale from very strong, strong, strong/neutral, neutral, neutral/weak, weak and very weak
[e] Change of Status / Outlook evaluation compared with evaluation a year ago
Source: Fitch

Nominal House Prices
(Real Prices for Brazil given higher inflation)



Source: Fitch, Central Banks, Nationwide, CBS, Scenari Immobiliari, BulwienGesa, INSEE., Case-Shiller, Stadim, RP Data, Fipe-ZAP, BIS, Bank of Greece, HK rating and valuation department

House Price Outlook: Moderate Growth Expected

APAC Policy for Soft Landing: In Hong Kong, a set of measures (affecting LTV limits, stamp duty, holding period requirements, debt-to-income rules, and interest rate stress tests) was implemented between 2009 and 2013 to get booming house prices under control. Our central expectation is that this will work and prices will finally stabilise in 2015 and 2016. Similarly, cooling measures in Singapore are expected to achieve their aim of a controlled price correction despite a solid economic outlook.

Prices in New Zealand have already responded to LTV restrictions introduced in 2013, and are likely to grow only moderately at 2% in the coming years. After 15% growth in the past 18 months, we believe Australian house prices are near an affordability ceiling and growth is expected to moderate in 2015-16.

Trend Shifts in Germany, UK: Price growth in German metropolitan centres has slowed, with a shift in demand to smaller cities and rural areas. A similar trend reversal could occur in the UK over the next couple of years with stabilising prices in London and the South East and prices catching up in the North of the country.

Dutch Recovery To Persist: A 2% price growth is likely in 2015 and 2016, supported by decreasing mortgage rates, improved lending, strong affordability, positive consumer sentiment and policy stability.

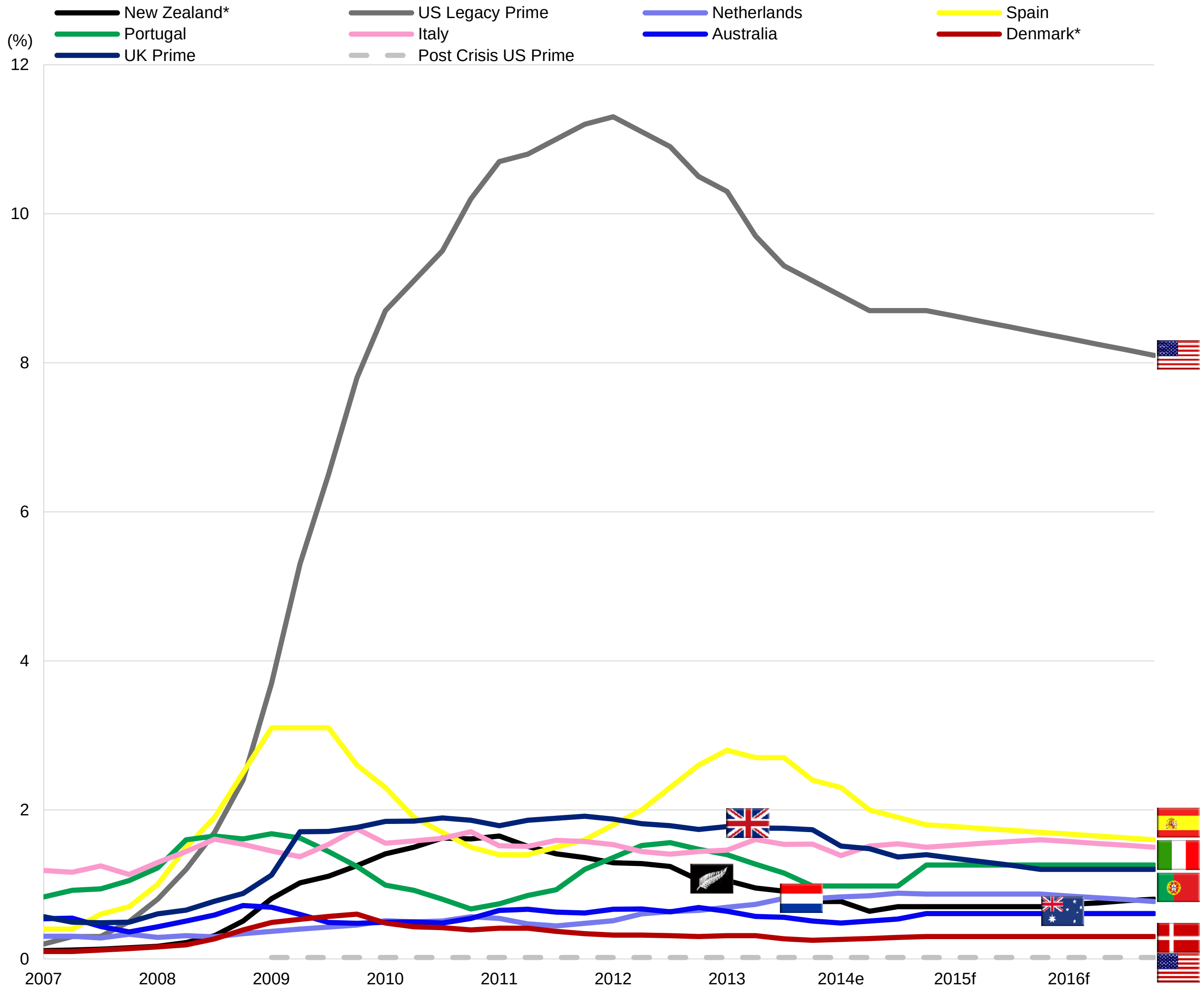
Some Eurozone Corrections Run into 2015/16: A few eurozone markets should see continued price corrections in 2015, possibly into 2016. In decreasing order of magnitude, we expect 2015 price declines in Greece, France, Italy, and Belgium – mainly driven by mortgage and housing market dislocation in Greece, overstretched affordability in France, Italy's protracted economic weakness and tax changes in Belgium. On aggregate, we expect peripheral eurozone prices to be broadly flat in 2015/16 as prices are now sustainable.

Moderate Growth in US, Canada: 2% growth is likely in 2015, driven by a positive economic outlook in both countries. However, Canadian prices remain 20% above long-term sustainable values, especially relative to income, creating risk despite other supporting factors.

Stretched affordability and government efforts to tighten underwriting (including more restrictive mortgage insurance rules) are also expected to curb growth over the short-term.

Brazil Cooling Down: We expect unchanged real prices in 2015, with decreases in regions with weaker economic outlooks. Prices in large cities are supported by limited supply and good credit availability.

3m+ Arrears
(Fitch-rated transactions excluding defaults or *market)



Source: Fitch, Realkreditradet, RBNZ; Fitch RMBS arrears data exclude defaults

Mortgage Arrears Outlook: Stable Supported by Rates, Prices, Growth, Employment; but Potential Threats Exist

US Recovery Continues: A significant number of borrowers remain in negative equity in cities hardest hit during the downturn. Delinquencies on legacy prime loans remain high (at 8.7%) but continue to improve. While home price growth has slowed, the recovery is expected to continue over the short-term due to the expanding economy. Recent-vintage prime mortgage performance should remain exceptional due to strict underwriting.

Australian Arrears to Remain Stable: With interest rates at all-time lows and the economy expected to grow above trend in 2015-16, mortgages are expected to continue to perform at current levels.

Netherlands Arrears Level off: Dutch arrears should stabilise at 0.9% in mid-2015 as performance tracks the economic recovery (with a lag) with GDP growth, stable employment, and quicker repossessions keeping arrears stable through 2016.

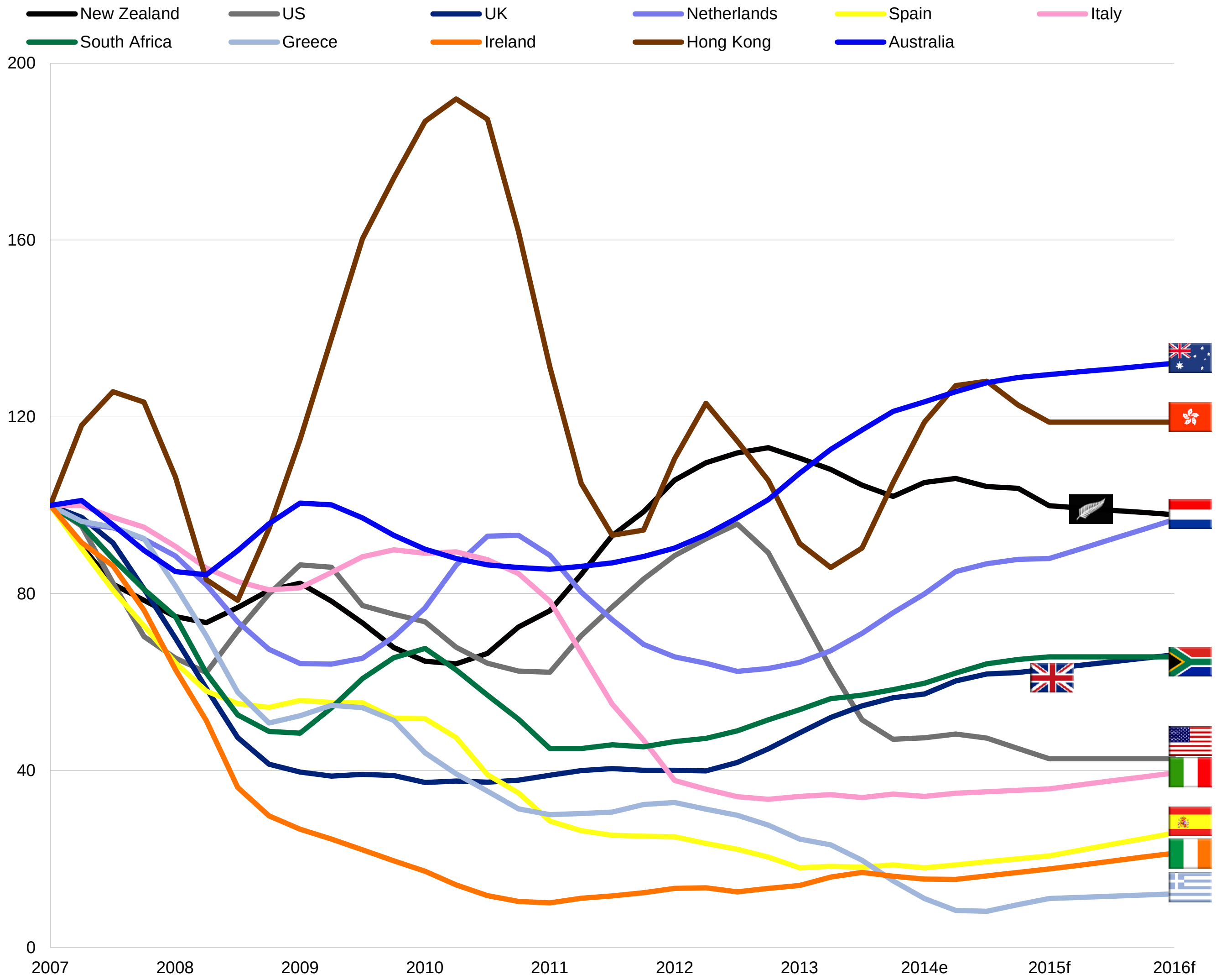
Eurozone Periphery Jobless Risk: Improving labour markets should support performance in Spain and Portugal, where we expect NPLs to stabilise in 2015 and fall in 2016. However, high long-term unemployment presents a risk. In Italy, continued labour market challenges could pressure performance, with arrears rising modestly. **Irish Arrears Resolution to Gather Momentum:** We expect market-wide arrears to decline by around 2pp per year in 2015/16 as existing arrears cases are being resolved and the inflow of new arrears cases subsides. This is supported by economic and house price recovery.

Dutch, Spanish Deflation Challenge: Protracted eurozone deflation, though not our base case, would be cushioned by low rates and sticky nominal wages. Accompanying house price deflation would have the greatest impact in Spain, where household debt remains high, and on Dutch interest only borrowers with less room to amend terms.

New Zealand Rate Rises: Its central bank was the first developed market central bank to raise rates again. Higher house prices versus incomes in recent years have made borrowers more susceptible to further rate rises, but falling unemployment will offset this, keeping performance strong and arrears broadly steady in 2015 and 2016.

Rate Risk Varies: The expected modest and gradual nature of future rate rises in most major markets should limit the impact on prime performance (see page 7 for more detail on rate risk).

Gross New Mortgage Lending
Rebased Q4 2007 = 100



Source: Fitch, Central Banks, National Statistical Instittutes, RBNZ, HKMA, MBA, CML, RBA, DNB, BoG, BoS, BoI, DoECLG
Brazil*: Q1 2011 = 100

New Lending Outlook: Gradually Improving due to Policies, Economy

US Lending to Fall: We expect US lending to fall 10% in 2015. Refinancing volumes will continue to contract as most borrowers who can refinance have already done so in anticipation of rising rates. With respect to purchase volume, only modest credit expansion is expected. Rising home prices, tight credit conditions and mortgage interest rates will weigh on mortgage volumes over the short-term.

Further Increases in UK, Netherlands: We expect UK lending volumes to grow by 10%. This will be due to improved housing market activity and attractive re-mortgage rates in anticipation of rate rises. In the Netherlands, low rates, increased affordability, high consumer confidence, and government moves to shrink the social renting sector should drive origination volumes to increase about 10%.

Eurozone Periphery Borrowers Wary: Borrower caution amid a sluggish economy and following large housing corrections may limit demand for mortgage credit even where supply appears to be increasing, such as in Spain, Italy and Portugal.

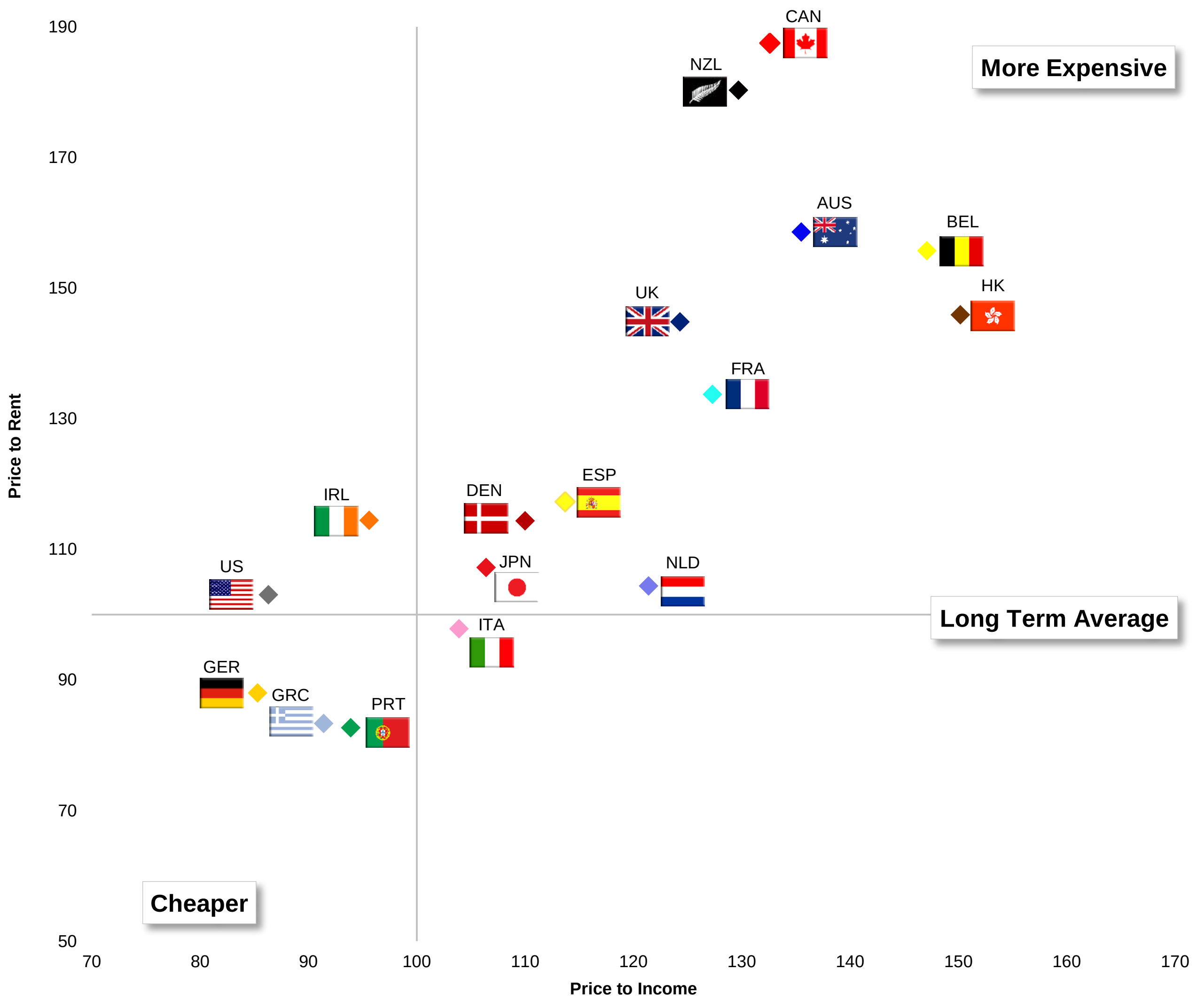
Spain's yoy lending growth forecast is positive, but the recovery is from very low post-crisis levels. Lending has reached a new low in Greece and we expect volumes to trough in the next two years. Our base expectation for Ireland is for increased mortgage lending volume growth of 15-20% from low levels. However, proposed loan-to-value/income caps could affect mortgage volumes in Ireland.

Measures Impact APAC Lending: Cooling measures in Hong Kong and Singapore will keep lending in check. We forecast new lending growth of 0% and 5% for these markets. New Zealand's high LTV restrictions should be lifted as the housing market slows, allowing more first time buyers into the market. In South Korea, the relaxation of the LTV cap will support new lending.

Pressure on Investment & IO Lending in Australia: A recently announced curb on investment lending and a regulator investigation into the use of interest only loans may constrain lending in 2015.

South Africa's Recovery to Continue: Growth in mortgage lending, slightly outpacing house price appreciation since mid-2013, may be due to an improved lending environment with banks having largely cleared the backlog of defaulted mortgages. Lending growth should continue in 2015 but this may represent a longer-term risk if lending growth is to the detriment of underwriting quality.

Affordability: Price to Rent and Price to Income
Relative to long term averages



Source: OECD, Fitch, IMF, Real Estate Economic Institut Co. Ltd, Ameco, BIS, Statistics Bureau Japan

House Price Affordability: Cheap vs. Expensive Markets

US Still Mostly Cheap: Strong rental growth will continue in 2015 due to rising rates and increased prices for buyers. Net migration from suburban areas into city centres will add to existing high demand there pushing up rents. Despite better affordability, home purchases remain a stretch for some, while others are reluctant to buy. Property sales remain more than 30% below their 2005 peak.

Canada, UK, Australia Stretched: Canadians struggle with some of the highest average mortgage debt amounts and house price affordability ratios: price-to-rent/income ratios will be strained further in 2015 as prices rise. Also, mortgage rates are set to increase. UK affordability ratios are above long-term averages, with further deterioration expected in 2015 and only a slight easing in 2016.

Australian property remains among the most expensive on almost all metrics. With almost 25 years of continuous GDP growth, record low rates and stable unemployment, Fitch expects Australian prices to remain high and affordability likely to slightly worsen in the near term before levelling off as it reaches an affordability ceiling.

Dutch Price-to-Rent to Improve: While prices should grow in tandem with income in 2015, the price-to-rent ratio should improve further as rents are forecast to increase faster than prices in 2015-16 on social rental market reforms.

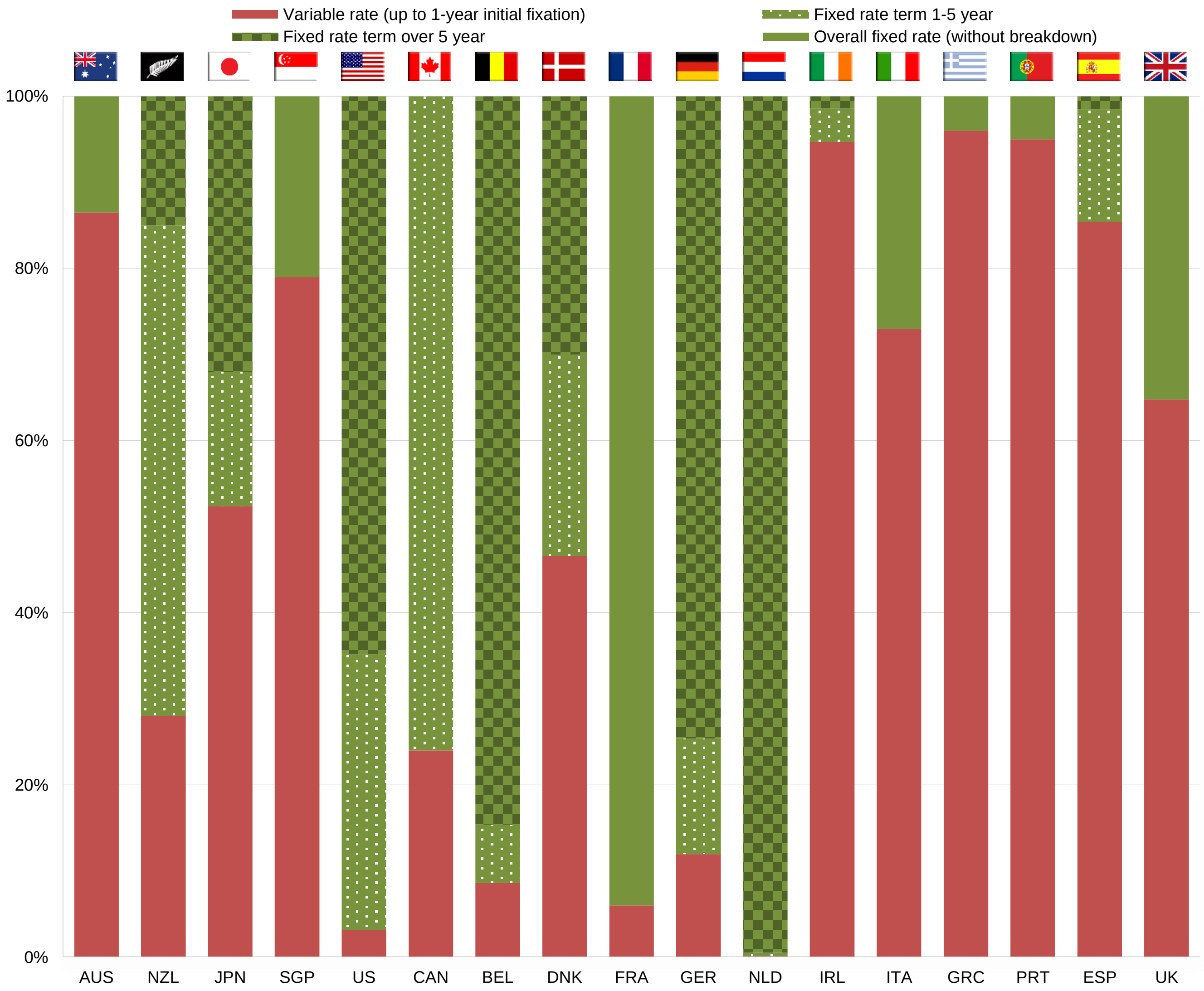
Belgian Tax Change: Belgian property is relatively expensive as measured by price-to-rent/income. In 2015 and 2016, the positive effects of near-term decreasing house prices should offset the reduction of tax advantages for buying a house – resulting in a net-neutral impact on affordability.

Stronger Eurozone Periphery Affordability: Ratios for Portugal, Greece, Italy, and Ireland are driven by significant house price corrections and should stay strong in 2015-16 due to resilient rents and moderate nominal income growth.

Despite seven years of declines, Spanish prices are still 10% above long-term averages relative to both rents and income. For 2015, we expect small improvements in Spain. However, as long as rates stay low, house prices are likely to settle above long-term averages.

Hong Kong, Singapore Cooling Measures: Affordability indicators for Singapore should improve in 2015-16 as macro-prudential measures reduce prices. Measures in Hong Kong should moderate price growth; but the risk is significantly to the downside as all ratios measuring the affordability strain are far above long-term averages.

Mortgage Product Interest Variability
On Outstanding Mortgages



Source: Data and Estimates by EMF, MFAA, JHF, DBS, BoG and Fitch

Interest Rate Risk: Varying Sensitivity to, But Low Likelihood of, Mortgage Rate Rises

US, Canada Rates to Rise, but Impact Muted: As both economies improve, central bank policy is expected to drive up interest rates by approximately 40-50bp over the next year, with further increases possible in the longer term. However, the high percentage of fixed-rate products in both markets will limit the impact on performance.

Eurozone Periphery Interest Rate Sensitivity: The ECB is likely to adhere to low rates in 2015-16 to stave off the threat of deflation. As a result, mortgage rates in most EU countries should stay broadly steady. Countries with variable rate mortgages, high household debt, and weak macro fundamentals would be most affected by higher rates, including Spain, Portugal, Greece, Italy and Ireland.

Different Risks for Fixed Rate Markets: Borrowers in short-term fixed-rate EU markets are more immune to rises, but would still face some degree of refinancing risks and house price declines if rates were to rise. The Netherlands is more vulnerable due to high household debt, with a third of homeowners in negative equity. The often longer-term fixed German loans and fixed-for-life Belgian and French loans are more insulated.

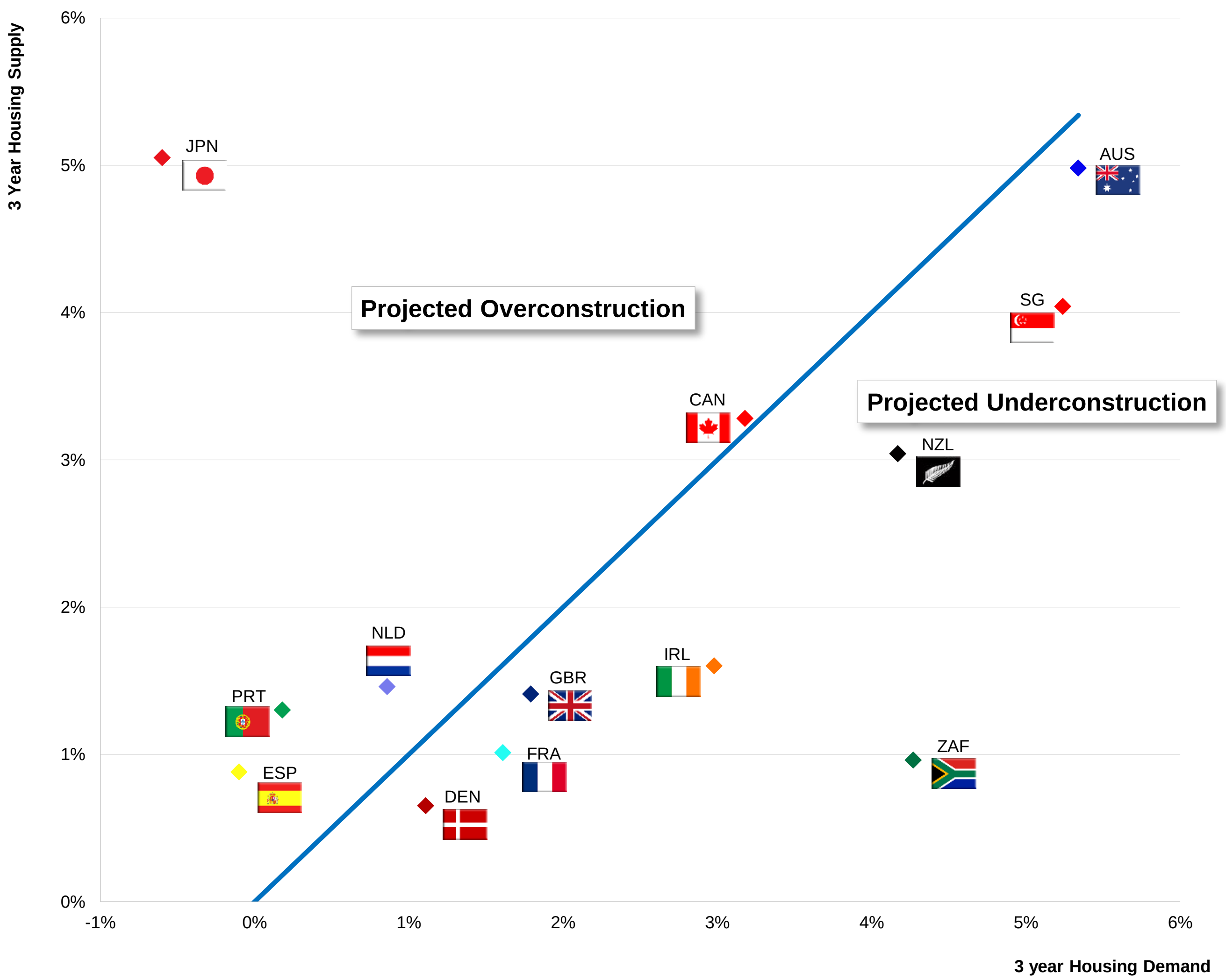
UK Becoming Fixed: The UK trend towards fixed rates (about 80% of new vs. 35% of outstanding loans) is to continue in the face of rising rates, thereby protecting borrowers. Rates are typically fixed for two years but five year fixed rates are increasing.

Danish Reset Periods Rising: The average reset period should increase in 2015, as lenders look to reduce refinancing risk by incentivising borrowers on short-term reset mortgages to switch to mortgages with 3-5 year interest reset periods, funded by 3-5 year covered bonds.

Some APAC Markets Exposed: Australia, Hong Kong and Singapore – predominantly variable rate markets with relatively high interest rate sensitivity – all face mortgage rate increases over the next few years. However, the rate pressure on mortgage performance is mitigated by market-specific factors, especially the solid economic outlook.

For similar reasons, the negative effect of rate rises on house prices is unlikely to become very visible in Hong Kong and Australia before 2016. Most existing borrowers in New Zealand are more immune against the expected continued rate rises as the market is largely composed of short-term fixed rate loans. However, new buyers do not benefit from this protection, which will keep house price growth low.

Estimated Housing Supply[a] and Demand 2014-2016



Source: Fitch, National and International Central Statistics Institutes and Central Banks
[a] Esitimated supply figures are based on construction starts, completions and assumptions around conversions of starts into completions

Housing Supply / Demand Imbalances Drive Regional Prices

Supply-Demand Graph: The graph compares estimates of new housing supply and demand for 2014-16. Demand is represented by the forecast population change (x-axis), adjusted for average household size. Supply is shown as Fitch projected completions over the same time period. Both are expressed relative to the number of households. The ratios presented are simplistic in that they mainly emphasise new (as opposed to existing) supply and demand.

Low Demand on Iberia Peninsula: Both Spain and Portugal are still suffering from the crisis, with young people emigrating and housing output at low levels. Oversupply in Spain is primarily driven by unsold new builds from 2006/7 rather than new supply. This should help keep Spanish house prices constrained in 2015/16.

Demand Beats Supply in UK, France: The UK shows little new supply compared to its immigration influx. This undersupply supports prices in the near future. France is in a similar situation of chronically restricted housing supply. In both countries, the supply / demand mismatch is likely to remain a driving factor for prices.

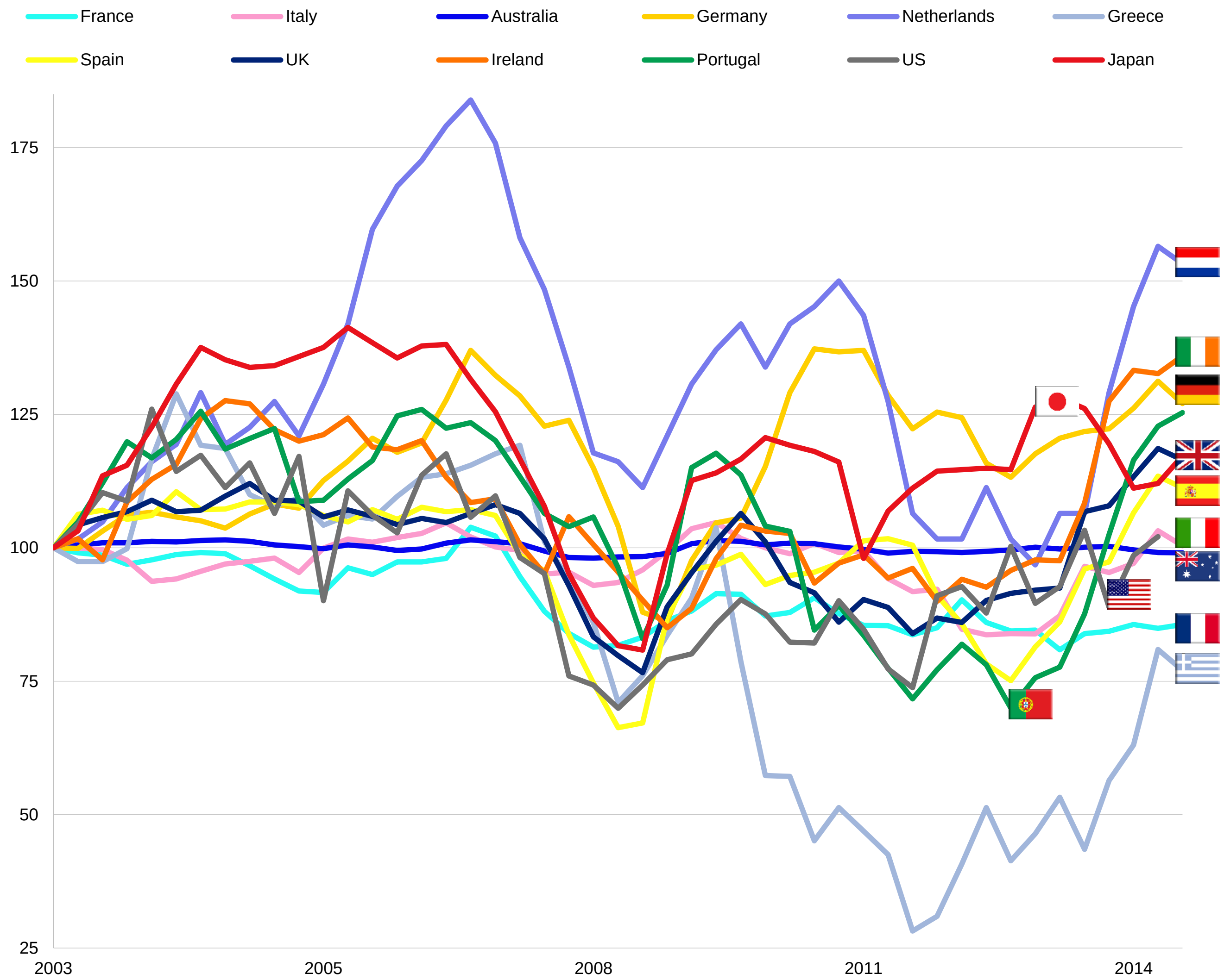
Supply Lags Post Corrections: Construction in Ireland is subdued following the housing bust, while immigration is expected to pick up again following the stabilisation of the economy. South Africa has a similar situation of under-construction, albeit with a smaller housing overhang and more organic population growth.

Immigration Meets Australian Supply: In addition to strong investor demand, Australia features large population growth, partly driven by immigration. Larger-than-average construction activity is broadly keeping pace with demand.

Japan Demographic Decline Contrasts Strong Supply: Japan is gradually feeling the effects of an aging population, but new construction is at relatively high levels. This discrepancy is explained by a strong preference of Japanese buyers for new houses combined with a shorter average lifespan of existing homes, and is also reflected in high residential vacancy rates. Strong supply may keep price growth in check in the long-term even if inflation were to pick up.

Canadian Construction Finds Demand: Canadian construction rates remain high, especially in major cities, but Fitch generally sees support for these trends given continuing population growth and immigration, though risks exist in pockets of overbuilding. Recent price trends and demographic shift into cities have generated high redevelopment rates in the urban centres, and condo construction represents a high proportion of overall building.

Consumer Confidence
Rebased Q1 2003 = 100



Sources: I.N.S.E.E, DG ECFIN, CBS, MoE&F Spain, OECD, Cabinet Office Japan, FKI, ISTAT

Consumer Confidence, Macro Outlook: Drive Housing Demand

Confidence Drives Investment: Consumer confidence has become more relevant for macroeconomic performance in this cycle than previously and has improved significantly in most countries since 2012, albeit from very low and very different levels.

Amid deleveraging pressure, high unemployment and subdued real income growth, consumer confidence became a key determinant for household consumption and investment decisions. House purchase decisions in the next 6-12 months are influenced by current consumer confidence levels.

Strong Eurozone Rebound But Improvements Uncertain: The rebound has been particularly strong in countries where the household sector built up large imbalances before the crisis, like Ireland, Spain and Portugal. The recovery in confidence has helped to stabilize domestic demand and is expected to have further positive spill-over to the housing markets in the next two years.

Eurozone Risks Linger: Most recently, the confidence improvement has come to a halt in many countries, in particular in the eurozone. This reflects increased geopolitical risks, deflation fears, structural bottlenecks, and private sector deleveraging. Confidence has also declined in countries with relatively solid fundamentals, like Germany, thereby keeping housing demand in check across the eurozone.

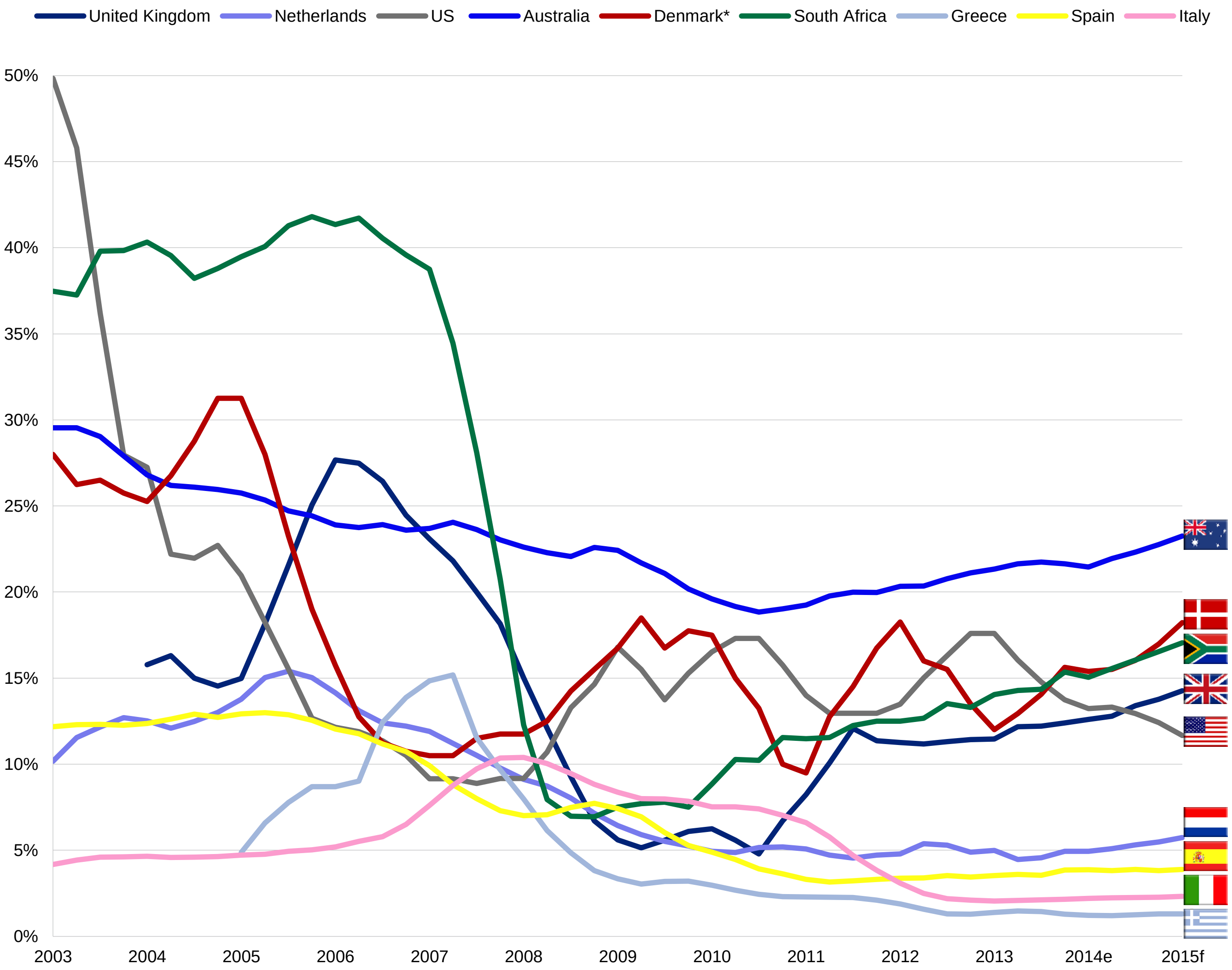
UK Prices Supported by Confidence: Accelerating consumption growth has gone hand-in-hand with double-digit house price increases. Risks concerning overheating have built up, but for as long as the UK recovery remains broad-based and UK consumers maintain their positive mood, prices are unlikely to correct sharply.

Positive US Momentum: US consumer confidence is gradually reaching pre-crisis levels as the economy recovers and turns into the main driver supporting global growth. Fitch expects strong GDP growth of around 3% in the next two years, accompanied by higher household disposable income and a strengthening labour market.

Australia Stays Steady: 25 years without a recession have created constantly confident consumers in Australia. Continuing confidence provides comfort for the near-term mortgage/housing outlook.

Japanese Confidence Defies Recession: Despite entering the fourth recession since 2008, consumer confidence in Japan has been improving from a low point in 1Q14. This is in line with Fitch's view that some of the drag on the economy is temporary and that a broader range of factors remain conducive to stronger growth.

Prepayments
Fitch-rated RMBS



Source: Fitch

RMBS Prepayment Outlook Stable/Rising Reflecting Lending Volume Growth

Competition to Drive Up UK, Dutch Prepayments: Upward trends for UK prepayments should continue, with prepayment rates forecast to rise to 15% by end 2015, up from 12% currently as lenders compete for mortgage volume. Some legacy loans will see constrained prepayment rates, due to either not fulfilling affordability criteria or being on low-rate tracker mortgages with no incentive to prepay.

With the Dutch market strengthening, competition among mortgage lenders to attract borrowers is expected to result in modest increases in prepayment rates to above 6% in 2014. In particular, lenders who are less aggressive in maintaining market share may see more borrowers leaving for preferential terms.

Rising Rates to Affect US Prepayments: With rates poised to rise in 2015, and most eligible borrowers already having refinanced over the past few years to take advantage of low rates, prepayment rates are expected to remain low for the foreseeable future.

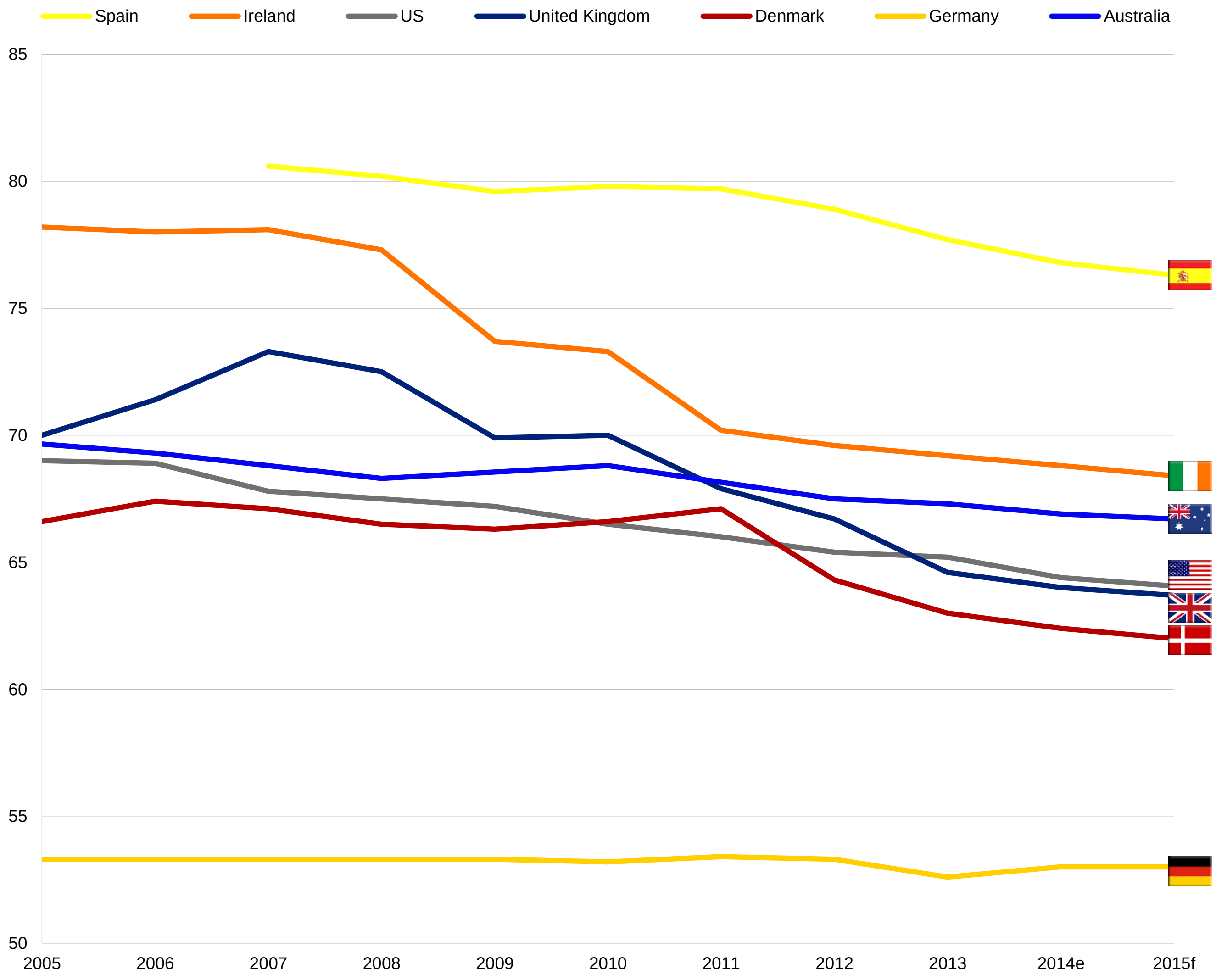
Australia Prepayments High due to Market Activity: From a low of 17% in 2011, mortgage prepayments have increased gradually, with prepayments now at 21%. Fitch expects the prepayment rate to continue to rise in 2015 due to a continued level of refinancing, strong transaction volumes, and a competitive lending environment.

New Products Incentivise Danish Borrowers: Newly-available 30-year fixed mortgage products have proven attractive to borrowers in short-term adjustable loans, and the low rate environment is expected to maintain prepayment rates above 15%.

South African Prepayments Rise: Fitch expects 12-month average payment rates to increase by 2pp, up to 16% in 2015, continuing a trend of rising prepayments since 2009. This should be supported by increasing mortgage lending and market liquidity.

Tight Lending in EU Periphery: With underwriting tight, a dearth of remortgage-targeted products, and borrowers not otherwise incentivised to repay early, prepayments will remain low. Without a more robust recovery that improves economic conditions and drives sustainable credit expansion, prepayments will remain low in the short-to-medium term.

Home Ownership (%)



Source: Fitch, Eurostat, US Department of Commerce

Home Ownership: Dislocations Feeding Downwards Trend

First Time Buyers Locked Out: Tight credit availability and stretched affordability should continue to lead to falling home ownership levels in many countries around the globe. A generation of first time buyers is largely priced out of the market, which could result in further market dislocations and corrective policy measures.

Falling US Ownership Part Involuntary, Part Choice: The US ratio has fallen from 69% in 2006 to 65% now. The steady decline was driven by foreclosures, mortgage scarcity, and unemployment. Despite largely solid affordability now, Fitch expects owner occupation to weaken further in part due to tight lending conditions and a shift in consumer preference toward renting due to flexibility advantages.

Spain, Ireland Declines Decelerate: Both countries have seen substantial declines in home ownership ratios since 2007. The Irish market bottomed out in 2012, 2-3 years ahead of Spain. This time lag will in our view also be reflected in ownership decreasing for longer in Spain. Taking the first step onto the housing ladder will remain a challenge in 2015, as lending in both markets remains very low.

Weak Affordability to Keep UK Ratio Low: UK home ownership dropped in just six years from 73% to below 65%. The marked decline was driven by combined economic, lending and housing market weakness. While the drivers are now recovering, there is little upside for the UK owner occupation ratio. Price-to-rent/income indicators are already uncomfortably high, could further deteriorate in 2015, and will be accompanied by additional stress from rising rates.

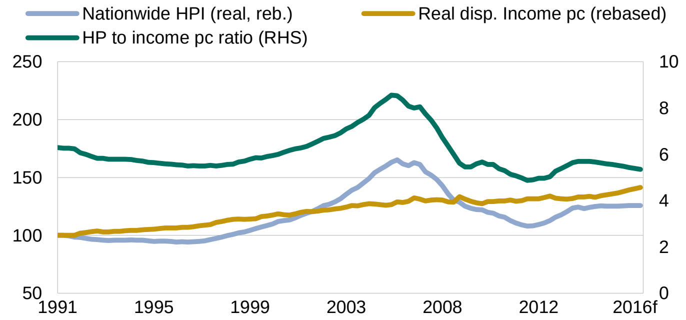
Steady German Attitude to Ownership, Debt: German home prices are widely seen as cheap when compared to other countries, incomes are rising steadily in line with house prices, and there is a perceived lack of attractive investment opportunities.

Despite all this, we do not expect homeownership to increase materially. This is partially because culturally ingrained attitudes to ownership and debt are slow to change, but also because tenants in Germany enjoy a protected status and a wide choice of high-quality rental housing.

Australian Ownership Decline to Continue: Strong capital city house price growth has reduced home ownership levels from 70.7% in 2000 to 67.5% in 2012. More recently, investor demand has increased which also contributes to the crowding out of potential home buyers. This trend is set to continue as ongoing affordability pressures make renting attractive relative to buying.

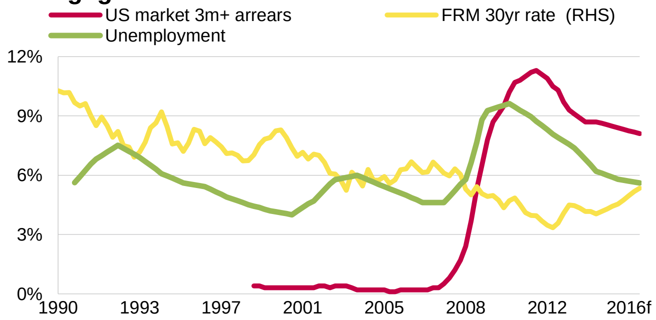
United States

House Prices and Affordability



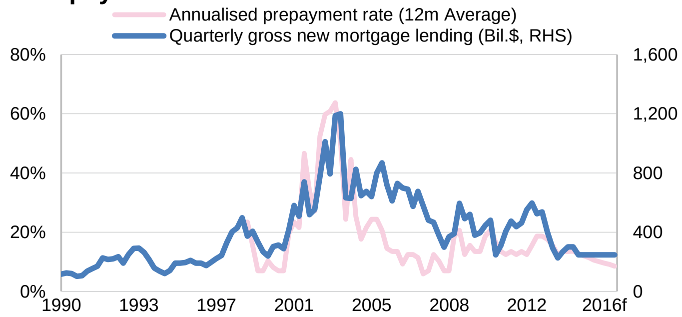
Source: Fitch, Case-Shiller, IHS Global Insight

Mortgage Rates and Arrears



Source: Fitch, PMMS, LoanPerformance

Prepayments



Source: Fitch, LoanPerformance

House Prices: Market Hits Inflection Point; Growth Rates Turn

After annualised home price growth of 10% from January 2012 to January 2014, market momentum has stalled, growing at an annualised rate of 2.4% YTD in 2014, less than the rate of inflation.

In general, Fitch views home prices nationally to be sustainably valued, and does not expect significant growth in prices in 2015. Fitch projects that prices will grow at approximately 1.5%, in line with inflation, with the potential for upside stemming from a continuing economic recovery, and downside from an expected increase in interest rates. Restrictive mortgage guidelines may also limit the amount of credit available for borrowers returning to the market.

According to Fitch's Sustainable Home Price model, national prices are roughly sustainable when compared to long-term equilibrium values. Several regional markets, including California and Texas are viewed as overvalued, and may experience modest corrections back towards sustainable values in 2015, though larger downturns are considered unlikely. See also U.S. RMBS Sustainable Home Price Model.

Affordability: Positive, but Risks on the Horizon

Mortgage rates have remained at or near record low levels for several years now. Fitch expects that interest rates will begin to rise modestly in mid-to-late 2015, pushing affordability downwards as a consequence of higher house prices and upward rate pressure.

Rising prices and expected upward drift in interest rates will stress affordability. Because rates are not expected to rise significantly, impacts on current borrowers should be negligible, though demand may soften as some potential homebuyers remain renters in the face of increasing costs.

Mortgage Rates: Rates Poised to Rise

While now higher than at the trough in 2012, mortgage rates still remain at historically low levels, generating high affordability that has contributed to the rise in home prices over the last several years. The low rate environment has also contributed to significant volumes of refinance loans for borrowers looking to lock in these rates.

Driven by central bank policy, Fitch expects that mortgage rates will increase approximately 50bp by the end of 2015. With this modest increase, Fitch expects a muted impact on the market at large. Current mortgagors are unlikely to see significant stress from small rate increases, though rising mortgage costs may discourage new buyers from entering the market, dampening demand.

Mortgage Performance: Recovery to Improve Delinquency Rate

Boosted by significant home price growth over the last two years, delinquency rates on legacy loans have been falling steadily, though large improvements have been elusive. With home price growth already showing evidence of slowing, potential further performance improvement is highly dependent on a continuing economic recovery.

Fitch expects the economic recovery to continue, though with some concerns over the broadness of the recovery. Median household income has been slow to recover since a bottoming out in 2011, and remains 7% below pre-recession values in real terms. Yet, unemployment trends are positive, and GDP growth has rebounded to more healthy rates. Fitch projects that delinquency rates on legacy collateral will fall by 30bp in 2015. For loans originated post-2010, performance has been exceptional, and Fitch expects this trend to continue.

Mortgage Volume : To Decline With Rising Rates and Prices

New lending volume is expected to decline 10% in 2015, as high prices and upward interest rate pressure weigh on a recovering market. With rates still near historic lows, most able borrowers have already refinanced, and this volume will represent a smaller slice of the market going forward. 2014 originations will be 40% below 2013 levels.

Borrowers who have found access to credit difficult in the recent tight underwriting environment may see opportunities in 2015, but lenders remain cautious, and this is unlikely to give a significant boost to the overall market volumes. Furthermore, wage growth remains stagnant, and household formation rates, while improving over the last year, remain very low by historic standards.

Fitch expects that lending volumes will remain relatively low, and any volume added from greater credit availability will be counterbalanced by the effects of high prices and rising rates. Origination volumes are likely to remain low for several years as the market works to find a new equilibrium of demand, lending standards, and home availability.

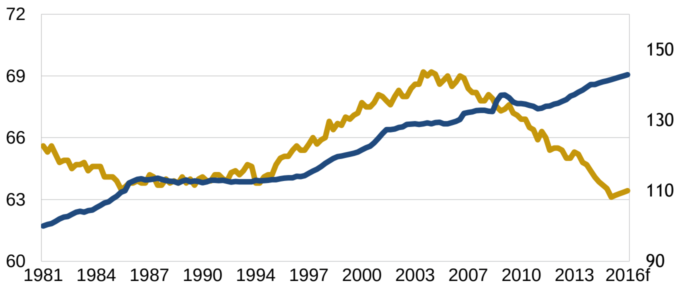
Prepayments: End of Low Rates in Sight, Prepayments Will Lag

As mortgage rates hit all-time lows in 2012, large numbers of borrowers refinanced into products designed to lock in low rates, elevating prepayment rates. With rates expected to rise in 2015 and beyond, prepayments are expected to be low for the foreseeable future, dropping from an average of 13% in 2014 to 10% in 2015.

Fitch expects low prepayment rates to be the market's new normal for the next several years until the mortgage landscape changes more significantly, though should prices keep growing, refinance volume will grow for underwater borrowers who return to positive equity.

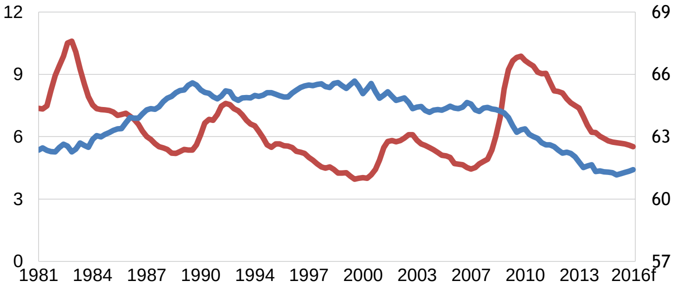
United States (cntd.)

LiquidationTimelines and Deliquent Inventory



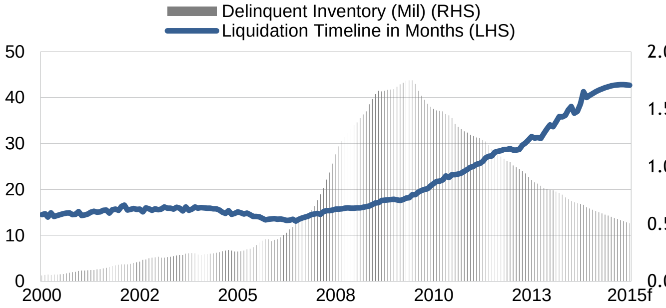
Source: BLS, US Census

Unemployment and Labor Force Participation



Source: IHS Global Insight

Liquidation Timelines and Delinquent Inventory



Source: Fitch, Loan Performance

Rents: Will Continue to Rise as Buyer Incentives Shift

Rents have risen significantly in the years since the housing downturn, and increases are expected to continue in 2015. In particular, there has been a marked increase in the number of renters, especially in cities where high levels of foreclosure pushed homeowners out. Also, changing preferences are increasing demand in the urban cores, pushing up rents in areas of tight supply while unit purchase remains a stretch for some potential buyers.

Fitch expects rental growth trends to continue as marginal buyers opt for renting over buying, a decision that will continue to look attractive with upward rate pressure and high prices in 2015, especially in cities with high demand growth in the urban centres.

Home Ownership Rate: Expected to Remain Permanently Lower

Aided by loose lending standards and an exuberant market that encouraged the use of homes as an investment, home ownership rates peaked at 69% in the US in 2006. Since then, however, ownership rates have dropped significantly, and are currently below 65% and continue to trend downward. This change is driven by two main groups: those that lost their homes when home prices fell, and those that remain hesitant to embark on a path of home ownership after having witnessed the market stresses of the last decade.

As the economy continues to recover, ownership rates are likely to stabilise, but Fitch expects that home ownership rates will not recover to their mid-2000s market peaks, with a higher proportion of able or marginal buyers opting to rent over the next several years.

Unemployment: Last Year's Improvement Expected to Persist

National unemployment has continued to improve modestly, and is now on a stable downward trend since 2010. The rate has dropped below 6% for the first time since 2008, with a further 0.4% improvement expected in 2015. However, while the stream of good news has been consistent, it has also remained modest, and the rate of improvement has been slower than out of any previous US recession.

Unemployment rates will continue to improve, though Fitch expects improvements to be too modest to affect large-scale impacts on the national economy.

Labour Force: Low Participation Rates Likely to Continue

Balancing out the improvements in unemployment rates, labour force participation rates continue to set record lows. Now at 61%, the percentage in the workforce has dropped by more than 3% from pre-recession levels, and notably, has continued to drop as the same rate despite an ostensibly improving job market. In all previous US recessions, decreasing unemployment rates have prompted a return back to the work force, but this recovery continues to be characterised by workers remaining on the sidelines, or delaying starting careers in the face of a difficult employment market.

Fitch highlights the risks about the shrinking labour force rate, and expects that the recovery will continue to be fragile until its benefits can reach a larger percentage of workers. Fitch expects that softer housing demand will continue as long as these rates remain depressed, especially in the entry-level market.

Liquidation Timelines: Still Climbing, but Improvement Expected

There have been significant extensions in the timelines required to foreclose upon and liquidate loans over the last several years. The average loan liquidating today has a timeline of nearly 40 months, more than three times the pre-crisis average, and mandatory arbitration and judicial backlogs continue to affect loans in the pipeline. However, rising prices have improved workout conditions, making it easier for banks to come to terms with borrowers, or even allowing borrowers to sell their properties to cover overdue mortgages.

As more distressed loans are able to clear favourably, Fitch expects liquidation timeline pressure to ease, though in the short-run, extensions are still expected since there remain highly seasoned delinquencies left to clear. However, Fitch expects that especially for newly-delinquent loans, liquidation timelines will begin to decline, though a full return to pre-crisis levels is unlikely, and a 'new normal' is expected that would take resolution times to approximately 18 months.

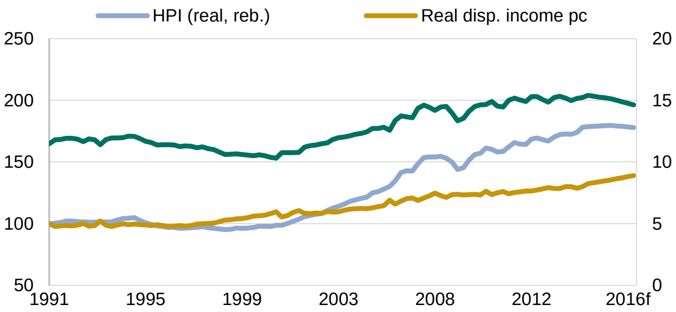
Loan Resolution: Higher Prices Enable Non-Foreclosure Workouts

Rising prices have significantly eased the process of clearing delinquent loans, both from improved borrower workouts with the lenders, and from a decrease in underwater mortgages that have enabled some distressed borrowers to sell in markets with significant price growth.

Overall, Fitch expects that the percentage of home sales that are distressed will fall as rising prices create more favourable options for both lenders and borrowers.

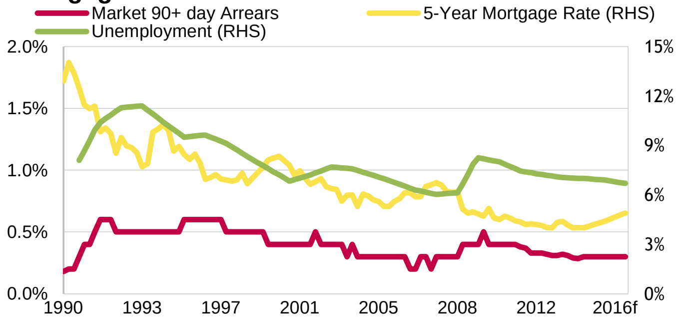
Canada

House Prices and Affordability



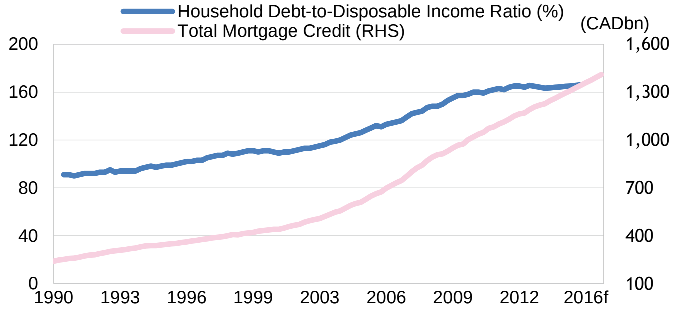
Source: Fitch, StatCan CREA, Teranet, BTMM, BIS

Mortgage Rates and Arrears



Source: Fitch, StatCan, CBA

Mortgage Lending



Source: Fitch, StatCan, CBA

House Prices: Growing Economy, but Overvaluation an Issue

Driven primarily by economic growth, home prices continue to grow at a fast rate, increasing by approximately 5% over the last year. After a lull starting mid-2012, the economy expanded, growing at an annualised rate of 2.4% over the past four quarters. However, some economic downside is possible from falling prices in the energy sector, which underlies a large portion of the economy.

Fitch expects that economic growth will continue, and projects a 2.5% increase in prices in 2015. However, Fitch sees national prices as approximately 20% overvalued compared to growth in long-term economic fundamentals, leaving markets exposed to downside risk. But, no significant downward price movements are expected, and Fitch expects to see a moderation of price growth rates in 2015.

Affordability: Decreasing on High Prices and Rising Rates

Affordability remains a primary concern, as high prices have caused mortgagors to take on increasingly large debt burdens to afford homes. Today, with household debt-to-income ratios over 160%, the potential for rising rates makes some borrower stress likely, and the affordability of mortgages for new market entrants may be strained.

Fitch projects affordability to continue to be pressured, with prices likely continuing to rise modestly, and pressure from increasing interest rates in the next few years. Though the economy is expected to continue to expand, wage growth will be insufficient to counteract rising rates and high prices. Yet, a lack of risky mortgage products and high average borrower equity levels mean that risk exposure is limited in the market.

Mortgage Rates: Upward Pressure on the Horizon

Low interest rates have been a significant part of the stimulus which has allowed consistent price growth and low delinquencies over an extended period of time. With lending costs low, borrowers have been able to take on record levels of household debt which have financed the expansion in prices nationally.

Fitch expects that rates will rise approximately 40bp in 2015, posing a modest stress to the economy, though more substantial rate movements are likely further down the road. With borrowers holding record debt amounts, there is a potential for rate changes to restrict the continued price growth that has been fuelled by affordability, and have a negative, but limited, impact on mortgage performance.

Mortgage Performance: Closely Tied to House Price Trends

After a spike in delinquencies in early 2010 following a brief downturn in home prices, mortgage delinquencies have continued to trend downward over the last several years. In general, the delinquency rate has been highly correlated to home price movements in the past, and consistent upward growth in prices since mid-2009 has borne strong market performance.

Fitch expects strong mortgage performance to continue, though support from rapidly rising prices may wane, with a moderation of growth rates expected in 2015. Historically, delinquencies have stayed at low numbers by international standards, peaking at only 0.65% in 1992, and a generally strong quality of mortgage products in the market causes Fitch to expect the same strong performance in coming years.

Lending Volumes: Limited Growth of Riskier Insured Mortgages

Policies from the government-sponsored Canadian Mortgage and Housing Corporation (CMHC) have attempted to limit the origination of riskier mortgage products by restricting the amount of bulk portfolio insurance available to lenders originating loans with low equity or other risk features. While not a direct underwriter, CMHC's influence on banks' lending policies is clear, and in general, it has succeeded at restricting the types of products available in the market.

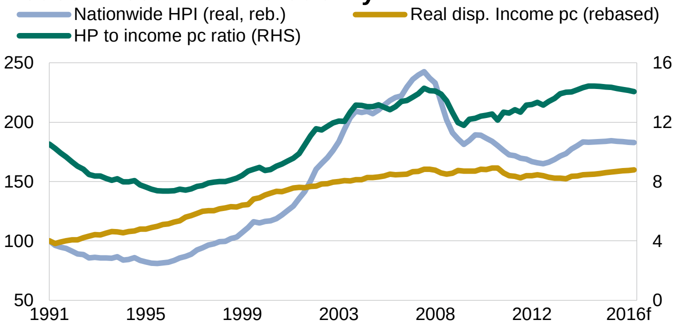
These restrictions have generated a pullback on the rate of growth of total outstanding lending, though enthusiasm over rising prices has maintained a steady stream of new lending, and lending volumes remain above long-term averages.

Due to the nature of typical mortgage products (five year term with automatic renewal), prepayment statistics are not a focus of the market, since loans are prepaid by definition at renewal. In addition, mortgagors tend to borrow from banks with which they have strong financial ties, including other credit and deposit accounts, and so tendencies to shop around for a refinancing product are lessened.

Fitch expects that mortgage lending volumes will continue to grow at the slower rate observed over the last year. As affordability declines and riskier lending products continue to be discouraged by government policy, some marginal homebuyers will find it harder to acquire mortgage funds, potentially lowering total market demand.

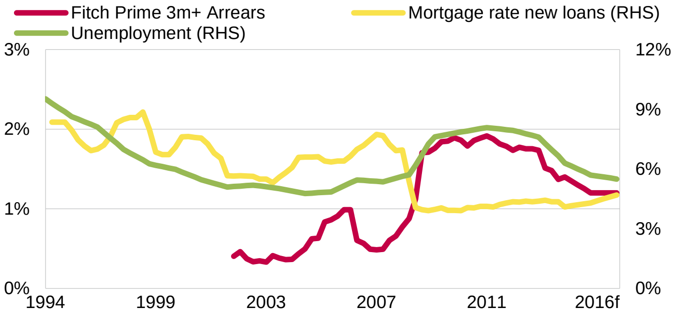
United Kingdom

House Prices and Affordability



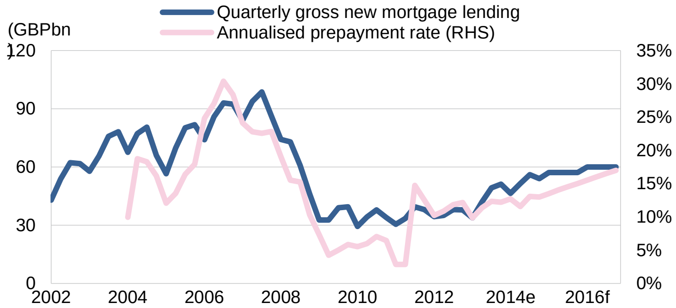
Source: Fitch, Nationwide, ONS, Ameco

Mortgage Rates and Arrears



Source: Fitch, CML

Mortgage Lending and Prepayments



Source: Fitch, CML

House Prices: Muted Growth Ahead

House prices grew strongly in 2014, especially in London and the South East, given a strong UK economy, low interest rates and demand outpacing supply.

Affordability is likely to be the constraining factor on house price growth in 2015 because we expect income growth to remain muted. Interest rate rises remain the key risk to the housing market, and the point at which interest rates start to rise could test the confidence of the UK housing market. A tax on high value properties after elections in 2015 could also impact that segment and may even trickle down on lower value properties, especially around London, though recent stamp duty changes should support prices for most properties.

Fitch expects house price growth in 2015 of around 2%, with London and the South East showing much lower growth compared to 2014 due to affordability constraints.

Affordability: House Price Growth Outstrips Income Growth

New mortgage affordability has deteriorated during 2014 as house prices continued to increase at a faster pace than wages. *With the introduction of MMR (see next page) interest-only loans have become scarce and affordability testing for new mortgages is more robust which should prevent borrowers from overextending themselves.*

Although real incomes in the UK have started to see growth during 4Q 2014, house prices increased much faster in 2014. Fitch expects this worsened affordability along with robust rules to test borrower affordability to moderate house price growth in 2015. Even then, affordability might worsen during the year as income growth is expected to be modest.

Mortgage Rates: Remaining Stable in 2015

Mortgage spreads tightened last year as wholesale funding markets provided cheaper funding to lenders. The mortgage market has also become more competitive on price with lenders trying to increase lending without compromising on credit quality.

In 2015, we expect lenders to look for yield by offering slightly riskier products such as higher LTV loans, but to prime borrowers. Fitch expects mortgage rates to remain at historically low levels during 2015. Interest rates on higher LTV loans are also likely to fall due to increased competition. In the second half of the year, rates could start to rise in anticipation of policy rate increases.

Mortgage Performance: Positive Outlook on Asset Performance

A combination of low interest rates, rising house prices, a relatively strong UK economy and improved mix of borrower and mortgage types in recent years is expected to keep arrears levels low for UK mortgages. Both arrears and repossessions have continued to improve in 2014 and we expect the trend to continue in 2015. A modest and gradual rise in interest rates is not expected to cause major asset performance issues, however UK non-conforming pool performance is more vulnerable to rate increases compared to prime portfolios. More recent non-conforming originations are expected to outperform peak-of-the-market non-conforming mortgages.

Fitch expects mortgage performance to stay strong in 2015 and arrears to further fall and reach 1.2% for prime portfolios by year-end. A sharp rise in interest rates could lead to performance deterioration – however the agency expects rate rises to happen over an extended period of time and be modest in their extent.

Mortgage Lending: Recovery Expected to Continue

Steady access to cheap wholesale funding allowed lenders to continue to offer competitive mortgage rates in 2014 which supported an increase in lending volumes.

Fitch expects lending volumes to grow moderately in 2015 in line with housing market activity. A combination of attractive rates on new mortgages as well as expectations of rate rises is expected to drive an increase in re-mortgage activity next year. Although mortgage lending remains below peak values, Fitch expects volumes to continue to grow by 10% during 2015

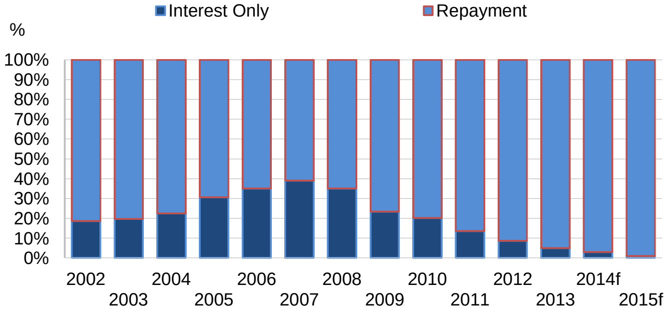
RMBS Prepayments: To Increase

Price competition between mortgage lenders is likely to make it attractive for borrowers who are coming to the end of their teaser period to prepay and take a new mortgage product. This could lead to some increase in prepayments. Though a significant portion of borrowers who have low rate historical products might still not find it attractive enough to re-mortgage. Borrowers with blemished credit histories, having affordability issues to afford a repayment mortgage and having low rate historical products (e.g. pre-crisis BTL loans) are least likely to prepay.

The gradual increase in RMBS prepayment rates seen in 2014 to around 13% is expected to continue in 2015 to reach 15% by year end, supported by price competition. Some historical product types for which borrowers are unlikely to get such products and/or price in the future will continue to see low prepayment rates.

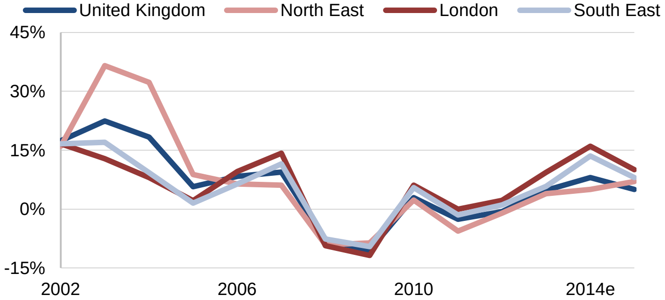
United Kingdom (cntd.)

Methods of Repayment - House Purchases



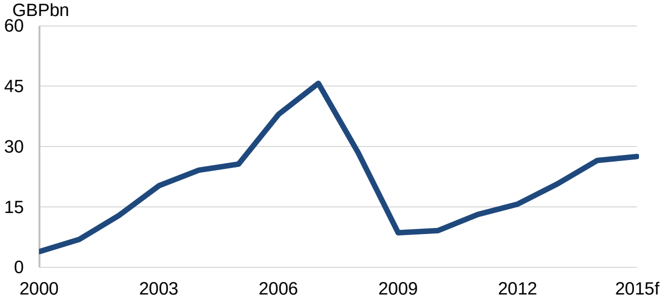
Source: CML

House Growth - Regional Differences



Source: Fitch, ONS

BTL Lending Volumes



Source: Fitch, Nationwide

Impact of MMR Regulations

Following the Mortgage Market Review (MMR) in April 2014, income verification and assessing the affordability of the borrower in a higher interest rate environment has become more stringent. Interest only lending which was already in decline, is unlikely to return post MMR. This tightened underwriting of mortgages is expected to lead to better performance of newly originated mortgages compared to the performance of older vintages and could prevent some borrowers from re-mortgaging e.g. if they cannot verify their income under stricter rules or if they have an interest-only product they would like to keep.

Fitch views MMR positively as it improves the quality of new lending and reduces the systemic risk of unaffordable lending in the UK market. While most lenders had already tightened criteria after the credit crisis, the MMR rules provide market standardisation and will allow for more disciplined underwriting throughout the housing cycle. However, the new rules also present some short-term challenges for weaker borrowers. New rules will limit the amount of mortgage leverage new borrowers are able to incur and potentially limit refinancing alternatives for existing borrowers.

South to Stagnate, North to Catch up

Year on year house price growth exceeding income growth in London and the South East has resulted in worsening affordability in those regions. House price growth in the North of the country has been much more modest so far. Given the improving economic landscape, low historical mortgage rates, and strong demand, Fitch expects home prices to continue to rise in 2015, albeit at a slower pace. Stretched affordability is expected to drive regional differences in home price growth with London and the South East projected to level off after big gains in recent years.

The number of new homes being built across the UK remains below the level required for its growing population. Hence the demand /supply imbalance is expected to provide the greatest support to house prices, especially in the South.

In Fitch's opinion, given the lack of apparent triggers that could see house prices fall and a high demand for housing, house prices are unlikely to fall. There will be more of a stagnation in house prices for London and the South East in 2015 and continued growth in the north while prices catch-up .

New Lenders to Target Buy-to-Let

During 2014 a number of new lenders entered the UK. This has been driven mainly by the increased availability of the wholesale funding markets and the increased level of house buying activity in the UK.

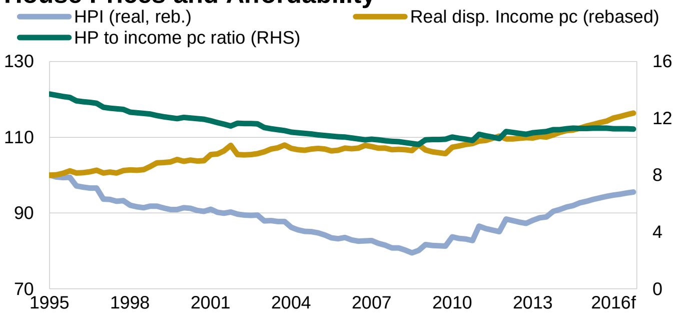
In order to maintain margins, these new lenders are offering near-prime mortgages targeting borrowers who would fall just outside the acceptable criteria for the main high street lender. These lenders are likely to find it challenging to grow by targeting that space alone, as there is a limited segment of borrowers who would fall in that category. To grow volumes in the non-prime space they would have to accept borrowers with weaker credit profiles than their current tolerance.

Rather than compromise on credit quality of borrowers, we expect these lenders to become more focused on the buy-to-let market which offers better yields compared to the owner occupier segment, has performed strongly through the crisis and has a big enough size for them to generate lending volumes.

Fitch expects more new entrants to the market in 2015 and an increased competition in the BTL market from newer entrants. The agency also sees some risks that as the market becomes more saturated there may be some return to criteria creep (e.g. offering higher LTV's or more relaxed assessment of interest coverage ratios), where lenders progressively loosen their criteria in order to attract business.

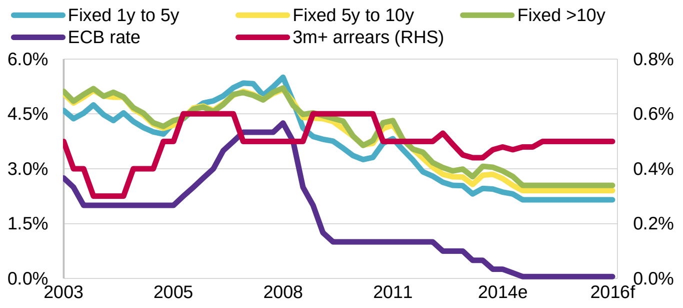
Germany

House Prices and Affordability



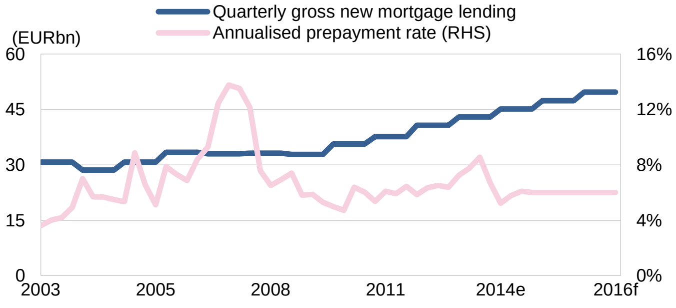
Source: Fitch, BulweinGesa, Immobilienscout24, AMECO, Deutsche Bundesbank, Statistisches Bundesamt

Mortgage Rates and Arrears



Source: Fitch, Deutsche Bundesbank, Bloomberg

Mortgage Lending and Prepayments



Source: Fitch,European Mortgage Federation

House Prices: Moderate Growth; Demand Shift to Smaller Cities

Average house prices increased by approximately 3.5% in 2014 (in line with Fitch's expectations), broadly in line with price growth in previous years. Price growth in metropolitan centres has slowed, which is explained by a shift in demand to smaller cities and rural areas. Growth in smaller cities is catching up, but has been moderate and follows a long period of stagnation – all of which supports our view that the German property market is not overheating.

Increases in house prices in recent years have been supported by robust demand stimulated by historically low mortgage interest rates, the attractive yield-risk profile of buying a property as opposed to alternative investment opportunities and the overall stable to positive economic environment in Germany. In line with revived price growth, the property market has become more liquid, which is also reflected in lower price discounts after forced sales of foreclosed properties. These favourable economic factors are expected to continue, leading Fitch to expect further moderate price increases of around 3% a year in 2015 and 2016.

Affordability: Expected to Remain Sustainable

Despite rising prices, affordability has remained sustainable, driven by rising disposable income, low unemployment and low interest rates.

Price-to-income ratios in most German cities remain affordable. A demand shift to smaller cities will help keep overall affordability stable. In 2015 Fitch expects interest rates to remain low and property price increases to be balanced out by increases in disposable income. Hence, the agency expects affordability to remain sustainable.

Mortgage Rates: Low Rates on Deflation Fears

The loose monetary policy of the ECB has led to record low interest rates and in addition, high competition between lenders adds downward pressure on mortgage rates.

Fitch expects the above two factors to persist in the foreseeable future and, as a result, German mortgage rates are expected to remain low in the next two years, thus supporting affordability. German mortgages are predominantly fixed rate, and hence immune to rate increases during the fixed period of typically 10-15 years. However, refinancing risk could become an issue for fixed rate loans originated in a low rate environment if the rate is reset in a period of rising interest rates. Recently originated loans could be more exposed to such risk. Since 2012, the agency observed a decrease in customers' annuities, indicating that lower interest rates do not necessarily lead to a higher repayment portion of the annuity. In general, lenders take this risk into account by testing the borrowers' affordability in rising rate scenarios.

Mortgage Performance: Expected to Remain Robust in 2015

Over the last several years, three-month-plus arrears in Fitch-rated German RMBS transactions have been stable at a remarkably low level of approximately 0.5%. One of the main drivers of such solid performance is the continuously low unemployment.

Fitch expects German unemployment to remain at its current low levels – 4.7% in 2015 and 4.6% in 2016. As a result, the agency expects German residential mortgages to continue their robust performance, given the favourable economic conditions. However, an unexpected deterioration on the labour market could lead to an increase in defaults.

Mortgage Lending: Steady Growth Driven by Increased Demand

Improving affordability together with increased demand for properties regarded as a safe and profitable investment haven has led to steadily growing new mortgage lending. Lending volumes grew on average at 5% a year since 2003, thereby outstripping house price growth. This could imply the risk of lenders loosening their underwriting standards. However, currently such a trend is not observed.

In 2015 and 2016 we expect lending volumes to continue increasing at a similar pace. However, lending is not likely to overheat given the limited property supply and the Germans' cultural preference for renting over home ownership.

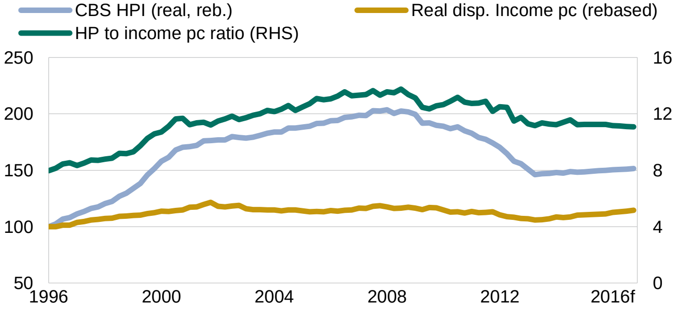
RMBS Prepayments: Expected to Remain at a Stable Low Level

Prepayments on German fixed rate mortgages are generally low – the current annualised prepayment rate in Fitch-rated transactions is approximately 6%.

Fitch expects prepayments to remain at a similar level as observed in the last several years, due to the specific features of the German mortgage market. Full loan prepayments before the interest reset date are usually accompanied by significant penalties. A borrower sometimes has the contractual option to prepay a fixed percentage of the loan at a certain point in time, for example once a year. However, these percentages are usually quite small.

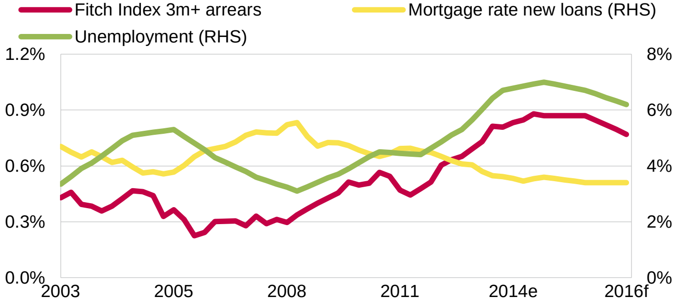
Netherlands

House Prices and Affordability



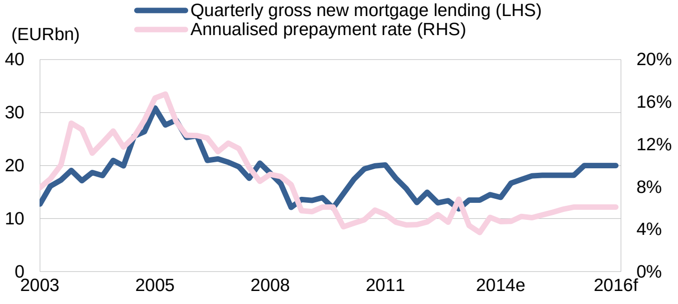
Source: Fitch, CBS, Ameco

Mortgage Rates and Arrears



Source: Fitch, DNB

Mortgage Lending and Prepayments



Source: Fitch, DNB

House Prices: 2% Growth p.a. in 2015-16

Since the trough observed in Q2 2013 house prices have gained 3%.

Fitch believes the gradual house price recovery will persist in 2015 and 2016 as overall sentiment has vastly improved and affordability is still strong and will remain so. Furthermore, we believe the housing market will be supported by low and decreasing mortgage rates, stable unemployment figures and estimated GDP growth of 1.2% and 1.4% in 2015 and 2016, respectively.

As shown by increasing lending volumes, confidence in the housing market is at the highest level seen in some years. The expected stability on the policy side and aforementioned supporting factors strengthen Fitch's view of modest price growth of 2% in 2015 and 2016.

Affordability: Strong and Stable

Affordability levels are similar to those observed in the early 2000's, despite the modest house price increase, .

Fitch expects it will remain at similar levels for the foreseeable future as house price growth and GDP growth will follow similar paths. The increased attractiveness of the housing market will be further reinforced by ongoing reforms of the social rental market.
Increased lending volumes show improved sentiment has already encouraged potential buyers who were waiting for stability to enter the market. Fitch expects this trend to continue as few changes are foreseen for the next few years.

Mortgage Rates: Increased Competitiveness

Mortgage interest rates are currently at a multi-year low with 10-year fixed NHG loans available at under 3%. Despite this, banks' margins remain healthy in a European context attracting new lenders and investors to the mortgage market.

We expect the pressure on margins to persist in 2015 and 2016 as lenders' ability to differentiate themselves is limited to price given the mortgage tax deductibility restrictions imposed in January 2014. Fitch expects margins to fall slightly further as new entrants will increase market competitiveness. Prices will stabilise throughout the course of 2015 and remain at similar levels throughout 2016.

Mortgage Performance: Arrears Peak in Sight.

Loans 3m+ in arrears have increased from 0.3% in 2008 to 0.9% today, but they are still low relative to other countries and have remained fairly stable throughout 2014.

We believe the stabilisation will persist throughout 2015 and arrears will slightly improve throughout 2016. In Fitch's experience loan performance generally lags economic conditions. Consequently, in the long run we expect arrears levels to be supported by GDP growth, stable unemployment, and shorter liquidation periods resulting from the recovering housing market. Fitch expects RMBS 3m+ arrears to remain around 0.9% in 2015 after which they will slightly decrease throughout 2016.

Mortgage Lending: Clarity and Confidence Boosts Volumes.

Clarity on mortgage market regulations, improved affordability and low mortgage rates have encouraged new buyers who were waiting for the right moment to enter the residential purchase market. This resulted in a 24% yoy increase in lending volumes for the first three quarters of 2014.

Fitch believes this trend will persist as interest rates will remain low and consumer confidence is high. In addition, the government will increase the relative attractiveness of buying a house as policymakers are aiming to further reduce the size of the social rental market (currently 32%). Fitch believes these drivers will persist, although softened by tighter affordability requirements. Market conditions over the next couple of years will support a further increase in origination volumes by 10% in 2015 and 2016.

Prepayments: Slight Increase Ahead

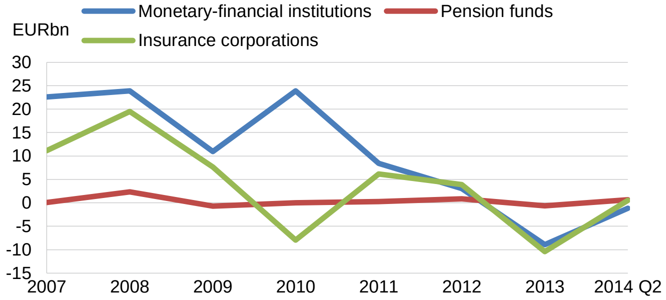
In 2014, prepayments remained around 5% on the back of limited price competition and tightened underwriting criteria.

Fitch expects a slight increase in 2015 as increased price competition will modestly increase prepayments throughout 2015 and 2016. Fitch believes prepayments could be concentrated with certain lenders who are not looking to increase or maintain their market share.

Fitch sees a modest increase in prepayments and expects prepayment rates of 6% or slightly above in 2015 and 2016.

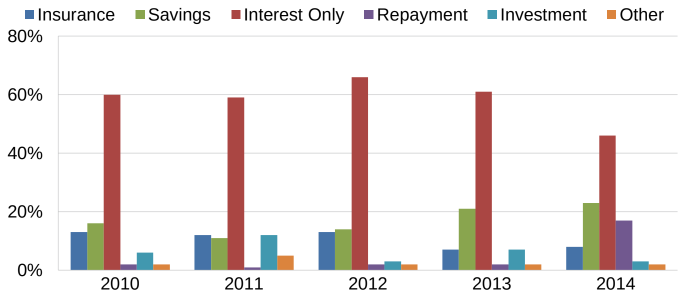
Netherlands (cntd.)

YoY Change in Outstanding Mortgage Volume



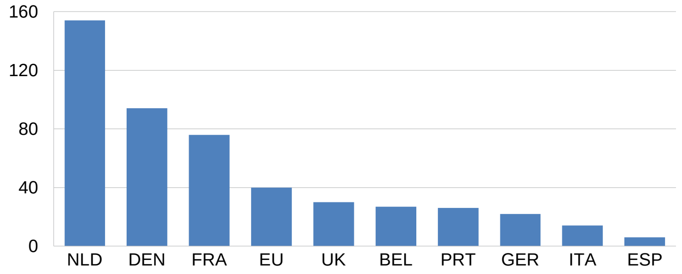
Source: Fitch, DNB

Mortgage Type Evolution In New RMBS Issuances



Source: Fitch, Lender Data, CBS

Number of social housing units per 1000 inhabitants



Source: Fitch, CECODHAS

New Entrants: Shift in Market Share

The aspirations of the Dutch government to see pension funds play a more active role in the mortgage market has partly been fulfilled in 2014. These investments were not made through the Nationale Hypotheekinstelling (NHI), as originally foreseen by the Dutch government, but through private initiatives. While the NHI is still in its development phase, private initiatives have provided the possibility for pension funds to invest directly in mortgages through intermediaries or invest in residential mortgage funds.

Besides pension funds, insurers have also increased their market share, predominantly focusing on the +10 year fixed-rate segment which is less targeted by the banks which are less eager to grow their market share altogether due to the changing regulatory environment. Whereas we've seen a decline in the outstanding mortgage balance in 2013, the increased origination levels in 2014 were sufficient to keep the outstanding balances flat yoy (see graph).

The agency expects this trend to continue as direct investments in mortgage loans provide healthy yields, a favourable regulatory treatment and good asset/liability match for insurers and pension funds.

Safer Products:

Since January 2014, the production of new Dutch mortgage loans has consisted exclusively of repayment products. The change in landscape is fiscally less attractive for borrowers, but it does result in a more stable and predictable mortgage market. Mortgage types seen in recent RMBS issuances are still largely dominated by IO-, savings- and insurance loans. However, a progressive increase of repayment loans is noticeable.

As this trend is bound to continue Fitch's recovery estimates for Dutch RMBS transactions, all else being equal, are inevitably going to increase as a result of loan amortisation.

The bullet risk which is inherent in IO loans is still present in existing Dutch mortgage portfolios originated in previous years. Through periods of moderate or even high inflation, bullet repayments never caused major mortgage performance difficulties in the Netherlands. The current uncertain macroeconomic environment in Europe increases the potential of a prolonged period of low inflation or even deflation. Under this scenario Dutch IO borrowers might encounter more difficulties to repay the principal at maturity because of the high leverage and potential for asset price declines. Within such a scenario, Fitch takes some comfort from the repayment vehicles and large pension assets that are typical for Dutch mortgages.

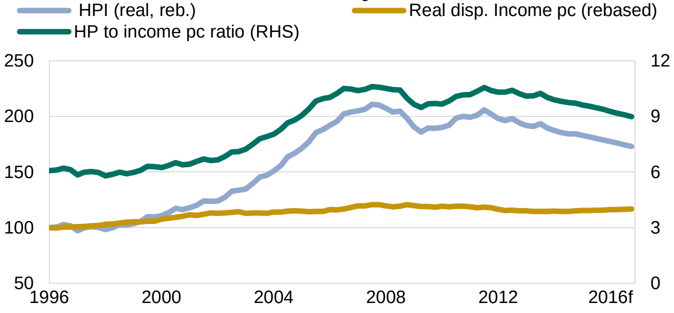
Regulated rental market will shrink

Recent changes to the regulatory environment for housing associations and social housing policies will reduce the social housing sector in the Netherlands. Currently, 37% of the housing stock consists of regulated rental properties and 77% of these are managed by housing associations. Over the course of 2014 housing associations have sold parts of their portfolio to private investors as many of them encountered financial difficulties and are being pressed to focus solely on the social housing segment and reduce the size of their operations.

As a large chunk of the housing associations social portfolio has the potential to be non-regulated (35%), Fitch believes private investors will continue to buy parts of this portfolio as this segment allows for attractive above-inflation rent increases. We believe private investors will be more efficient in pushing through these rent increases, but that this trend will be observable for all higher income households living in social accommodation. Faced with year-on-year above-inflation rent increases, households will be steered towards buying property instead of renting, which will support house prices over time.

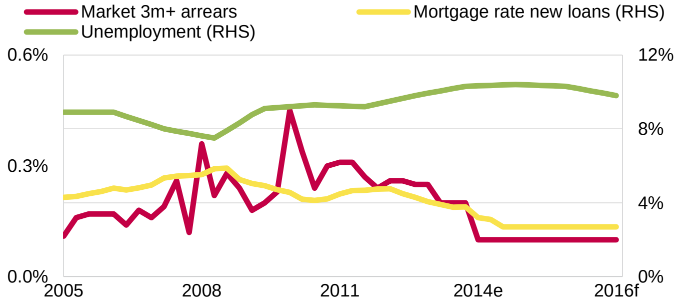
France

House Prices and Affordability



Source: Fitch, INSEE, Ameco, IMF

Mortgage Rates and Arrears



Source: Fitch, INSEE, Banque de France

Mortgage Lending and Prepayments

Source: Fitch, Banque de France

House Prices: Moderate Correction To Continue

A property price correction has been underway for almost three years in France. House prices have declined by approximately 6% in nominal terms, with clear disparities between regions and property types. Current trends show a rebound in the number of transactions involving old dwellings and a decrease in those involving new dwellings, with the latter reflecting a continuing decline in both planning permission approval and new housing construction starts since 2012.The price declines can be explained by relatively weak affordability, the stagnating economy and the tightening fiscal environment. These factors are partly compensated by a low housing stock, low interest rates and the improved credit availability since 2013.

Fitch expects the price adjustment to continue in 2015, but at a continued moderate pace – by around 2% in nominal terms as a result of stretched affordability.

Affordability: Flat in 2015

House price affordability improved in 2014 driven by a slight increase in incomes, the house price decline and a decrease in mortgage rates. This more than compensated for decreasing downpayments.

Fitch believes 2015 affordability will stay broadly on a par with 2014 levels, or improve slightly. This is because households' disposable incomes should increase in nominal terms and property prices decrease.

Mortgage Rates: Stable Outlook with Upside Risk

Mortgage rates have continued to decrease throughout the year, from 3.1% at end-2013 to 2.65% at end-Q314. Around 90% of French residential loans bear a fixed rate for life and amortise in constant instalments.

This proportion of fixed-rate loans is likely to continue to increase in the near term due to the currently low long-term rates.

Fitch deems a stabilisation of mortgage rates as the most likely scenario given the ECB's near-zero interest rates and the economic outlook in the eurozone. However, an increase in mortgage rates cannot be excluded, for example, as a result of a correlation with increasing US interest rates, or of a worsening of the French economic situation.

Mortgage Performance: Unemployment Remains a Threat

Unemployment remains the main driver of French mortgage performance. We believe the significant increase in unemployment, since 2008 has affected borrowers and will continue to weigh on credit performance.

Fitch expects unemployment to remain stable in 2015 and to start decreasing in 2016. As such, defaults are expected to remain flat with potential to fall through 2016, though they should remain above pre-crisis levels. French mortgages are mostly long-term fixed. Therefore, any increase in interest rates should have a limited impact on mortgage performance.

Mortgage Lending: Market 2015 Slowdown to More Normal Levels

Housing loan production is expected to decrease in 2014. Indeed, mortgage lending decreased by 18% ytd as of August 2014 in spite of decreasing mortgage rates. The increase observed in 2013 was driven by the refinancing of existing housing debt rather than by new purchase transactions.

Fitch estimates housing loan production to fall by approximately 25% in 2014 reaching around EUR105bn, about 15% above the levels seen in 2012. Given weak affordability, pressure on house prices and the limited room for a further decrease in mortgage rates and the possibility of an increase, the agency forecasts a drop in housing loan production by around 5% in 2015 with no significant rebound in 2016.

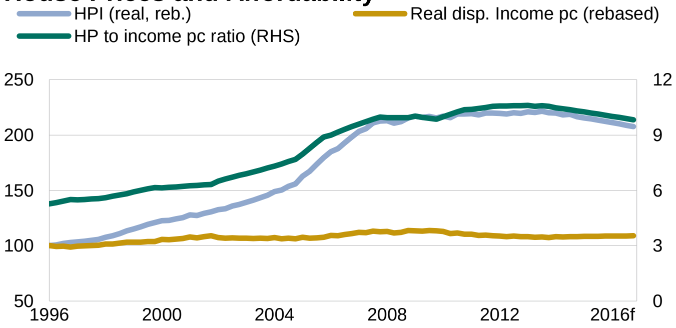
Prepayments: To Further Decrease

In spite of a sluggish housing market, prepayment rates continued to increase in 2014 reaching a level of 7%-8% as interest rates further decreased.

Prepayments are mainly driven by housing turnover in France (which provides a floor to prepayment rates), the variations in long-term interest rates and the availability of refinancing options. The agency expects prepayments to decrease in 2015 as a consequence of stabilising interest rates and of decreasing housing turnover.

Belgium

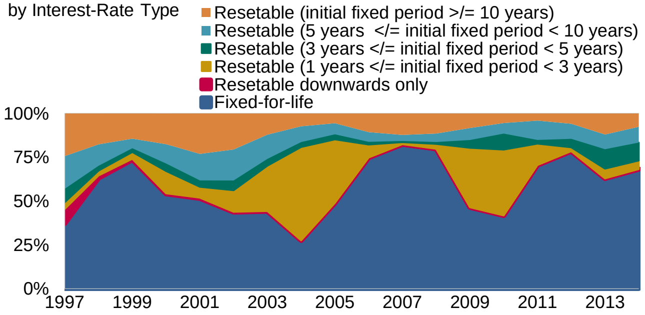
House Prices and Affordability



Source: Fitch, Eurostat, Stadim, Ameco

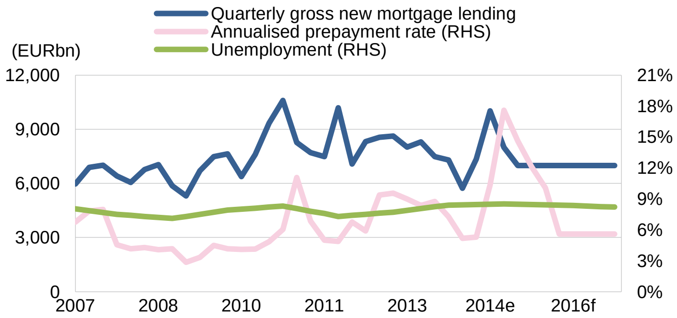
Residential Loans Amount Distribution

by Interest-Rate Type



Source: UPV-BVK

Mortgage Lending and Prepayments



Source: Fitch, National Bank of Belgium

House Prices: Plateau Reached, Modest Correction Expected

Nominal property prices in Belgium reached a plateau in 2014 and started to slightly decrease, after years of continuous increase. Disparities between types of property (ie houses versus apartments) and the regions remain, with property prices in Wallonia having experienced a modest decrease while prices in Flanders and Brussels have generally remained stable.

Price increases have been supported by decreasing mortgage rates, longer loan maturities and an inflation-linked wage system. We expect limited room for further rate decreases and maturity extensions, as well as lower inflation. Therefore, the positive impact of these factors is likely to ease. Furthermore, the transfer of fiscal responsibilities to regional authorities has resulted in less favourable tax benefits in Flanders. Similar measures are expected in Wallonia and in Brussels over the course of 2015.

Fitch forecasts that house prices will fall slightly by 1% in nominal terms during 2015 with a possible further downwards adjustment in real terms in 2016. The magnitude of such adjustments will depend on the evolution of rates and tax regime. The correction should remain moderate due to limited housing stock.

Affordability: Stretched but no Deterioration Expected

Affordability has remained stable in Belgium, as the continuous house price increases of the last few years have notably been compensated by decreasing mortgage rates and longer loan maturities.

In 2015 and 2016 the positive effect of slight decreases in house prices is likely to be combined with a less favourable tax regime, resulting in a neutral net impact on affordability.

Mortgage Rates: Low Fixed Rates Persist

The average mortgage rate in Belgium is near record lows, which has resulted in incentives for new and existing borrowers to take advantage of good market conditions.

Belgium remains a predominantly fixed-for-life market, with borrowers often tied in to relatively long-term mortgage loans.

The cost of switching banks could be relatively high for a borrower (due to mortgage registration costs), but strong competition between lenders limits the potential for interest-rate increases from lenders, with banks expected to continue to offer competitive pricing for borrowers in the coming years. Given the deposit-based model operated by most Belgian banks, the overall environment remains favourable for borrowers, with banks generally competing on price to sustain their customer base.

Mortgage Performance: No Stress Expected

Arrears and default rates in Belgium have remained one of the lowest in Europe over recent years, driven by inflation-linked wage increases, a generous unemployment benefits system and sound underwriting practices.

Fitch does not expect interest-rate movements to result in any significant stress on Belgian borrowers' ability to repay their loans in the next few years. Likewise, it is not likely that unemployment will lead to material mortgage performance deterioration in 2015/2016 as the agency forecasts a slight improvement in unemployment levels during this period. The overall Belgian unemployment benefit and the current wage-indexation system have been altered slightly, but Fitch does not expect these changes to have a strong impact on the overall mortgage performance in Belgium.

Mortgage Lending: Tax Advantages Affect Lending Patterns

Fitch expects new mortgage lending in Belgium to drop in 2015. After a slow start in 1H14 (-20% yoy), mortgage lending was strong in 2H14 as a result of a less favourable tax regime for mortgage loans in Flanders, which will be applicable to transactions from 1 January 2015.

Fitch believes that mortgage lending in Belgium is likely to drop from 2014 levels, with many transactions being concluded prior to the 1 January 2015 new tax regime in Flanders. Lending is expected to return to longer-term average levels observed in years not affected by specific incentives (eg green loans, drops in mortgage rates, tax breaks) and will be lower than in the last few years.

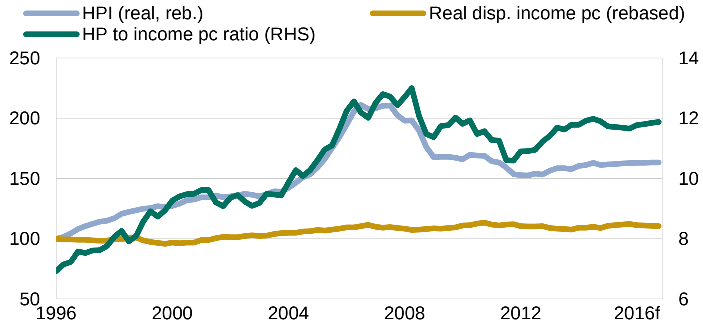
Prepayments: To Return to Long-Term Average

Prepayments in Belgium historically ranged between 4% and 6%, on the back of strong competition between lenders. After a peak in 2012 due to low interest rates, prepayment levels have decreased throughout 2013 and H114. Prepayments again peaked in H214 due to a further mortgage rates decrease and borrowers' anticipating the entry into force of the less favourable tax regime in Flanders.

Due to stable interest rates, prepayments on Belgian residential mortgage loans should go back to relatively low levels over the next few years and range between 4% and 6%, in line with long-term average levels.

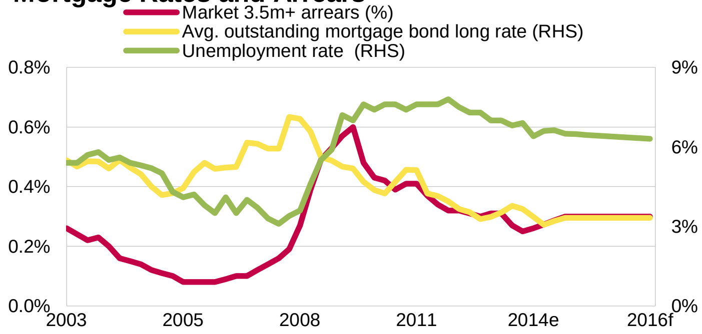
Denmark

House Prices and Affordability



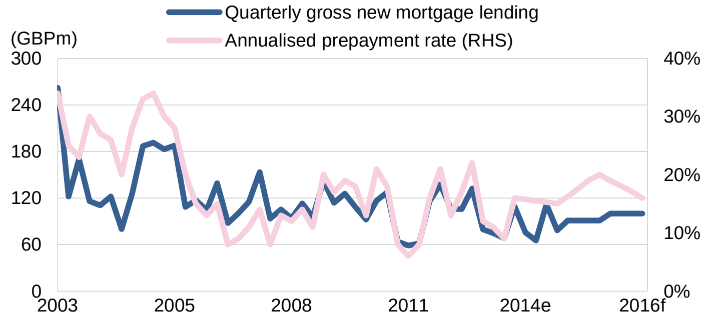
Source: Fitch, Statistics Denmark, Ameco, BIS

Mortgage Rates and Arrears



Source: Fitch, Realkreditradet

Mortgage Lending and Prepayments



Source: Fitch, Realkreditradet

House Prices: Recovering Market

After the 20%-25% house price correction in 2007-2009 due primarily to oversupply, house prices have fluctuated but remained largely at the same level over the last five years. Regional and property type differences, however, remain. Owner-occupied apartments have shown the largest price correction but have also been the first to start recovering, with about 7% growth since 2013. While demand for the owner-occupied segment is improving, the second-home market continues to lag in the recovery process. Overall, we estimate prices to have increased by 4% in 2014. Real-estate construction has significantly contracted compared to the period 2004-2006 and the number of completed new builds has been in line with the increase in number of households.

As the excess supply of properties is absorbed, Fitch expects house prices to continue recovering towards a sustainable level as measured by long-term house price development, adjusted for income and demographic trends. The agency expects nominal house price increases of about 4% in 2015 although regional and property type differences are likely to remain.

Affordability: Strong and Stable

Mortgage affordability for new loans has improved significantly since 2007, due to the decrease in house prices. Affordability for existing borrowers has also remained strong, supported by low interest rates and increasing wages.

Fitch expects borrower affordability in Denmark to remain strong during 2015, as mortgage rates are expected to stay low and wages to continue growing.

Mortgage Rates: Longer Reset Periods Expected

Historically low mortgage interest rates at present are due to the low costs of funding from covered bonds. Approximately 75% of mortgages have an adjustable or variable rate, with a 30% concentration in mortgages with a one-year or shorter interest reset period, which are funded mainly by one-year covered bonds.

Fitch expects the average interest rate on mortgages to remain relatively stable and the average interest reset period to increase in 2015, as financial institutions look to reduce refinancing risk by incentivising borrowers on short-term reset mortgages to switch to mortgages with a three- to five-year interest reset period, funded by three- to five-year covered bonds.

Mortgage Performance: Low Arrears to Remain Stable

Mortgage performance has remained strong, with 3m+ arrears below 1%, despite the economic crisis and the house price decline in 2007-2009, supported by strong borrower affordability, robust labour market, a generous social security system and low interest rates.

Fitch expects arrears to remain stable over the next year as low rates persist. Loans with adjustable or variable interest rates originated in the current period of low interest rates would be particularly exposed to interest-rate rise risk– although Fitch expects rates to remain relatively stable.

Mortgage Lending: Regulatory Initiatives Target Risky Lending

Gross mortgage lending has decreased by about 56% since the peak in 2006, as a result of the market correction. Lending activity over the past few years has been mainly focused on refinancing, with the amount of outstanding mortgages remaining largely unchanged in 2013/14. The Danish FSA published a "Supervisory Diamond" for mortgage banks in December 2014, which limits interest-only residential loans with LTVs above 60% to 10% of total loan volume. Loans with LTVs above 60% and with interest-reset frequency below two years are limited to 25% of lending while the share of total lending subject to annual refinancing must also be less than 25%. In addition, the regulatory initiative introduces a 15% growth limit per year on mortgage lending.

Fitch expects gross lending to grow by 10% in 2015, mostly on the back of reviving housing demand and rising prices. The agency does not expect the regulatory diamond to have a strong immediate impact on mortgage lending as short-term funding and IO lending limits will be fully applicable only from 2020 and the remaining initiatives from 2018.

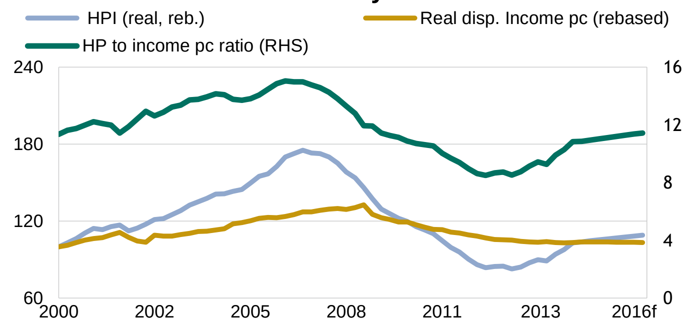
Prepayments: Significant Refinancing Expected

Prepayments, incorporating both refinancing and partial prepayments, have been fluctuating around 15% over the past two years, mainly driven by borrowers switching to other mortgage products given the current low interest rates. The newly available 30 year fixed-rate loan (with a rate of 2%) is proving attractive to borrowers.

Fitch expects prepayments in 2015 to be driven mostly by refinancing. Notably, half of borrowers with a one-year reset interest-rate mortgage are expected to refinance into loans with longer fixed-rate periods.

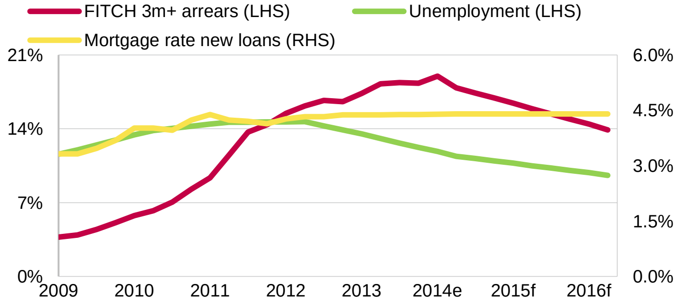
Ireland

House Prices and Affordability



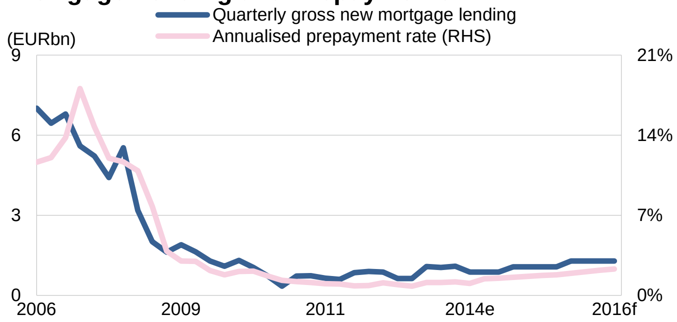
Source: Fitch, CSO, Ameco

Mortgage Rates and Arrears



Source: Fitch, CBOI

Mortgage Lending and Prepayments



Source: Fitch, IBF

House Prices: More Modest Growth Ahead

Irish house price growth was among the highest in the world as of 3Q14 with 15% yoy growth and 24%in Dublin on the back of an improved *Irish economy and increased credit availability,*

These should support continued house price growth. However, overall price growth expected for 2015 of 4% is lower relative to 2014 as there remains an overhang of borrowers with debt issues, which could lead to repossessions adding supply to the market. The regulatory environment strongly favours restructuring over repossession and the legal foreclosure process is slow. Fitch believes repossessions will come in gradually and be spread over a long period. With prices recovering, a portion of borrowers are likely to come back to positive equity. This should make such borrowers more incentivised to work with lenders in resolving their arrears problem and hence reduce the eventual number of repossessions.

Affordability: Rising House Prices will Reduce Affordability

According to the EBS DKM affordability index, an average first-time buyer couple paid 19.3% of their income if they took a 90% LTV mortgage to purchase an average house. This is higher than the 17.3% of last year, but it remains well below 26.4% at the peak of the market.

In 2015 with house price growth once again expected to exceed income growth, Fitch expects affordability to weaken during the year, but for it to remain much better than at the peak of the market.

Mortgage Rates: Expected to Remain Stable

Interest rates charged by lenders on new lending have remained fairly stable over the last year, driven by a stable interest-rate and mortgage lending environment.

Many lenders are looking to increase lending volumes year on year. However, given pressure on bank balance sheets the agency does not expect lenders to reduce rates materially to gain market share. Rates on new lending have remained stable at just below 4.5% according to Central Statistics Office data. In Fitch's view rates are likely to remain around this level in 2015.

Mortgage Performance: High but Declining Arrears

With increased clarity of the mortgage arrears resolution framework and also a supportive economic environment, mortgage lenders have started to put in place long-term restructuring for borrowers in arrears. Repossessions remain very rare, but they are an option for the lender, thereby incentivising some reluctant borrowers to re-engage with lenders. Lenders have invested in their servicing capability to deal with the large number of distressed mortgages, which has led to arrears showing modest declines.

Fitch expects this improvement in arrears to continue in 2015. As existing arrears cases start being resolved and the inflow of new arrears cases subsides due to the stabilising economy and the ongoing recovery in home prices, it is likely that market-wide arrears will continue to decline in 2015 by 2%.

Mortgage Lending: Decrease if Lending Caps are Introduced

Mortgage lending stabilised in 2014 as banks focused on sustainable borrower loan-to-income levels of 3.5-4.5 times income for new loans. Overall, volumes were only around10% of peak lending volumes.

The central bank (CBOI) published a consultation paper on loan-to-value and loans-to-income caps in October 2014 which if implemented as outlined in the paper is expected to impact mortgage lending volumes in the short to medium term as borrowers adapt to the more conservative lending policies. Fitch expects new mortgage lending to increase around 15% in 2015. However, increase in lending will be dependent on the actions of the CBOI in 2015. Mortgage lending could be lower if lending caps are implemented as outlined in the consultation paper.

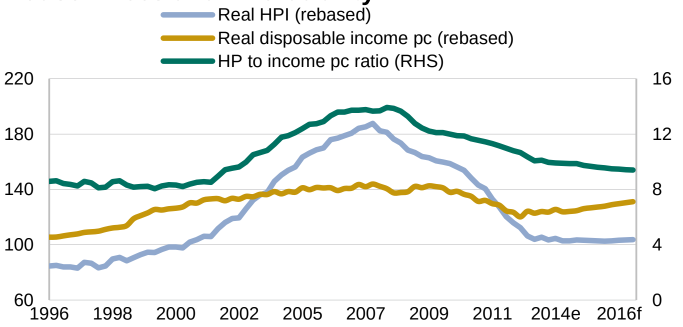
Prepayments: Expected to Remain Very Low

The majority of Irish mortgages are variable rate in nature, with over 50% being trackers linked to an index and the rest being linked to a lender determined variable rate. Borrowers with tracker-rate mortgages typically have very low interest rates, which are no longer available on newly originated loans. This removes the incentive for these borrowers to prepay. In addition, borrowers in negative equity still have limited options to remortgage with another bank.

Fitch expects prepayments to remain in the low single digits for the foreseeable future. Mortgage availability is expected to increase but the repriced products do not encourage tracker-rate borrowers to prepay and the tightened lending criteria offer limited options for borrowers in negative equity.

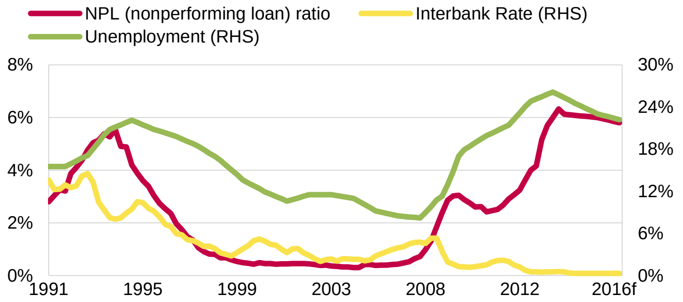
Spain

House Prices and Affordability



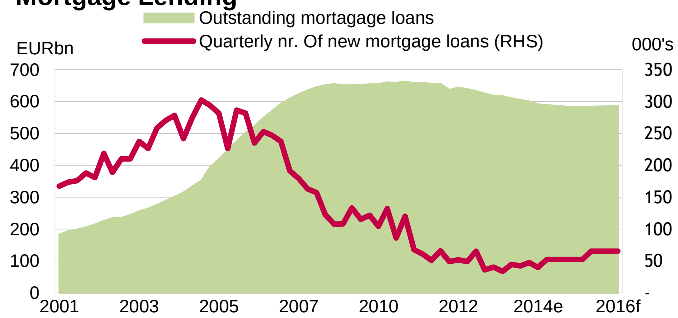
Source: Fitch, Bank of Spain, Ameco, Ministerio de Fomento

Unemployment, Mortgage Rates and Arrears



Source: Fitch, Bank of Spain

Mortgage Lending



Source: Fitch, Bank of Spain, INE

House Prices: Market Bottoming Out

Fitch expects prices to stabilise in the Spanish residential property market after nearly seven years of consecutive declines. The current stabilisation of prices has been driven by an upturn in mortgage credit availability. Mortgage lending still remains far below pre-crisis volumes, but high unemployment coupled with an oversupply of properties will prevent a rapid rebound in prices.

Fitch's analysis of Spanish lenders' repossession data has shown that property value depreciation on repossessed and sold houses has peaked at 70% of their initial valuations. The price range at which mortgage servicers are selling repossessed properties has also narrowed considerably. Fitch expects this trend to continue as repossessed property buyers' expectation of stabilising or even improving house prices should lead them to accept lower quick-sale discounts. This as well as the broader economic recovery should support stable house prices in 2015.

Affordability: Short-Term Outlook stable

There has been a significant improvement in the house price to household disposable income per capita ratio, which has returned to 2003 levels due to the house price correction, only slightly above the historical long-term average.

Given the stabilisation of both house prices and household disposable income, we believe that in the current low interest-rate environment, this ratio will remain flat. Affordability could marginally improve due to improvements in mortgage rates. Rate improvements, however, are expected to be small.

Mortgage Rates: Funding Cost to Lead to Lower Margins

Most Spanish mortgages are referenced to Euribor, and despite its decrease in recent years, overall mortgage rates have remained fairly stable as margins have substantially increased during the crisis.

Banks now appear to be more willing to extend mortgage credit to solvent borrowers and are gradually reducing loan margins, owing to lower funding costs. However, low Euribor will put pressure on margins, and as a result 2015/16 margin decreases should be limited.

NPLs: To Stabilise Led by Improving Unemployment

NPLs on housing loans, as measured by the Bank of Spain, peaked during 1Q14 and have decreased slightly to 6.1% in 2Q14, in part driven by a reclassification of doubtful loans to reperforming. The NPL definition in Spain includes loan in arrears by more than 90 days, and some restructured loans that are considered to be riskier due to their past performance.

Fitch does not expect increases in the NPL ratio in the near term as long as the labour market continues to improve and mortgage credit continues to flow. The agency believes NPLs will stabilise around 6% in 2015, as unemployment gradually decreases. A marked decline of NPLs is more likely to occur in 2016.

Mortgage performance is highly vulnerable to long-term unemployment, which in Spain is still high at 12.9%. In a period of deflation mortgage performance could suffer from the increase in long-term unemployment, and NPL ratios would increase as a result.

Mortgage Lending: To Remain Depressed in 2015

The deleveraging of the banking sector, rising unemployment, recession and downturn in housing demand have reduced new residential mortgage lending to a small fraction of the peak years' volumes.

The slow revival of mortgage lending is still not sufficient to offset loan amortisation, so outstanding mortgage volumes may continue to decline in 2015. However,1Q14 saw the highest number of property sales registered for that quarter since 2010, and the number of transactions as of October 2014 has increased by 18% yoy.

The trend is an indication of both a return of credit and confidence to the economy. Despite these positive developments, gross lending growth is not expected to grow by more than 15% in 2015, and to remain far from pre-crisis levels for many years. Potential borrowers are likely to remain cautious about taking on credit and purchasing property in light of recent years' experience.

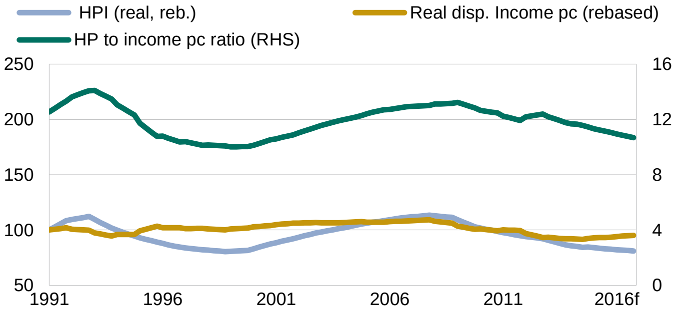
Prepayments: Expected To Remain at Low Levels

Prepayment rates in Fitch-rated transactions are still lingering at historically low levels at about 3.6% on average during 2014.

Fitch expects prepayments to remain at these low levels as margins on refinancing options are far more expensive (around 200bp) than spreads on mortgages originated in the run-up to the peak (less than 100bp), so refinancing is not an attractive choice for many borrowers. Moreover, until 2012 there was a fiscal incentive in Spain for buying first homes. Borrowers would lose this advantage if they were to refinance.

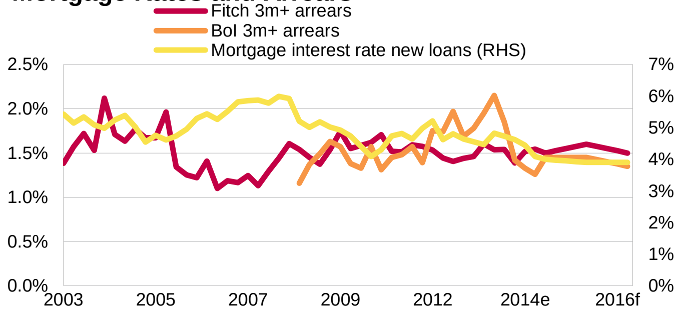
Italy

House Prices and Affordability



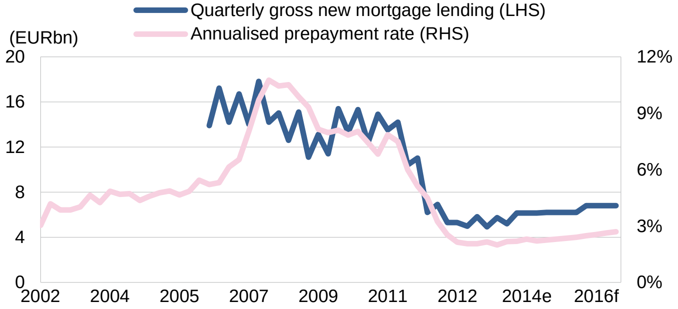
Source: Fitch, Scenari Immobiliari, Ameco

Mortgage Rates and Arrears



Source: Fitch, Bank of Italy

Mortgage Lending and Prepayments



Source: Fitch, Bank of Italy

House Prices: Further Corrections to Come

The Italian market underwent a nominal house price decline of 2% in 2014 and a total decline from the 2008 peak of about 16%, driven by weakness in both the wider economy and mortgage lending.

Fitch expects further house price corrections of around 3% combined in the next two years, as a result of the continued difficult macroeconomic environment. A trend reversion is not foreseen before 2016, unless macroeconomic recovery picks up pace and restrictions on credit access ease. Fitch believes this would stimulate demand, reduce the housing supply/demand gap and prevent further house price declines.

Affordability: Threatened by Stagnant Labour Market

The Italian economy remains weak, which led Fitch to revise its 2015 GDP and unemployment forecasts, respectively from 1.0% to 0.6% and from 12.4% to 12.6%. This is likely to put more pressure on borrowers' affordability and purchasing power, while savings have already been materially eroded after the prolonged recession. This is partly mitigated by the overall low indebtedness of Italian borrowers.

Fitch expects mortgage affordability to stay weak in the short to medium term, despite interest rates remaining low. Fitch sees as positive the stable trend of mortgage rates lasting well into 2015. Low interest rates on new and existing loans are expected to continue to keep debt-to-income ratios low, making mortgages more affordable for potential new borrowers, overcoming the tighter credit rules applied by Italian lenders post-crisis. On the other hand, Fitch's view is that the persistent stagnation in the job market and downwards pressure on income are key in keeping mortgage affordability at the currently weak levels.

Mortgage Rates: Stabilising at Current Levels

Following the ECB's downward revision of interest rates in September 2014, interest rates on new mortgage loans fell by a further 15% yoy, from 4.8% to 4.0%.

As the ECB is likely to maintain low interest rates to stave off the threat of deflation, Fitch expects that over the next 12/18 months mortgage rates will not move significantly from the current 4.0% level. A sustained lower cost of funding, greater banking system liquidity and increased competition among lenders are factors that are expected to drive slight loan margin declines in 2015.

Mortgage Performance: Overall Resilient

Despite the recession, the combination of low interest rates and conservative recent lending has resulted in stable asset performance in recent years, with average late-stage arrears and constant default rate almost stuck at 1.6% and 1.3%, respectively.

Low interest rates and post-crisis conservative lending standards have so far partially neutralised the effects of continuing economic weakness. Nevertheless, labour market conditions are likely to remain weak in 2015, putting further pressure on mortgage performance. In Fitch's view this could result in a modest increase in arrears and defaults but the arrears growth rate is not expected to differ markedly from the 0.4% observed over the last two years. Fitch believes that unexpectedly sharp changes in interest rates might cause a deterioration in arrears volume, as about 70% of the Italian mortgage market consists of floating-rate loans and debt-to-income ratios are rarely stressed with higher rates in the origination of Italian mortgages.

Mortgage Lending: Growth Likely but Weak

In the first nine months of 2014, Italian banks' new residential mortgage lending increased by about 10% yoy. These signs of recovery are mainly driven by a slight increase in loan demand and relative lower cost of credit. The observed growth was however from a very low base.

Fitch believes there is room for lending to restart and that new origination could increase by 5% yoy, mainly thanks to a lower cost of funding and stable liquidity for Italian banks. Lenders are expected to restart from low-risk profile clientele and refinancing loans (ie "surroghe"), which have already increased by 30% since last year. Fitch expects the impact of the newly established "Fondo Garanzia Prima Casa" aimed at encouraging new mortgage lending, to be marginal. Indeed, only a small portion of targeted individuals is likely to have the necessary prerequisites to benefit from this initiative.

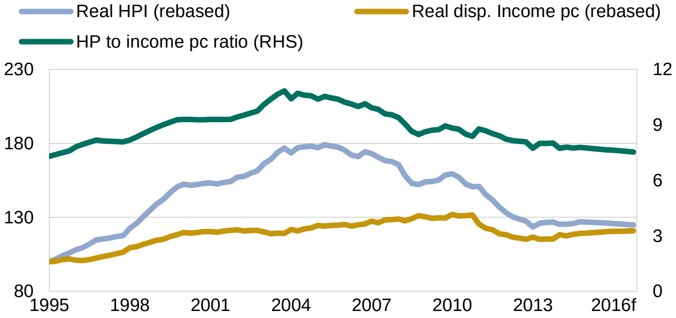
Prepayments: Stable at Record Lows

Since 2007, prepayment rates have gradually decreased reaching a 2% trough at the end of 2013. This year, in contrast, a 30bp growth was recorded in October 2014.

The agency believes that prepayment rates will remain stable in the short to medium term, ranging between 2%-2.5%. The current low interest-rate environment does not offer sufficient incentives for early repayments in Fitch's view. However, the lower interest-rate margins together with an improved lending market, could lead to higher volumes of refinancing loans, causing a temporary increase in prepayments.

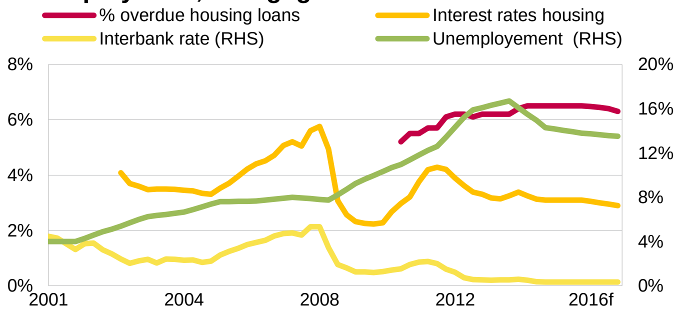
Portugal

House Prices and Affordability



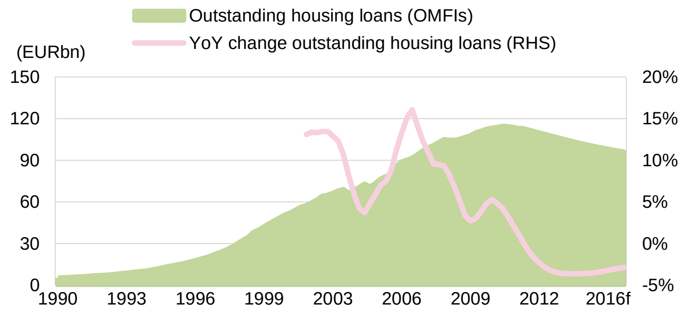
Source: Fitch, INE, Ameco

Unemployment, Mortgage Rates and Arrears



Source: Fitch, Bank of Portugal

Mortgage Lending and Prepayments



Source: Fitch, Bank of Portugal

House Prices: Stabilising Amidst a Sluggish Economic Recovery

House price valuation per square meter, as measured by the National Statistics Institute (INE), has stabilised at around EUR1,000 with no signs of recovery to pre-crisis levels. Since 2006 house prices have dropped by 20%. Property prices stabilisation started in 2013 and has continued in 2014.

House prices should remain flat during 20015 and 2016, as affordability indicators have reached a sustainable level in comparison to other European Union countries and house prices are already amongst the cheapest in Europe. Downside risks remain as the economic recovery is vulnerable to event risks that could constrain demand for housing.

Affordability: To Stay at Sustainably Strong Levels

Over the past few years, affordability in Portugal has significantly improved due to the decrease in house prices, and is now at 1996 levels. House-price-to-income ratios decreased to 7.8x in 2Q14 from 10.7x as of 2Q04, which compares to an average of 9.0x since 1995. Household disposable income has also dropped but relatively less than house prices, by around 5%. Portuguese household indebtedness is high relative to most other Eurozone countries, although they have deleveraged significantly in the last five years.

We consider that current house price-to-income levels in Portugal are sustainable. In 2015 and 2016 house price stabilisation together with weak household income growth will keep affordability ratios stable.

Marginal improvements in affordability could result from reduced mortgage rates, which are more likely to occur in 2016 than in 2015.

Mortgage Rates: Margin Reductions More Likely in 2016

Mortgage rates in Portugal are typically linked to Euribor and have remained fairly stable in recent years despite decreases in the reference index. Portuguese banks have thus maintained high lending margins to assist towards higher funding costs.

During 2015 we do not expect a revival in mortgage lending. But as recovery momentum accelerates in 2016, volumes should increase, together with increased competition and improved funding costs. As a result, ultimately decreasing margins will become more likely.

Mortgage Performance: NPLs to Stabilise in 2015; Sensitive to Deflation

The market-wide housing loan NPL ratio (Bank of Portugal) has shown a strong correlation with long term unemployment, and we expect this relationship to remain the same in the near future. Since its early 2013 peak, unemployment has decreased noticeably to 13.1% in 3Q14, although the decline is less marked for long-term unemployment, while NPLs have stabilised.

In our view, NPLs will first stabilise at 6.2% in 2015, and then decline through 2016. While unemployment is set to gradually further decrease, improvements in long-term unemployment are likely to be slower, which will hold back recovery. Most mortgages in Portugal are variable rate which represents a medium- to long-term risk. The impact of a potential deflationary spiral could materially affect mortgage performance as it would impact the wider economy and cause unemployment to increase again. Performance may be positively influenced by a larger-than-expected reduction in long-term unemployment, provided that interest rates remain at low levels.

Mortgage Lending: Improvement

New mortgage lending has been marginal since 2012, and decreased again in 2014, to 80% lower than pre-crisis volumes. We have seen in 2014 some lenders improving the terms offered on new mortgages, in an attempt to revive the market, but demand for credit to purchase a home remains anaemic.

Fitch expects lending volumes to remain low through 2015 and will be in line with 2014 lending volumes, held back by the slow recovery of the Portuguese economy. Restructuring of the financial system has improved the liquidity of Portuguese banks, and we expect a revival of mortgage lending in 2016. An improved macroeconomic environment would further support a lending volume increase during 2016, which we expect to be 20%.

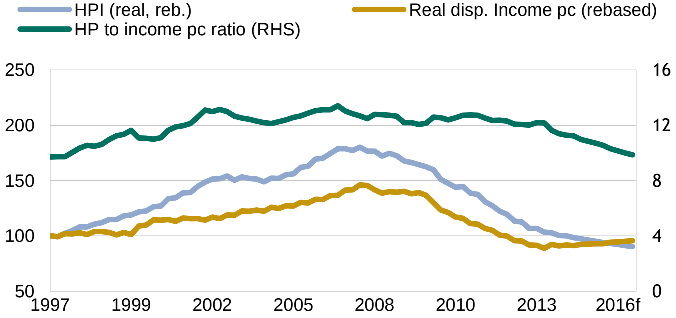
Prepayments: Will Remain Low

Prepayment rates have decreased markedly since the onset of the financial crisis, driven by the decreased willingness and ability of financial institutions to write new loans. In 2014 prepayments finally stabilised at a very low level.

We expect prepayments to remain low in 2015, given that banks are unlikely to expand lending and refinancing opportunities. In addition, borrowers have little incentive to prepay their existing debt ahead of schedule in the current economic environment. We expect prepayments to slightly increase in 2016 from these extraordinarily low levels because of a more active property and mortgage market.

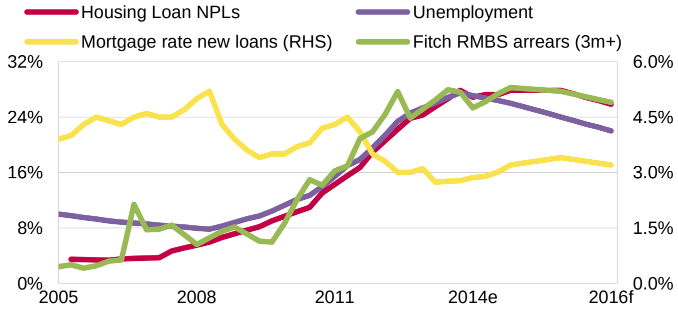
Greece

House Prices and Affordability



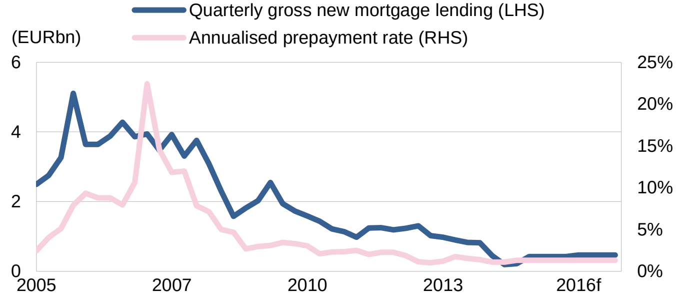
Source: Fitch, Bank of Greece, Ameco, National Statistical Service, IMF

Mortgage Rates and Arrears



Source: Fitch, Bank of Greece

Mortgage Lending and Prepayments



Source: Fitch, Bank of Greece

House Prices: Decline Decelerates

The pace of house price declines has been slowing slightly over the past year with a peak-to-current decline of around. 38% as of 3Q14, with a fall of 5.2% in the first nine months of the year. In 2014 the Greek government implemented new initiatives to promote residential housing market liquidity, namely by approving reforms aimed at reducing the taxes on properties. So far these reforms have had a marginal impact, as the economy is yet to fully recover, unemployment remains high and lenders have significantly tightened credit availability.

In Fitch's view, home prices will contract further by 4% in 2015 as the economic outlook remains uncertain and property turnover is expected to remain low. GDP growth is unlikely to directly impact the property market in the short term as Greek borrowers will not recover immediately and tend to not have sufficient savings for low LTV loans. We expect house purchase activity to be concentrated mainly in coastal/holiday regions, providing some price support in these areas.

Affordability: Credit to Remain Restricted

Affordability for new housing transactions improved in 2014 as house prices have continued to fall and interest rates remained at low levels. However, banks have undergone significant deleveraging and consolidation in response to capital shortfalls, therefore credit availability has significantly tightened.

Fitch expects improving affordability over the next 12 months stemming from further house price adjustments and improving prospects for the Greek economy. However, challenges remain in 2015 including low housing turnover, weak demand and scarce mortgage availability.

Mortgage Rates: High Credit Margins

In 2014 mortgage rates marginally increased from their 2013 trough despite reference-rate reductions. This is a result of Greek lenders' high funding costs and large housing market risks.

Margins on new loans are likely to remain high throughout 2015 in response to high funding costs, credit risk and the foreclosure ban. Nonetheless, the interest rates, expected to prevail over the next two years, should cause only a marginal increase on mortgage rates. Mortgage spreads are expected to start decreasing only in 2016 in combination with a better economic environment.

Mortgage Performance: Volatile Performance Continues

Fitch's RMBS arrears have stayed broadly flat due to mortgage renegotiations and late-stage arrears rolling through to default. Despite signs of improvement, the overall sector performance remains volatile and influenced by active portfolio management of transactions (ie repurchases/substitutions, and permitted variations).

The level of new arrears is contracting as the economy recovers, but the volume of late stage arrears and NPLs is expected to continue increasing in 2015 as loans in distress roll through to default. Meanwhile, borrower support through loss mitigation strategies (loan modifications and installment suspensions) will remain a key theme, while the economy stabilises. The foreclosure ban is likely to be extended again for 2015 thereby limiting recoveries. More importantly, Greek lenders prefer out-of-court recovery procedures such as payment plans and, to a lesser extent, lump-sum payments. These practices cause the recovery process to be lengthy and uncertain.

Mortgage Lending: Lending Unlikely to Rise

The volume of new mortgage originations shrank by around 50% yoy in 3Q14. The interaction of a sluggish economy, declining home prices, scarce borrowers' savings and expensive financing has resulted in a dramatic drop in mortgage credit demand. Meanwhile, Greek lenders have faced heavy capital shortfalls and rising funding costs, which have led to balance sheets being reduced. Loan workout and recovery efforts have also been problematic due to the foreclosure ban.

The funding of Greek banks remains strongly reliant on expensive central bank funding as well as retail deposits, which may come under pressure from political uncertainty. In addition, lenders are expected to shift the composition of the loan book away from residential lending due to the foreclosure ban and focus any new residential lending on low LTV loans. The demand for mortgages is likely to remain subdued as a result of the illiquid property market, high mortgage spreads, low savings and economic uncertainty. These factors will result in lending volumes in 2015, in line with 2014 volumes, and only a limited rise, of around 10% in 2016.

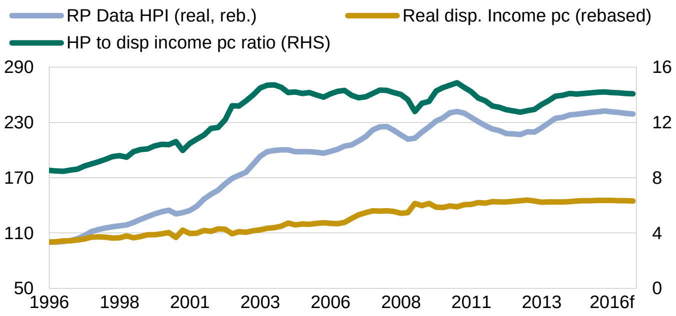
Prepayments: Low Incentives

Over the last three quarters the constant prepayment rate has decreased by 25bp to 1.25%.

Mortgage prepayments are likely to stay very low over the next two years. The economic outlook remains uncertain, while credit tightening implies limited refinancing sources available to borrowers. In addition, low spreads prevailing on existing loans provide little incentive to prepay and the volume of borrowers' savings is estimated to be scarce.

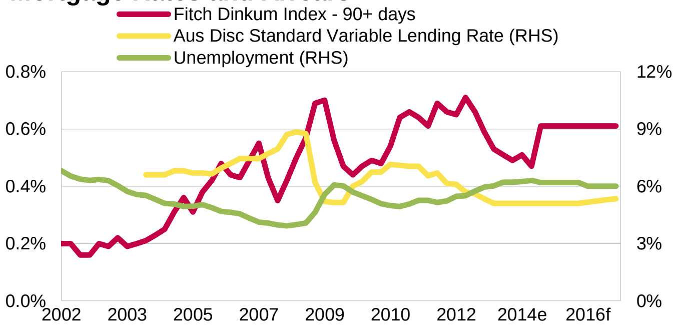
Australia

House Prices and Affordability



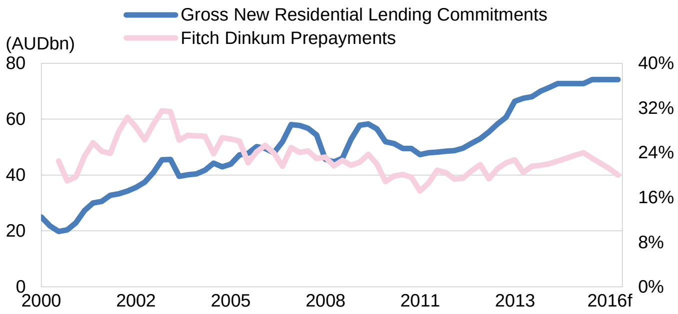
Source: Fitch, RP Data, ABS

Mortgage Rates and Arrears



Source: Fitch, RBA

Mortgage Lending and Prepayments



Source: Fitch, ABS, RBA

House Prices: Growth Expected to Moderate

House prices in Australian cities rose 8.9% in the 12 months to October 2014. However, the rate of growth has been slowing since it peaked at 11.5% in April. Price growth has been driven by continued record low interest rates and increasing investor demand in the Sydney and Melbourne markets. Annual growth rates to date have reflected a two-tiered market with the prices in Australia's two largest cities outstripping other capital cities' growth.

Fitch expects that house price growth will moderate to around 4% in Sydney and Melbourne as rental yields become compressed and the prospect of further capital growth lessens. Perth prices (3.4% annual) are expected to flatten as mining investment slows and prices in the other capital cities are expected to continue to grow at a moderate pace.

Affordability: Short-Term Outlook Tightening

Homebuyers have benefited from record low interest rates, with an average discounted standard variable rate for new loans of 5.1% since August 2013. Household debt to disposable income has been relatively flat since 2006 with a modest movement to around 145%-150%.

Fitch expects overall affordability metrics to stay tight in 2015 with a potential interest rate rise and moderate house price growth in line with or even again exceeding wage growth. Capital cities which have experienced strong house price growth in the past 24 months (Sydney 26.2%, Melbourne 17.4%) will continue to experience affordability pressure.

Mortgage Rates: To Slightly Rise in Next Couple of Years

Mortgage rates have remained at historical lows since the RBA policy rate was reduced to 2.5% in August 2013 in response to weakening global demand and an expected slowdown in resource investment. Lenders have also kept the discounted discretionary 'standard variable rates (SVRs) at 5.1% compared to 5.9% 24 months ago. Borrowing capacity has been curbed as lenders build in a buffer of 1.5%-2.0% when assessing borrowers' debt service ability. This has partly offset lower rates.

Fitch expects policy and mortgage rates to remain flat in 2015. Large increases in the policy rate are unlikely as the RBA continues to guard the economy against the reduction in resource investment and focuses on stimulating the non-mining sectors of the economy.

Mortgage Performance: Broadly Steady

The Fitch Dinkum Prime Index has shown a gradual improvement in 30+ days arrears of 1.2% in Q214 from 1.4% 12 months earlier. A continued stable performance during 2014 was driven by low interest rates and a strong housing market.

Fitch expects arrears rates to stay broadly flat through 2015, in line with a stable outlook for unemployment and solid real GDP growth. Borrowers with increased indebtedness may come under pressure with a potential rate rise in 2015.

Mortgage Lending: Moderate Growth; Investment Activity High

Total outstanding mortgage lending has increased by 6.8% to a total of AUD1,225bn over the 12 months to September 2014, with new housing loan approvals growing 16.6% over the same period. Most of the growth has been driven by increased investor activity in both new and existing housing as a result of low interest rates. Investment loans now attract 50% of new lending commitments (excluding refinance loans), up from 43% in 2012.

Housing debt as a percentage of disposable income was 137% in 2Q14, which has been increasing steadily from 130% since 2Q12.

Fitch expects lending net volumes to continue to grow as house prices increase at a moderate pace. Investment loan approvals are expected to continue to represent 50% of new lending (excluding. refinance loans) as investors compete with owner occupiers. Existing borrowers are expected to be cautious with higher-than-average household savings being maintained.

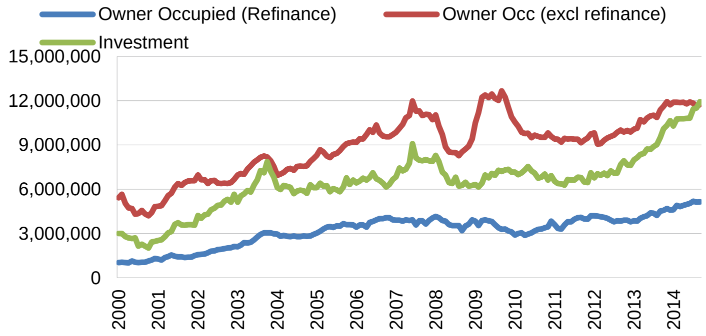
Prepayments: Even Higher Given High Market Activity

Mortgage prepayments have been gradually increasing since the market low of 17.2% observed in March 2011 to 21.3% as at June 2014 according to the Fitch Dinkum Prime RMBS CPR.

In 2015, Fitch expects prepayment rates to further strengthen given sustained low interest rates, an increased volume of transactions and refinancings caused by the competitive lending environment. All else being equal, Fitch expects CPR rates to move close to 25% in 2015.

Australia (cntd.)

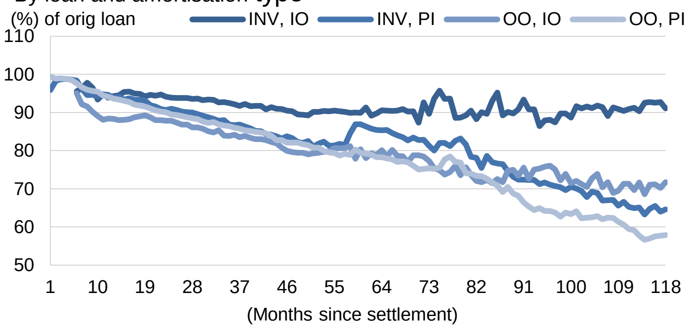
Monthly Loan Commitments



Source: Fitch, ABS, RBA

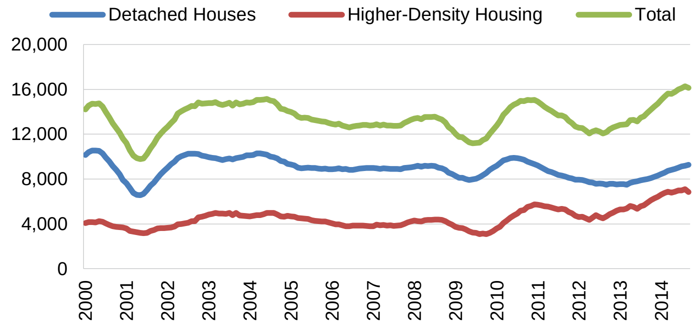
Amortisation Profile

By loan and amortisation type



Source: Fitch, lenders loan by loan reporting

Residential Building Approvals



Source: Fitch, ABS, RBA

Increased Investor Activity

Investor loans have risen 25% in the year to September 2014 and now make up 50% of new loans (excluding refinance). Investors have been driven by better returns with deposit rates remaining at historical lows. Increased housing activity in Sydney and Melbourne has resulted in price growth pushing gross rental yields to under 4%.

With moderate house price growth expected to continue, rental yields will continue to compress to less than 3.5%. Housing investor sentiment is fickle and if alternate asset classes offer better returns we would expect investor interest in housing to fall with some follow-through impact on demand and property prices. The growth of the housing investor market has largely been at the expense of the first-time buyer. The Australian Bureau of Statistics data show first-time buyers in the Australian residential property market fell to an all-time low of 11.8% properties in August 2014. There is some discussion in Australia whether this statistic under reports first-home buyer activity. However, there is little doubt that first-home buyers are being priced out of the market. Rising property prices and the reduction in first-home buyer grants (in the form of a stamp duty concession and cash incentives) have led to weaker affordability measures for first-time buyers.

Fitch expects investor demand to remain high in Sydney and Melbourne, so long as interest rates remain at the current low level and so long as the tax incentives to invest in property remain. Higher prices are pushing rental yields down and Fitch believes that this will temper the demand from investors and is likely to contribute to lower house price growth in 2015.

Interest Only Loans Are not an Affordability Product

The booming Australian property market has led to an increasing focus on lender's underwriting standards. One area of concern is the growth in residential interest only (IO) loans, particularly among owner occupiers, which according to the RBA have grown from 17% to 25% of loan approvals over the past five years. The chart above shows the amortisation profile for loans by purpose (owner occupation, investment) and amortisation type (IO versus fully amortising). The chart shows that investment borrowers that opt for an IO loan largely keep principal outstanding at 90% for 10 years. This decision reflects the tax deductibility of interest for investment loans. In contrast, owner occupiers that take out IO loans appear to have a very similar actual payment profiles to borrowers that take a fully amortising (P&I) loan product, especially during the first 7.5 years. This indicates owner-occupier borrowers are not taking an IO product for affordability reasons. Australian housing loans are typically flexible loans that allow a borrower to draw down, or redraw, any payments that have been made in excess of the contractual payments, effectively giving borrowers who prepay a free line of credit to use at a later date. The IO loan ensures the free line of credit does not amortise during the IO period and so maximises flexibility for a borrower. IO loans in Australia typically feature an initial IO period of up to five years and revert to fully amortising after the IO period expires, unless the borrower approaches the lender to extend the IO period.

Despite IO loans not being an affordability product in Australia, Fitch still believes them to be riskier than a P&I loan as the lack of principal paydown means loss severity in the event of default could remain high over time.

Private Residential Building Approvals

Housing approvals reached an all-time high of 195,000 in the 12 months to September 2014 and Fitch expects them to continue to increase into 2015. Housing Investment remains strong supported by low interest rates , population growth and excess demand for housing close to major employment centres.

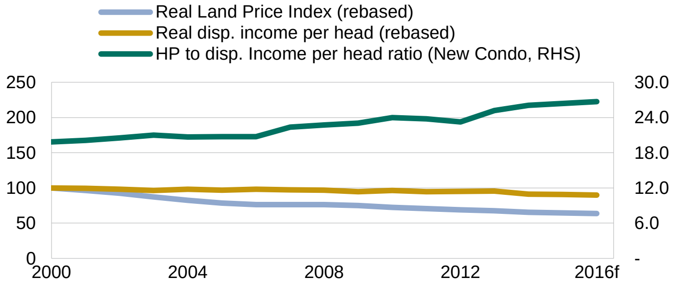
Private residential building approvals have been driven by higher density housing approvals (mainly units) reaching a high of 82,000 in the 12 months to September 2014, compared to 37,000 in 2009. Detached housing approvals have increased steadily and have returned to levels last seen in 2011 at approximately 111,000 per year.

Growth in Housing approvals is the natural response to a booming property market and can be expected to assist in tempering property price growth. The focus on higher density dwellings will probably mean housing approvals will have a bigger dampening effect on the unit market than it does on the market for free-standing homes.

With price growth of detached housing closer to city centres increasing faster than incomes, the trend towards higher density housing is expected to continue, driven by existing infrastructure and affordability pressure in larger capital cities.

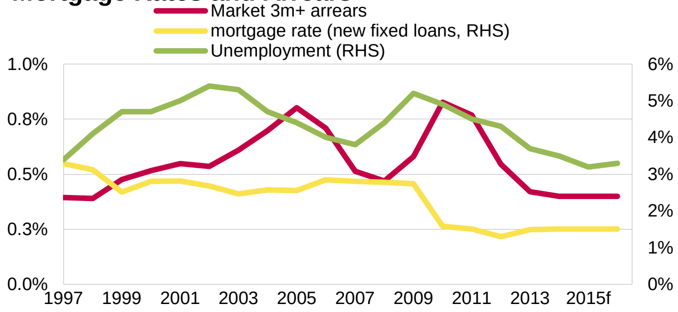
Japan

House Prices and Affordability



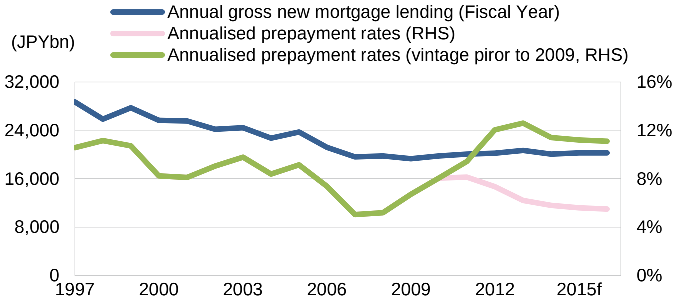
Source: Fitch, Ministry of Land, Infrastructure,Transport and Tourism, Real Estate Economic Institute Co., Ltd, Ministry of Internal Affairs and Communications, Cabinet Office

Mortgage Rates and Arrears



Source: Fitch, JHF

Mortgage Lending and Prepayments



Source: Fitch, JHF

House Prices: Expected to Gradually Increase

In the aftermath of the consumption tax increase in April 2014 demand for the purchase of housing has been subdued. As a result, both housing starts and sales have decreased.

Fitch expects, however, house prices for new condominiums (condos) to gradually increase in 2015 by around 2%, primarily due to rising construction costs and relatively strong preference for purchasing new rather than existing homes.. The 2020 Tokyo Olympic games are expected to boost property investment, which will also contribute to an increase in property prices in Tokyo. In contrast, however, regional housing demand is expected to remain weak.

Affordability: Slight Weakening Expected

In 2014 nominal disposable income temporarily declined due to the consumption tax increase, while house prices for new condos increased marginally making housing less affordable in terms of the house-price-to-income ratio.

Fitch expects affordability to further weaken in 2015 as income growth remains constrained on a real basis and house prices are expected to rise. Fitch expects consumer prices to increase at a faster pace than disposable income.

Mortgage Rates: Stay Low due to Monetary & Government Policy

Fitch estimates that the low mortgage rate environment will continue, although there is little room for a further decline. The agency believes the Bank of Japan will adhere to its easy monetary policy and intense competition in residential mortgage lending will remain unchanged.

Mortgage rates on new loans under the programme of Japan Housing Finance Agency (JHF) are likely to stay low, as the discount on mortgage rates, supported by government policy to stimulate the Japanese economy, remains unchanged.

Mortgage Performance: Stable Performance Expected

Mortgage loan performance in Japan has improved in recent years with declining arrears rates. The consumption tax increase in 2014 has had little impact on mortgage performance and no material deterioration in borrowers' ability to pay their mortgages has been observed.

Stable income and employment conditions as well as low interest rates will continue to support mortgage performance. The postponement of the scheduled further increase in the consumption tax (from 8% to 10%) would also support stable mortgage performance in the coming years.

Despite the above-mentioned supportive factors, Fitch believes that the potential for further improvement of arrears rates is limited.

Mortgage Lending: Weak Recovery in 2015

New mortgage lending is expected to decline in 2014, reflecting subdued demand for purchasing residential properties in the aftermath of the consumption tax increase in April. However, due to the limited availability of investment opportunities in the domestic market as evidenced by banks' low loan-to-deposit ratios, lenders' appetite to provide mortgage loans is likely to remain strong, leading to a favourable environment to refinance loans.

Fitch expects some recovery of mortgage lending to start in 2015, but the momentum is unlikely to be strong.

Prepayments: Expected to Decline Marginally

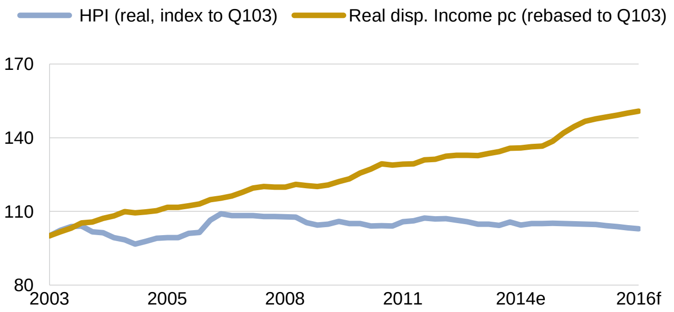
The prepayment rates for all vintages have continued to decline from the recent peak in 2011.

Fitch expects a marginal decline in the prepayment rate in 2015, as many seasoned loans with higher interest rates might have already been prepaid to date. The average prepayment rate for vintages prior to 2009, whose mortgage rates were higher than those of the post-2009 vintages, peaked in 2013 and is now falling.

Despite expected intense competition among lenders, the gradual declining trend of the prepayment rates is likely to continue, since loans originated in recent years already have very low mortgage rates.

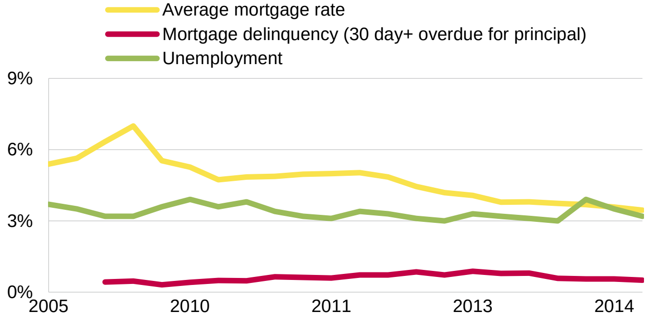
South Korea

House Prices and Disposable Income Trend



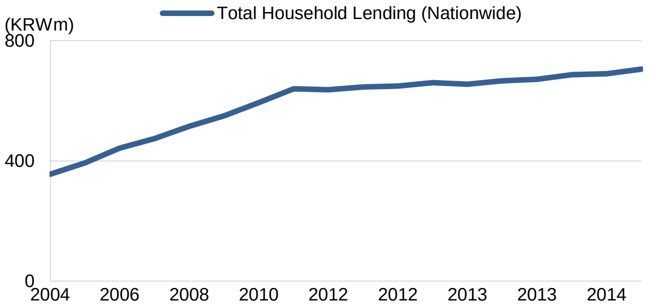
Source: Fitch, CEIC

Mortgage Rates,Arrears and Unemployment



Source: Fitch, CEIC, FSS

Mortgage Lending



Source: Fitch, Korea Housing Finance Corporation

House Prices: To Increase

House prices are expected to increase despite the nation's high household indebtedness. The Bank of Korea recently cut its base rate further to 2.0% in Oct 2014, from 2.25%. This mirrors the government's efforts to stimulate the residential property market by encouraging new entrants with low mortgage rates. Its stimulus has largely helped sustain house values in 2014. This trend is expected to continue in 2015 but, any price movement is expected to be small.

Fitch expects that the government's efforts to boost the economy will continue to sustain house prices in 2015. This includes supporting residential market growth by maintaining a very low base rate. As a result, we forecast a nominal price increase in 2015 around 2%

Affordability: Manageable

The government's stimulus package has artificially boosted house price affordability. The stimulus package includes cutting base rates and a relaxation of the LTV cap for mortgage lending from 50%-60% to 70%.

Low interest rates and the benign macroeconomic conditions in South Korea will continue to ease borrowers' debt servicing burdens. Fitch believes that affordability in 2015 will improve on the basis of our expectation that mortgage rates will be lowered by around 10bp-30bp in 2015 from 3.4% in 2014, while incomes are likely to broadly rise in line with house prices.

Mortgage Rates: Low to Sustain Borrowers' Debt Servicing

Most South Korean banks' mortgages are floating rate and linked to 90 day certificates of deposit rates (CD rates) while some are linked to the COFIX rate, the country's benchmark for floating household debt. Mortgage rates have gradually declined over the past six years from 7% to 3.4%.

Fitch expects movements in mortgage rates to be in line with the agency's forecast that the short-term policy rate will be lowered to 1.9% in 2015, from 2.3% in 2014. Mortgage rates are closely correlated with the policy rate. Competition among lenders is expected to influence pricing less as prevailing rates are considered very low. Fitch expects that the mortgage rates will range between 3.2% and 3.4%, a slight decrease from the most recent value of 3.4% in September 2014.

Mortgage Performance: Arrears to Slightly Increase

Mortgage performance in South Korea is sensitive to labour market conditions and changes in debt servicing burdens for example, triggered by a rise in interest rates. These factors together with a tight LTV restriction in South Korea have kept mortgage delinquencies low.

This stable trend is set to prevail in 2015 for existing mortgages. New mortgage loans may perform marginally worse over time due to expanded LTV standards implemented this past August. On average, Fitch expects 30 days+ mortgage delinquencies to only increase from 0.5% to 0.6%, given that the strong labour market and low mortgage rates are expected to continue in 2015.

Mortgage Lending: Increasing

The slight increase in the outstanding mortgage balance in 2014 so far is largely attributable to the government's stimulus policy and its special focus on the residential market.

The outlook for new lending in 2015 is subject to uncertainties around interest rates. However, Fitch expects around 5% yoy growth in new mortgage lending in 2015 on the back of demand generated by rising lease deposits (or Chonsei). The South Korean Chonsei lease deposit is an upfront deposit. At the contract maturation, the landlord returns the nominal value of the deposit. This deposit can be very high relative to the house values (up to 50%-70% of the house value).The average lease deposit has been rising in recent years and new mortgage demand is expected to arise for those switching to purchases from leases as their lease amounts including the deposit are close to the house purchase prices. Fitch's expectation of slightly growing new lending volumes is further supported by the expansion of the LTV cap.

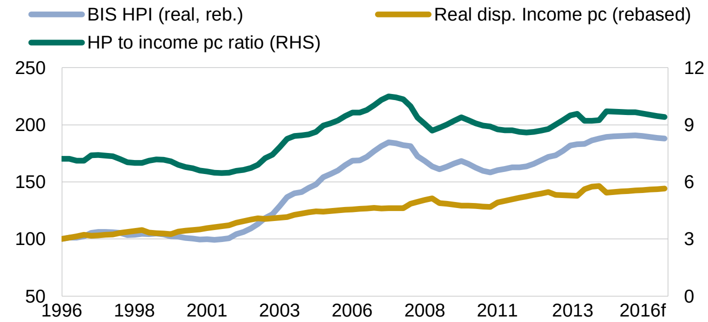
Prepayments: Largely Stable

There are no market-wide data on prepayments in South Korea. However, prepayment rates observed in Fitch-rated South Korean seasoned RMBS transactions have been between 25%-30%.

Fitch expects prepayment rates in South Korea to not move significantly in 2015 due to continuously low mortgage rates. The prepayments are expected to remain between 25%-30% per annum.

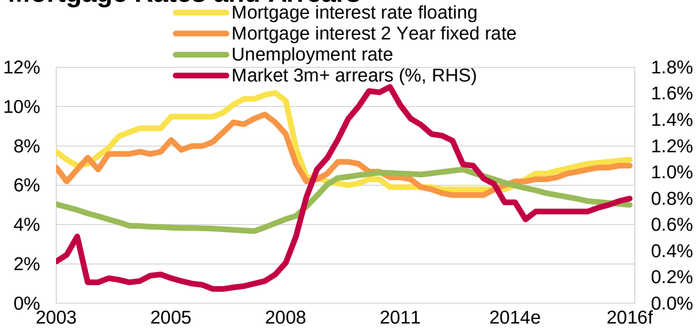
New Zealand

House Prices and Affordability



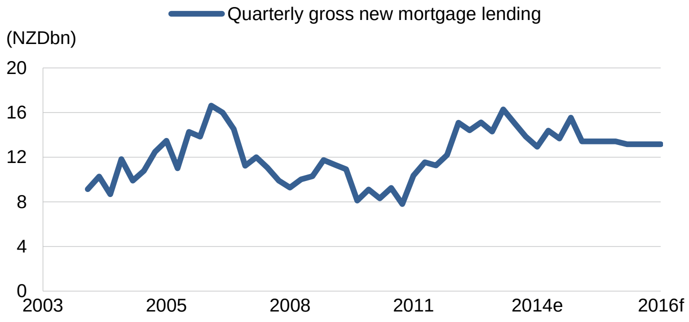
Source: Fitch, Statistics New Zealand, BIS

Mortgage Rates and Arrears



Source: Fitch, RBNZ

Mortgage Lending



Source: Fitch, RBNZ

House Prices: Growth Rates Expected to Continue to Fall

New Zealand house price growth rates have slowed since the Reserve Bank of New Zealand introduced LTV restrictions in October 2013. House prices rose 5.9% in the 12 months to October 2014. However, the annual rate of growth has been slowing since it peaked at 10.3% in September 2013. LTV restrictions which limit high LTV lending (>80%) at no more than 10% of total lending, were introduced by the RBNZ to curb highly geared house purchases and to restrain demand as housing supply catches up.

Fitch expects that the rate of house price growth will moderate to around 2.5% as the official cash rate (OCR) is expected to increase to 3.75% in 2015. Growth rates in Auckland and Christchurch will also continue to slow with the Housing Accord fast-tracking housing developments in Auckland, and the gradual replacement of severely earthquake-damaged homes in Christchurch reducing the housing supply shortage. The temporary LTV restrictions are expected to be lifted once housing market pressures have fallen.

Affordability: Short-Term Outlook Tightening

Most households were affected by a 1% rise in the OCR to 3.5% between January 2014 and July 2014. Household debt to disposable income has been relatively flat since 2006 ranging from 145%-160%.

Fitch expects overall affordability for new housing loans to tighten in 2015 with an interest rate rise of 0.25% and low house price growth of 2.5%, partially mitigated though by rising disposable income. Major cities which have experienced strong house price growth in the past 24 months (Auckland 25.4%, Christchurch 16.4%) will continue to experience affordability pressure.

Mortgage Rates: Expected to Rise in 2015

Mortgage rates have risen 0.95% in the last nine months to a current floating rate of 6.59% as the RBNZ counters inflationary pressures and rapidly rising house prices. Approximately 72% of borrowers have a fixed-rate mortgage, However, 57% of borrowers are on short-term fixed-rate mortgages of less than two years. Since February 2014, variable mortgage rates have risen from their historical lows of 5.64%. Borrowing capacity is based on lenders applying a 1.5% increase to current interest rates when assessing a borrower's ability to service their loan.

Fitch expects current mortgage rates and the RBNZ policy rate to rise by 0.25% in 2015, as the RBNZ responds to inflationary pressures, a strong housing market and a strengthening economy. The rise in the OCR will increase mortgage rates to between 7%-8% which is in line with the long-term average. More borrowers are expected to fix their mortgage rates, which will increase the fixed-rate loan proportion to above 80% of total outstanding mortgage lending.

Mortgage Performance: Likely to Remain Flat

Arrears 90+days represented by impairment loans were 0.6% in June 2014 and are expected to remain stable by December 2014.

Fitch expects arrears to remain broadly the same, rising marginally to 0.7% in 2015 and 0.8% in 2016 as lower unemployment is offset by rising interest rates and higher debt levels. Higher house prices relative to incomes over the last 24 months means borrowers are more susceptible to further expected rate rises. However, Fitch expects the unemployment rate to fall considerably to 5.6% in 2015 and 5.2% in 2016, which should keep overall mortgage performance strong.

Mortgage Lending: Steadily Declining

Total outstanding mortgage lending increased by 4.8% over the 12 months to September 2014, New loan approvals, however, have been falling since October 2013 and are currently down 9% yoy. Much of the decrease is due to the macro-prudential controls on LTV ratios. Prior to the restrictions, high LTV lending made up 25% of new lending, and is now down to 8.5%. Investors and first-time buyers currently attract 29% and 9.5% of new lending, respectively.

Fitch expects gross new lending growth to slightly fall as price growth slows to 2.5% in 2015 and 0.5% in 2016 and new approval numbers continue to fall. High LTV restrictions are expected to be lifted as the housing market slows, which will enable a greater proportion of first-time buyers to enter the market. First-time buyers currently make up a quarter of new high LTV (>80%) lending. Existing borrowers are expected to continue to be cautious with a rate rise expected in the 2015.

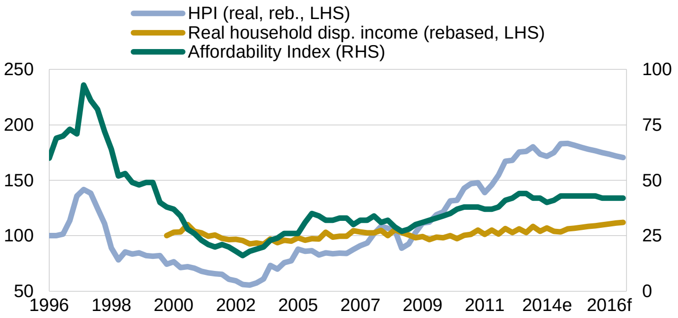
Prepayments: To Decrease Slightly

Mortgage prepayments have been gradually decreasing since June 2013 as the housing market started to slow to 20% as of September 2014 from between 25%-30% in the previous year. This drop is due to reduced refinancing activity on the back of rate rises and the introduction of high LTV limit restrictions.

Fitch expects prepayment rates to continue to fall given the lower levels of transactional activity in the housing market.

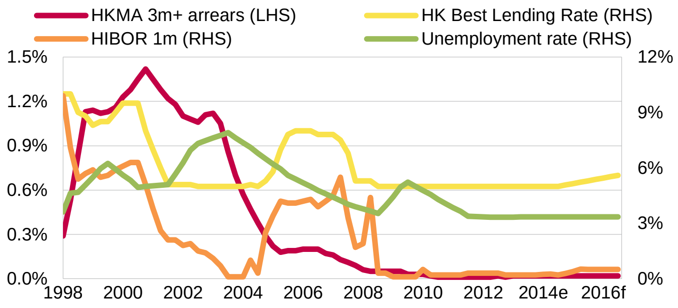
Hong Kong

House Prices and Affordability



Source: Fitch, HK rating and valuation department, Bloomberg

Mortgage Rates and Arrears



Source: Fitch, HKMA, HSBC

Mortgage Lending

Source: Fitch, HKMA

House Prices: To Plateau in 2015

Current all-time high property prices are driven by ample liquidity, low mortgage rates (2.00%-2.25% currently), and speculative purchases by both residents and non-residents such as the Mainland Chinese. As investment yields remain low in some other asset classes, both residents and non-residents continue to invest in the property market. This follows limited price adjustments in 2013/2014 as a result of the government's cooling measures. The current price level is not driven by household formation and income growth but rather by speculative investments. However, speculative investments may decrease in the near term as the record high house prices appear to have reached a ceiling with the risk now substantially to the downside.

Fitch expects no residential property price growth in 2015 compared with an average of 15% yoy during 2004-2013. In addition, we believe the increasingly unbalanced price levels coupled with the risk of benchmark rate increases in the long run pose significant downside risk in the medium term.

Affordability: Stabilising at Current Level

Property prices have grown significantly faster than incomes and GDP over the last decade. The affordability index has deteriorated since 2003 as house prices on a nominal basis rose by 319% compared with a 45% rise in domestic income. Monthly mortgage payments for a 500sqft unit consumed above 40% of the median monthly household income at end-September 2014, which compares to 20% in 2003.

Fitch expects affordability to stabilise as existing loan-to-value caps limit the size of mortgages and as the authorities stay focused on maintaining price stability. The increases in stamp duty and higher downpayment requirements will also help contain house price growth by discouraging lending to weaker borrowers.

Mortgage Rates: Gradual Increase Expected

Most Hong Kong mortgages are benchmarked against either Hibor or Best Lending Rate (BLR or prime). Both pricing schemes are variable in nature: fixed-rate mortgages are rare.

While Hibor and BLR have remained stable since 2008, they follow US dollar rates and Hibor-priced mortgages are more volatile. Hence, the mortgage rates in 2015 will probably grow gradually in line with Fitch's forecast for US dollar rates.

Competition among lenders is a driving factor for low mortgage rates. However, mortgage lending is an area of regulatory focus and banks have been careful to maintain reasonable pricing.

Fitch expects the US Federal Reserve to start raising interest rates in mid-2015 and at the same time Hong Kong mortgage rates to increase to 2.50% in 2015 and 2.75% in 2016.

Mortgage Performance: Sustainable

Rapidly rising house prices and historically low interest rates have insulated Hong Kong lenders and borrowers from defaults. Market-wide arrears have continuously improved from 0.2% in 2006 to around 0.02% in 2010-2014.

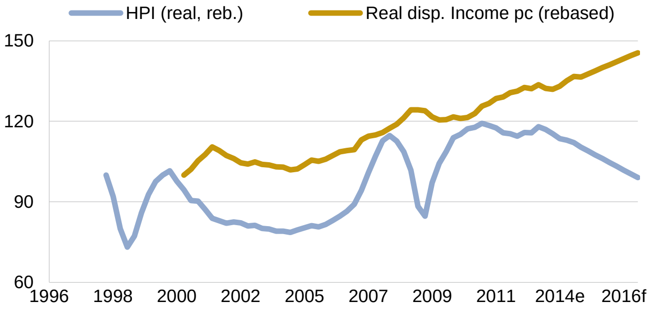
Fitch expects this stable performance to continue in 2015, with arrears below 0.1% given the favourable labour market (3.4% unemployment rate in 2013/2014f) and low interest rates. In 2015, This view is supported by the fact that arrears remained at a low level during the Asia crisis of 1997/8, SARS outbreak in 2002/2003 and global financial crisis in 2009.

Mortgage Lending: Flat in 2015

Fitch believes the government's cooling measures – lowering LTV limits, increasing stamp duty for non-residents and multiple property owners, extending holding period requirements, tightening debt-to-income rules and interest-rate stress tests by the lenders – will stay in place for the time being helping to keep mortgage lending in check. Therefore, new mortgage lending volumes are likely to stay steady in 2015 and 2016, closely tracking movements in house prices.

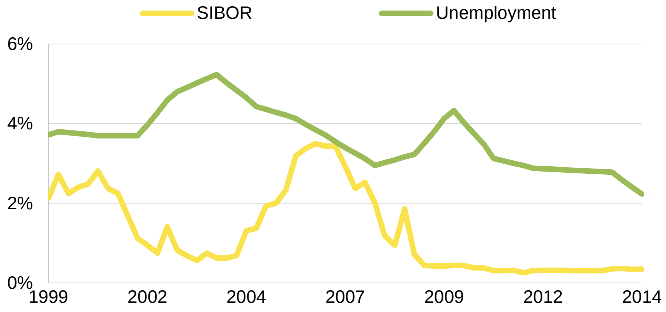
Singapore

House Prices and Affordability



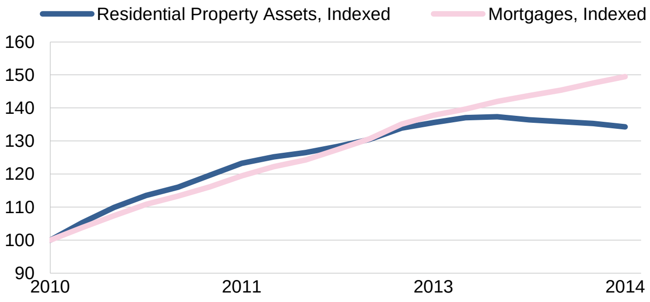
Source: Fitch, Urban Redevelopment Authority, Bloomberg

SIBOR & Unemployment



Source: Fitch, Monetary Authority of Singapore

Mortgage Lending



Source: Fitch, Department of Statistics Singapore

House Prices: Gradually Declining

The introduction of macro-prudential controls on lending to Singapore residential property purchasers are specifically aimed at taking the heat out of the Singapore residential property market. This means that Singapore property prices probably peaked in 2H13 and will continue to decline in 2015-2016 by around 3% p.a.. This situation is likely to be observed both in the public housing market (state-subsidised residences), albeit to a lesser extent, and the private housing market, as both markets are highly correlated.

Abundant liquidity in the market and borrowers' access to low interest-rate mortgage funding should limit downside risks to house prices.

Affordability: To Further Improve

Despite slightly increasing mortgage rates, house-price affordability is expected to improve in 2015 on the back of solid real GDP and nominal income growth combined with moderately declining nominal house prices. Long-term sustainable affordability is supported by the Central Provident Fund (CPF) scheme, a compulsory comprehensive savings plan for working Singaporeans and permanent residents, which can be drawn to repay housing loans. The employment market remains strong (the unemployment rate is forecast to only marginally increase in 2015 to 2.1%), which will continue to support borrowers' steady income streams.

Mortgage Rates: Small Increase Expected

It is expected that alongside the benchmark rates Sibor and SOR (swap offer rate), Singapore's mortgage rate indices will increase marginally in 2015. Singapore will continue to serve as a global financial centre, and its abundant liquidity will keep funding costs (including mortgage costs) low in 2015. However, as a small and highly open economy, Singapore is exposed to global market risks including uncertainties in long-term foreign interest-rate movements.

Fitch expects that Singapore mortgage rates will increase marginally in 2015 in line with international market expectations. Rates are however expected to remain low at around 2%.

Mortgage Performance: Resilient

Singapore's three main banks take up around 60% of the banking system's assets including mortgage loans.

Mortgage delinquencies for these banks will continue to remain comfortably low in 2015 driven by strong affordability, the CPF scheme, the strong labour market and manageable debt burdens. 2015 is expected to see increasing mortgage costs, and therefore delinquency rates are likely to increase, by 0.3pp to around 0.8%-0.9%.

Mortgage Lending: Slightly Increasing

Fitch expects the government's macro-prudential policies to be successful in cooling the property market by trimming access to finance by borrowers at the margins. However, Singapore continues to see immigration growth and it is expected that new demand from immigration and expatriates will exist, albeit at a much lower level. Mortgage demand will most probably stem from property purchases for owner-occupation purposes rather than investment.

As a net effect of these factors, Fitch expects new lending volumes to grow modestly at around at 3%-5%.

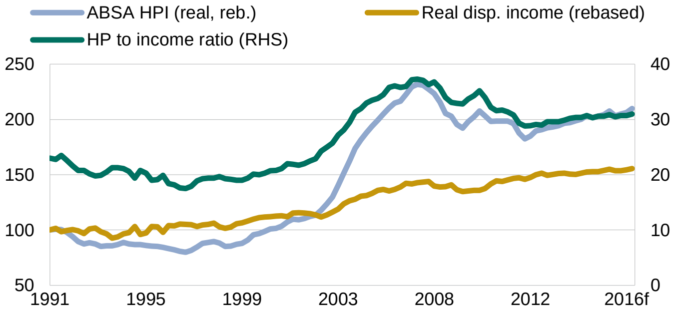
Prepayments: Remain Low

There is no market-wide information on prepayments as there has been no Singapore RMBS issuance to date. However, potential covered bond issues are widely being discussed among the market participants as a result of the release of Monetary Authority of Singapore(MAS)'s notice on covered bonds in 2013.

Fitch expects prepayments to move very little given very low mortgage rates. Due to market uncertainties in terms of long-term interest-rate movements, prepayments may pick up but within a limited range. Fitch estimates prepayments will be in the range of 10%-15% in 2015.

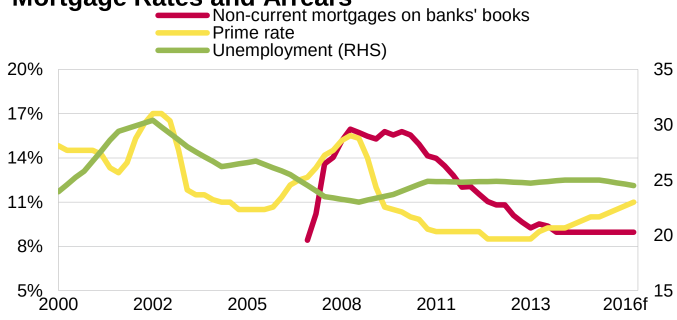
South Africa

House Prices and Affordability



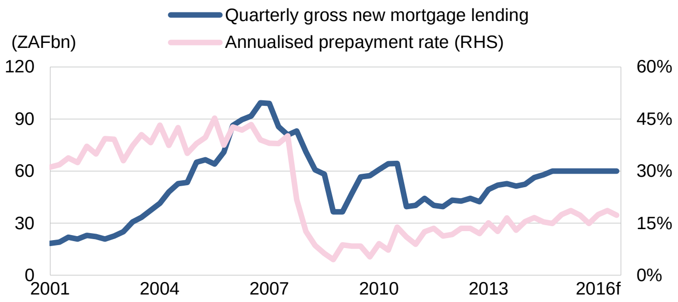
Source: Fitch, SARB, ABSA

Mortgage Rates and Arrears



Source: Fitch, National Credit Regulator, Bloomberg

Mortgage Lending and Prepayments



Source: Fitch, SARB

House Prices: A Strong Appreciation Yet to Decelerate

Housing appreciation was stronger than expected in 2014, at 9.5% between Q313 and Q314 in nominal terms (2.9% in real terms), according to ABSA. This was despite a challenging year for the economy, and significant downward revisions to economic growth forecasts from most commentators. We believe the continued expansion in mortgage lending in 2014 supported housing appreciation. In addition, the backlog of properties attached to defaulted loans from crisis years, has now been largely resolved, and thus no longer weighs on prices.

Fitch expects more modest housing appreciation in the next two years, as the growth in household income will remain subdued and the growth in mortgage lending may slow down in the medium term. The agency expects nominal house prices to grow by about 7.5% in 2015 and 6.5% for 2016, progressively aligning with inflation.

Affordability: Deterioration in Sight

Affordability is expected to worsen as household income growth will lag behind housing appreciation, and interest rates will rise slightly. Household income growth has remained just above inflation over the last few years and it is likely to remain so in the near future. The vulnerability of South Africa's economy to external shocks, seen in the frequent revisions to forecasts, represents a further challenge for the delivery of sustainable growth. Rises in interest rates may also reduce housing affordability.

Mortgage Rates: Mild Rate Increases Still Expected

Following two modest interest-rate rises (end-2013 and mid-2014), the risk of more aggressive monetary tightening has fallen due to the sharp fall in oil prices which will ease inflationary pressure. Nonetheless, the SARB is still expected to tighten ahead of any action by the Federal Reserve.

Fitch still expects a modest rise in policy interest rates by the end of 2015 (by about 75bp), and further hikes in 2016 (by about 100bp). Mortgage interest rates are expected to rise in line.

Mortgage Performance: Stable

In 2014 mortgage performance remained broadly stable despite a challenging year for the economy. Unemployment, which Fitch sees as a key driver of arrears on residential mortgages, is not expected to increase in the near term. The current inflationary recess also makes the prospects of rising interest rates more distant. In our view, however, the long-term trend of performance improvement since the default peak in 2009 is unlikely to continue and performance will align with the long-term average.

Fitch expects RMBS arrears to remain broadly stable in the near term at around 2%. This is based on the anticipation of stable unemployment and only mildly increasing interest rates.

Mortgage Lending: Confirming the Recovery

According to the SARB, residential gross new mortgage lending in the year to September 2014 was up 13% compared to the year before. Growth in mortgage lending has been outpacing housing appreciation since mid-2013, confirming the revival of the housing market and its increasing liquidity. This may be due to an improved lending environment where banks, having largely cleared the backlog of defaulted mortgages from crisis years, seem prepared to increase lending again. In Fitch's view the drivers of growth in lending will remain in place in 2015, but growth will slow down.

Fitch expects mortgage lending to continue growing in 2015 (by about 10%) and stabilise in 2016. This growth should support the housing and mortgage market in the short term, but it may represent a risk in the longer term if it is to the detriment of underwriting quality.

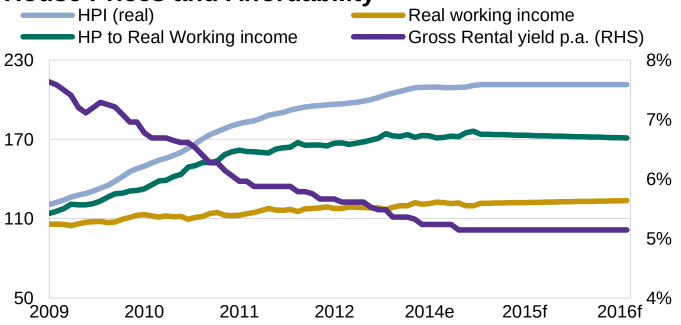
Prepayments: Increase Expected to Continue

The rise in prepayments since 2009 should be supported by the progression in mortgage lending and greater liquidity in the market in 2015 and 2016. The above chart reflects both prepayments and scheduled repayments, gross of any re-advance or further advance.

Fitch expects the 12m average overall market payment rate to increase from its current 15% to 16% by end-2015 and to stabilise in 2016.

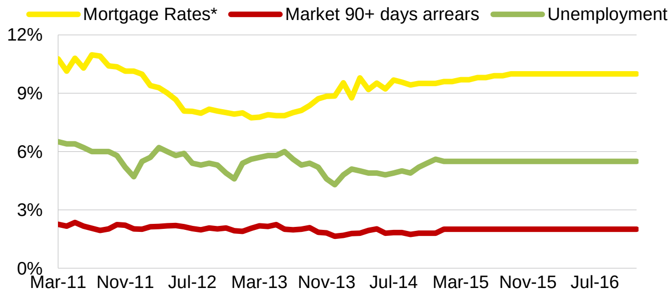
Brazil

House Prices and Affordability



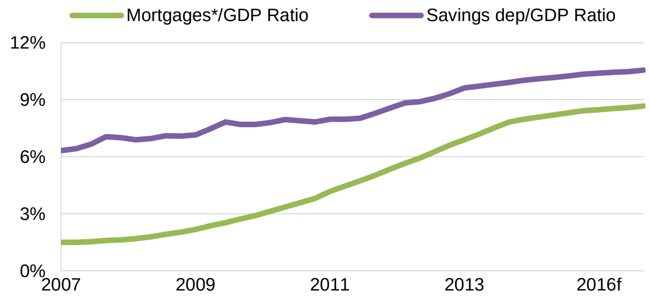
Sources: Fitch, Fipe-ZAP, Ipeadata

Mortgage Rates and Arrears



Source: Bacen. *Includes subsidized lending, which explains part of variations

Mortgage Lending and Funding



Source: Fitch, Bacen. *Around 30% subsidized lending

House Prices: Continued Cooling Down Expected

Property prices have continued showing real increases, but with a marked slowdown between 4Q13 and 3Q14, when real increases reached 3% on average. This slowdown is mainly explained by weak economic growth and high inflation especially for day-to-day goods, which have started to affect Brazilian households' disposable income.

Overall, house price increases are expected to continue to cool in 2015 and be broadly in line with inflation (6.4% expected in 2015), with real price decreases probable in some regions. In view of the limited housing supply in large cities and still sufficient availability of credit, Fitch does not, however, expect broad-based real property price decreases, although these have become more probable. This trend follows Fitch forecasts of low GDP growth, inflation above the central bank target and a further tightening of monetary policy in 2015, which is also expected to lead to higher unemployment (currently near record-low levels). In the medium term, prices are also vulnerable to possible mortgage rate increases and/or a tightening of underwriting standards due to a potential lack of cheap funding.

Affordability: To Remain Stretched and Flat on Average

Average income-adjusted property prices did not change noticeably in 2014, in contrast to previous years. This is true even for the hottest market, Rio. Some metropolitan areas' real prices have not increased much since 2012, and Brasília has even seen a significant drop.

Properties in most cities continue to be expensive for the broader middle class and only accessible through high leverage and long-term financing of up to 35 years. This affordability stretch and its underlying causes are set to continue on broadly the same level well into 2015/16.

Mortgage Rates: Risks in the Medium Term

The sharp increase of the Selic benchmark rate since April 2013 (400bp) and possible additional increases are expected to have only a limited impact on mortgage rates. Standard mortgages (unsubsidised) are mainly funded via deposits, which have a rate cap of 6%-7% p.a.

In addition, the government will probably not allow the largest lender Caixa Econômica Federal (CEF; 70% market share) to increase mortgage rates significantly, even if the opportunity costs of mortgage lending continue to go up (mortgage rates are below government bond yields). Competition between banks is strong, which must direct part of deposits to mortgages, and use them as an instrument for retaining customers. However, bank lending has started to become more selective in view of the weak economic background. Fitch expects only limited mortgage rate increases in 2015. In the mid-term, rates could go up faster due to the potential insufficiency of cheap deposits for continued mortgage growth (see right column).

Mortgage Performance: Expected to Remain Strong

Most mortgages are fixed rate with constant principal amortisation. In view of inflation rates of 5.0%-6.5% in recent years and real-income increases, this implies significant declines in DTI ratios for existing loans over time. In addition, mortgages do not have particularly risky features. Static delinquency data for unsubsidised CEF vintages since 2007 show cumulated 180+ days arrears below 1.5%. Market 3m+ arrears have stood at 2% in recent years, helped by lending growth.

Mortgage performance is expected to remain on levels similar to that observed in previous years due to favourable loan characteristics, but dynamic delinquencies for the whole market could go up because of slower lending growth.

Mortgage Lending: Slowdown of Growth to Continue

In 2014, new mortgage lending growth slowed to around 5% so far (from 30% in the previous year), which implies a small decrease in real terms. The limited availability of savings deposits at CEF is partly to blame, but slowing lending growth also reflects the adverse macroeconomic background and increased cautiousness of lenders.

New lending growth is expected to show modest 5% growth in 2015. Banks will not retreat from the market, but rather concentrate their lending on lower risk borrowers with higher cross-selling potential.

In the medium term, new lending could decline structurally, if deposits continue to grow more slowly than mortgages. Alternative funding sources would be significantly more expensive in a high interest-rate environment. CEF is already reaching the limits of deposit funding, but still has access to other subsidised funding. Privately owned banks currently have sufficient buffers, but this may change because capped deposits are less attractive when interest rates are high.

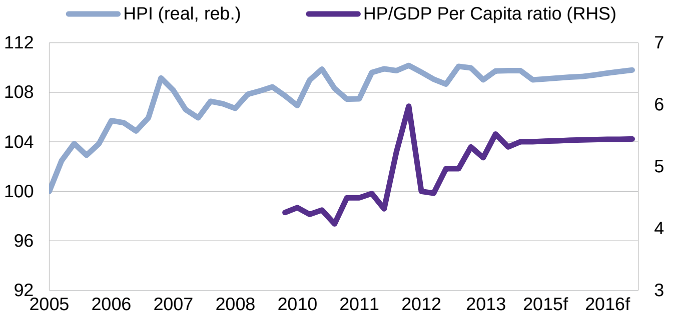
Prepayments: Expected to Remain High for CEF RMBS

Prepayments have been relatively high, helped by high nominal income growth and the lack of prepayment penalties. Fitch has observed average prepayment rates of 10%-15% for securitised CEF portfolios. Highly seasoned loans show even higher rates.

Fitch expects that prepayments for its rated RMBS transactions will remain at relatively high levels in 2015. The weak macroeconomic outlook could somewhat negatively impact prepayments, but inflation is expected to remain stubborn, which will continue to reduce the burden of regular future loan installments. As a result, prepayment levels for existing loans are not expected to decline.

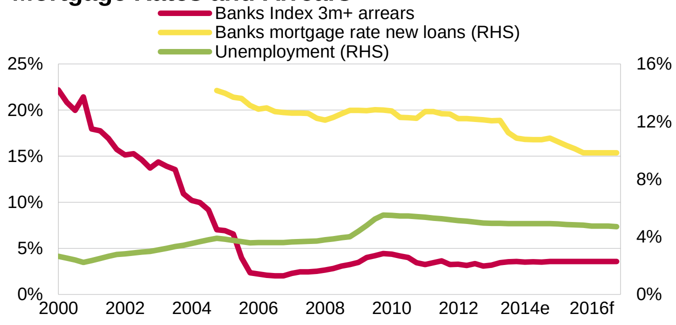
Mexico

House Prices and Affordability



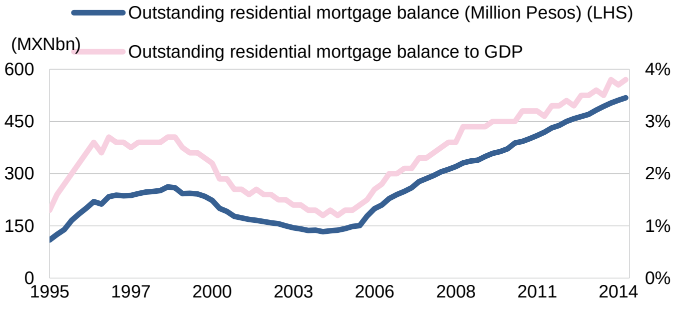
Source: Fitch, BIS, INEGI, SHF

Mortgage Rates and Arrears



Source: Fitch, Banxico, INEGI

Mortgage Lending and Prepayments



Source: Fitch, INEGI

House Prices: Largely Stable

Housing appreciation has continued growing in line with general inflation in 2014, with no increases between Q413 and Q314 in real terms, keeping real prices fairly stable.

A benign macroeconomic environment coupled with favourable supply-demand fundamentals will likely drive housing appreciation of around 4% in Mexico over the coming years. On the demand side, the formal workforce has grown steadily at an annual rate of 3.9% over the past 10 years according to IMSS (the Mexican Social Security Institute). In addition, nominal household income has been growing since 2012 after faltering in the post-crisis years. On the supply side, Fitch expects government agencies and the banking sector to consistently provide credit to the market and new house construction to recover from a temporary slowdown in 2013.

Affordability: Supported by Appropriate Fundamentals

Gradual house price increases and annual adjustments to minimum wages contribute to support growth in price-to-income ratios, which Fitch believes is sustainable. Payment-to-income ratios managed by banks and government agencies are stable and no higher than 25%-30% of gross borrower income.

House prices are expected to follow inflation and real incomes to recover post crisis. Therefore, Fitch expects affordability to gradually improve compared to previous years. Growth in price-to-income ratios has been gradual and has mitigated exposure to event risks.

Mortgage Rates: At Record Lows

Four of the largest Mexican banks now offer mortgages with single-digit interest rates. Banxico published a 10.8% weighted-average mortgage interest rate for the banking sector compared to 12.2% in June 2013.

Government agencies such as Infonavit or Fovissste are also developing new mortgage products with fixed rates that could reach 12%. Fitch expects these products to grow rapidly and compete with the traditional inflation-linked mortgages.

Mortgage Performance: Stable at Banks/Agencies; Weak at NBFIs

Mortgage performance varies by segment. Government entities Infonavit and Fovissste as well as banks have maintained strong performance. Non-bank financial institutions (NBFIs) remain stressed due to lingering default resolutions and drawn out recovery processes.

For 2015, Fitch does not expect arrears to deviate from current levels as the payroll deduction mechanism for collections continues to support borrower willingness to pay and unemployment is expected to remain stable in 2015 at a level of 4.8%. Banks' mortgage asset quality is good as borrowers belong to the middle- to high-income sector, loans do not carry market risk and loans delever steadily.

Fitch expects NBFIs' performance to remain stressed. Late delinquencies continue to increase, new originations have ceased and REO management is becoming more important to provide timely liquidity. Some current servicers have a weak financial profile and recent M&A activity may result in temporary adaptations to new loan managements. For RMBS in this segment, Fitch considers mortgage insurance will provide a key element in the coming years to mitigate loss severity as foreclosures are expected to be very active.

Mortgage Lending: Growth To Continue in Line with Inflation

Mortgage loans are an important component of commercial banks' balance sheets and are mostly funded by consumer deposits. According to data from CNBV, they account for 17.4% of the total lending portfolio (up from 16.6% since June 2013). When considering only the banks that participate in securitisations, their loans mix show 21.7% composed by mortgages. As of 3Q14, mortgage loans in the banking sector increased at an annual rate of 7.6%. This pace is lower than pre-crisis but somewhat aligned with observed trends in recent years.

Fitch believes mortgage credit availability will remain stable in real terms over the next couple of years. Low interest rates and a gradual recovery at the main private homebuilders would encourage housing demand and supply, respectively. Employment levels and income levels of potential borrowers are also expected to be stable. Credit supply from government agencies is expected to be stable as economic conditions for low-income borrowers moderately improve in the following years and new lending products are deployed.

Prepayment Rates: Likely to Further Increase for Banks

Declining interest rates for mortgages, the hiatus in housing construction in 2013-14, and the importance of house acquisition lending have fostered a competitive environment among banks for seasoned borrowers and pushed constant prepayment rates (CPR) up. As of June 2014, Fitch estimates the weighted average (WA) annual CPR of securitised mortgage loans related to rated banks' RMBS was 11.0%, up from 8.1% in 2008.

Fitch believes lower interest rates and reduced mortgage-transfer costs should continue to push up prepayments.

Macro Indicators

Region	Country	Sovereign Environment: IDR[a]	Sovereign Environment: BSI[b]	Sovereign Environment: MPI[c] (last year)	Unemployment (%) 2014e	Unemployment (%) 2015f	Unemployment (%) 2016f	GDP Growth (%) 2014e	GDP Growth (%) 2015f	GDP Growth (%) 2016f	Short Term Rates (%) 2014e	Short Term Rates (%) 2015f	Short Term Rates (%) 2016f	Overall Macro Evaluation: Status & Outlook[d]	Overall Macro Evaluation: Change vs. 2014[e]
North America	USA	AAA	a	1 (1)	5.8	5.5	5.3	2.4	3.1	3.0	0.25	0.5	1.6	Strong	►
	CAN	AAA	aa	1 (1)	7.0	6.9	6.7	2.4	2.5	2.6	1	1.4	2	Strong	►
Europe	UK	AA+	a	1 (1)	6.3	5.7	5.5	3.0	2.6	2.3	0.5	0.8	1.5	Strong	▲
	GER	AAA	a	1 (1)	5.1	5.1	4.8	1.4	1.0	1.7	0.1	0.1	0.1	Strong	►
	NLD	AAA	a	1 (1)	7.0	6.7	6.2	0.7	1.2	1.4	0.1	0.1	0.1	Strong/Neutral	▲
	FRA	AA	a	1 (2)	10.4	10.3	9.8	0.4	0.8	1.2	0.1	0.1	0.1	Neutral	►
	BEL	AA	bbb	1 (1)	8.5	8.4	8.2	1.0	0.9	1.1	0.1	0.1	0.1	Strong/Neutral	►
	DEN	AAA	a	1 (1)	6.5	6.4	6.3	1.0	1.5	1.8	0.1	0.1	0.1	Strong/Neutral	►
	IRL	A-	b	1 (2)	11.4	10.5	9.6	4.7	2.9	2.4	0.1	0.1	0.1	Neutral	▲
	ESP	BBB+	bbb	1 (2)	24.5	23	22.2	1.3	1.7	1.9	0.1	0.1	0.1	Neutral/Weak	▲
	ITA	BBB+	bbb	1 (2)	12.7	12.6	12.3	-0.4	0.6	1.0	0.1	0.1	0.1	Neutral/Weak	►
	PRT	BB+	b	1 (2)	14.3	13.8	13.5	0.8	1.2	1.5	0.1	0.1	0.1	Neutral/Weak	▲
	GRC	B	b	1 (2)	26.0	24.0	22.0	0.5	1.5	2.5	0.1	0.1	0.1	Weak	▲
Asia Pacific	AUS	AAA	aa	1 (1)	6.0	6.2	6.0	3.2	2.9	3.1	2.5	2.8	3.1	Strong	►
	JPN	A+	a	1 (1)	3.5	3.2	3.3	0.8	1.5	1.3	0.1	0.1	0.1	Strong/Neutral	►
	KOR	AA-	bbb	1 (1)	3.0	3.0	3.1	3.5	3.7	3.5	2.3	1.9	2.2	Strong	►
	NZL	AA	a	1 (1)	5.6	5.2	5.0	3.5	2.9	2.6	3.2	3.8	4.0	Strong	►
	HK	AA+	a	3 (3)	3.4	3.4	3.4	2.3	2.8	2.9	0.5	0.8	0.8	Strong	►
	SG	AAA	aa	2 (2)	2.0	2.1	2.2	3.5	3.4	3.0	0.2	0.2	0.2	Strong	►
Emerging Markets	ZAF	BBB	bbb	1 (1)	25.0	25.0	24.5	1.5	2.5	3.0	5.6	6.2	7.0	Neutral/Weak	►
	BRA	BBB	bbb	1 (1)	5.0	5.5	5.5	0.3	1.0	2.2	11.5	12.0	12.0	Neutral/Weak	►
	MEX	BBB+	bbb	1 (1)	4.9	4.8	4.7	2.3	3.4	3.8	3.25	3.75	4.25	Neutral	►

Legend

[a] IDR: Sovereign Issuer Default Rating
[b] The Bank System Indicator (BSI) is a system weighted average of bank standalone strength as measured by bank Viability Ratings
[c] With the Macro-Prudential Indicator (MPI) Fitch systematically monitors macro-prudential risks on a scale from '1' (low) to '3' (high)
[d] Market status and outlook: ranges on a 7-notch scale from very strong, strong, strong/neutral, neutral, neutral/weak, weak and very weak
[e] Change of Status / Outlook evaluation compared with evaluation a year ago
Source: Fitch

Appendix 1: Related Research, Criteria and Analyst Contact Information

Country	Analysts	Contacts	Related Research and Criteria for Country
USA	Stefan Hilts	+1 212 908 9137 stefan.hilts@fitchratings.com	*U.S. RMBS Loan Loss Model Criteria, (November 2014)* *U.S. RMBS Sustainable Home Price Report (December 2014)* *Residential Mortgage Market Index – U.S.A. (October 2014)*
	Grant Bailey	+1 212 908 0544 grant.bailey@fitchratings.com	
	Rui Pereira	+1 212 908 0766 rui.pereira@fitchratings.com	
Canada	Stefan Hilts	+1 212 908 9137 stefan.hilts@fitchratings.com	*Canadian Residential Mortgage Loan Loss Model Criteria, (May 2014)* *Canadian Sustainable Home Price Report, (November 2013)*
	Vanessa Purwin	+1 212 908 0269 vanessa.purwin@fitchratings.com	
	Suzanne Mistretta	+1 212 908 0639 suzanne.mistretta@fitchratings.com	
UK	Ketan Thaker	+44 20 3530 1392 ketan.thaker@fitchratings.com	*Criteria Addendum: UK (May 2014)*
	Adrian Scragg	+44 20 3530 1556 adrian.scragg@fitchratings.com	
	Shomas Kayani	+44 20 3530 1006 shomas.kayani@fitchratings.com	
	Grace Yeo	+44 20 3530 1486 grace.yeo@fitchratings.com	
Germany	Dr. Georgy Kharlamov	+49 69 768076 263 georgy.kharlamov@fitchratings.com	*Criteria Addendum – Germany (June 2014)*
	Eberhard Hackel	+49 69 768076 117 eberhard.hackel@fitchratings.com	
	Mathias Pleissner	+49 69 768076 133 mathias.pleissner@fitchratings.com	
Netherlands	Pierre Soens	+44 20 3530 1488 pierre.soens@fitchratings.com	*Criteria Addendum – Netherlands (June 2014)*
	Jelmer Doedel	+44 20 3530 1670 jelmer.doedel@fitchratings.com	*Mortgage Market Index – Netherlands (3Q 2014)*
	Ketan Thaker	+44 20 3530 1392 ketan.thaker@fitchratings.com	
	Sanne Vandenborre	+44 20 3530 1703 sanne.vandenborre@fitchratings.com	*Mortgage Market Index – Netherlands (3Q 2014)*
France	Damien Zarowsky	+33 1 44 29 91 39 damien.zarowsky@fitchratings.com	*Criteria Addendum – France (July 2014)*
	William Rossiter	+33 1 44 29 91 47 william.rossiter@fitchratings.com	
	Victor Chaine	+44 20 3530 1586 victor.chaine@fitchratings.com	
Belgium	William Rossiter	+33 1 44 29 91 47 william.rossiter@fitchratings.com	*Criteria Addendum – Belgium (June 2014)*
	Francois Le Roy	+33 1 44 29 91 75 francois.leroy@fitchratings.com	
	Sanne Vandenborre	+44 20 3530 1703 sanne.vandenborre@fitchratings.com	
Denmark	Iva Detelinova	+44 203 530 1663 iva.detelinova@fitchratings.com	*Criteria Addendum – Denmark (December 2014)*
	Cosme de Montpellier	+44 203 530 1407 cosme.demontpellier@fitchratings.com	
	Stephen Kemmy	+44 20 3530 1474 stephen.kemmy@fitchratings.com	
Ireland	Stephen Kemmy	+44 20 3530 1474 stephen.kemmy@fitchratings.com	*Criteria Addendum – Ireland (September 2013)* *Mortgage Market Index – Ireland (Q3 2014)*
	Shomas Kayani	+44 20 3530 1006 shomas.kayani@fitchratings.com	
	Ketan Thaker	+44 20 3530 1392 ketan.thaker@fitchratings.com	
	James Donovan	+44 20 3530 1672 james.donovan@fitchratings.com	
Spain	Alvaro Utrera	+34 91 702 57 75 alvaro.utrera@fitchratings.com	*Criteria Addendum – Spain (June 2014)* *Mortgage Market Index – Spain (September 2014)* *Spanish Repossession Analysis 2014 (September 2014)*
	Carlos Masip	+34 91 702 57 73 carlos.masip@fitchratings.com	
	Sanja Paic	+44 20 3530 1282 sanja.paic@fitchratings.com	
	Francesco Lanni	+44 20 3530 1685 francesco.lanni@fitchratings.com	

Country	Analysts	Contacts	Related Research and Criteria for Country
Italy	Adele Sindoni	+39 02 879087 245 adele.sindoni@fitchratings.com	*Criteria Addendum – Italy*
	Daniela Di Filippo	+39 02 879087 243 daniela.difilippo@fitchratings.com	*Mortgage Growth Offers Limited Support to Italian Housing*
	Francesco Lanni	+44 20 3530 1685 francesco.lanni@fitchratings.com	*Mortgage Market Index – Italy*
Portugal	Alvaro Utrera	+34 91 702 57 75 alvaro.utrera@fitchratings.com	*Criteria Addendum – Portugal (June 2014)*
	Carlos Masip	+34 91 702 57 73 carlos.masip@fitchratings.com	
	James Donovan	+44 20 3530 1672 james.donovan@fitchratings.com	
Greece	Francesco Lanni	+44 20 3530 1685 francesco.lanni@fitchratings.com	*Criteria Addendum – Greece (June 2014)* *Mortgage Market Index – Greece (October 2014)*
	Federica Fabrizi	+39 02 87 90 87 232 federica.fabrizi@fitchratings.com	
Australia	Ben Newey	+61 2 8256 0341 ben.newey@fitchratings.com	*Criteria Addendum – Australia - Amended (December 2014)*
	Natasha Vojvodic	+61 2 8256 0350 natasha.vojvodic@fitchratings.com	*Mortgage Market Index – The Dinkum RMBS Index (December 2014)*
Japan	Naoki Saito	+81 3 3288 2631 naoki.saito@fitchratings.com	*APAC Residential Mortgage Criteria, (June 2014)*
	Atsushi Kuroda	+81 3 3288 2692 atsushi.kuroda@fitchratings.com	
South Korea	Keum Hee Oh	+82 2 3278 8373 keumhee.oh@fitchratings.com	*South Korea Structured Finance: Stable Performance (October 2013)* *APAC Residential Mortgage Criteria, (June 2014)*
	Helen Wong	+852 2263 9934 helen.wong@fitchratings.com	
	Grace Li	+852 2263 9936 grace.li@fitchratings.com	
New Zealand	Ben Newey	+61 2 8256 0341 ben.newey@fitchratings.com	*APAC Residential Mortgage Criteria Addendum – New Zealand (June 2014)* *Mortgage Market Index – The Dinkum RMBS Index (December 2014)*
	Natasha Vojvodic	+61 2 8256 0350 natasha.vojvodic@fitchratings.com	
Hong Kong	Keum Hee Oh	+82 2 3278 8373 keumhee.oh@fitchratings.com	*APAC Residential Mortgage Criteria, (June 2014)*
	Helen Wong	+852 2263 9934 helen.wong@fitchratings.com	
	Grace Li	+852 2263 9936 grace.li@fitchratings.com	
Singapore	Keum Hee Oh	+82 2 3278 8373 keumhee.oh@fitchratings.com	*APAC Residential Mortgage Criteria, (June 2014)*
	Helen Wong	+852 2263 9934 helen.wong@fitchratings.com	
	Grace Li	+852 2263 9936 grace.li@fitchratings.com	
South Africa	Nicolas Ardoint	+44 20 3530 1106 nicolas.ardoint@fitchratings.com	*Criteria Addendum – South Africa (June 2014)*
	Andreas Wilgen	+44 20 3530 1171 andreas.wilgen@fitchratings.com	
Brazil	Robert Krause	+55 11 4504 2211 robert.krause@fitchratings.com	*RMBS Latin America Criteria Addendum - Brazil", February 2012)* *Rating Criteria for RMBS in Latin America", (February 2013)*
	Jayme Bartling	+55 11 4504 2602 jayme.bartling@fitchratings.com	
	Juan Pablo Gil	+562 2499 3306 juanpablo.gil@fitchratings.com	
Mexico	Rene Ibarra	+52 81 8399 9130 rene.ibarra@fitchratings.com	*RMBS Latin America Criteria Addendum – Mexico (July 2014)* *Rating Criteria for RMBS in Latin America", (February 2013)*
	Elsa Segura	+52 81 8399 9179 elsa.segura@fitchratings.com	

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