

## RESEARCH

# U.S. RMBS Closed-End Second-Lien Cash Flow Methodology Revised

**Publication date:** 04-May-2007

**Primary Credit Analysts:** Michael Stock, New York (1) 212-438-2611;  
michael\_stock@standardandpoors.com  
Terry G Osterweil, New York (1) 212-438-2567;  
terry\_osterweil@standardandpoors.com  
Anne Rossmann, New York (1) 212-438-2610;  
anne\_rossmann@standardandpoors.com

**Secondary Credit Analyst:** Mona Solar, New York (1) 212-438-2668;  
mona\_solar@standardandpoors.com

Standard & Poor's Ratings Services has updated the cash flow assumptions it uses when assessing RMBS structures for transactions that contain U.S. closed-end second-lien (CES) mortgage loans. Standard & Poor's will use the constant payment rate and default assumptions shown below when assessing the available excess interest in all senior-subordinate overcollateralization transactions that contain CES loans (see tables 1-2 and charts 1-2). We will begin to use these assumptions immediately.

Table 1

U.S. RMBS Second-Lien Default Bullets		
Month	% if W.A. seasoning is < 12 months	% if W.A. seasoning is > 12 months
1	2.0	10.0
6	8.0	20.0
12	20.0	17.0
18	17.0	14.0
24	14.0	8.5
30	8.5	7.5
36	7.5	7.0
42	7.0	5.5
48	5.5	4.5
54	4.5	3.5
60	3.5	2.5
66	2.5	0.0

W.A.—Weighted average.

Table 2

U.S. RMBS Second-Lien CPR Assumptions		
Begin CPR (%)	End CPR (%)	CPR ramp term (mos.)
10	50	18

CPR—Constant payment rate.

Chart 1

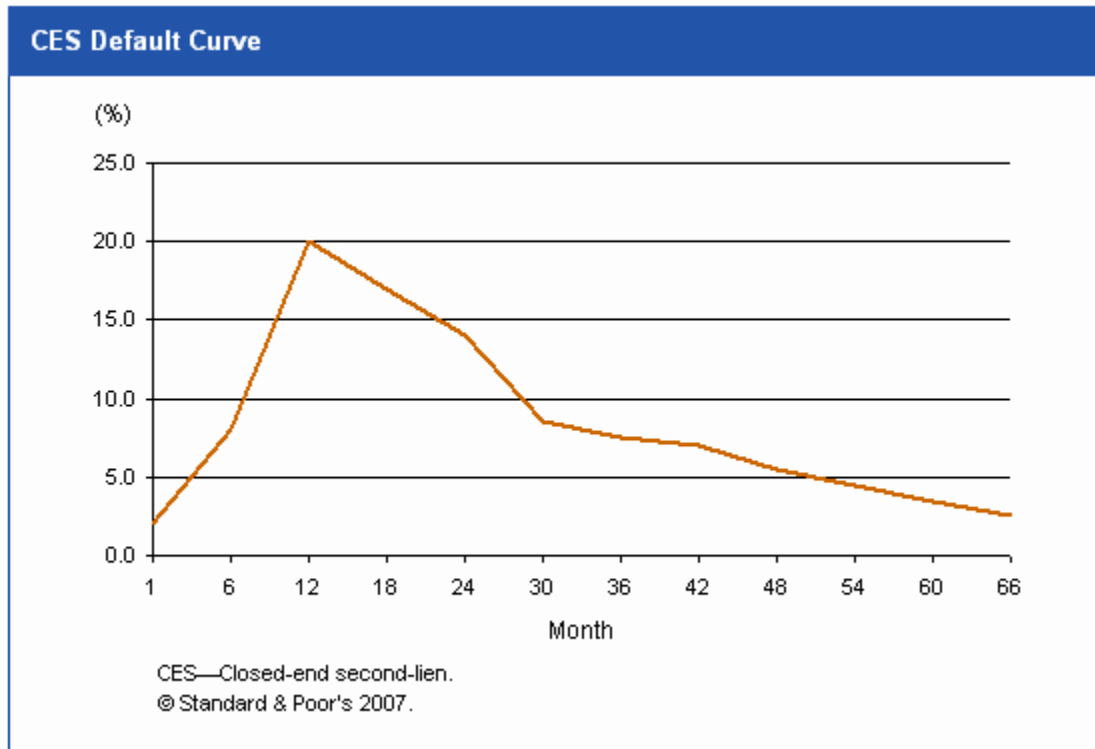


Chart 2

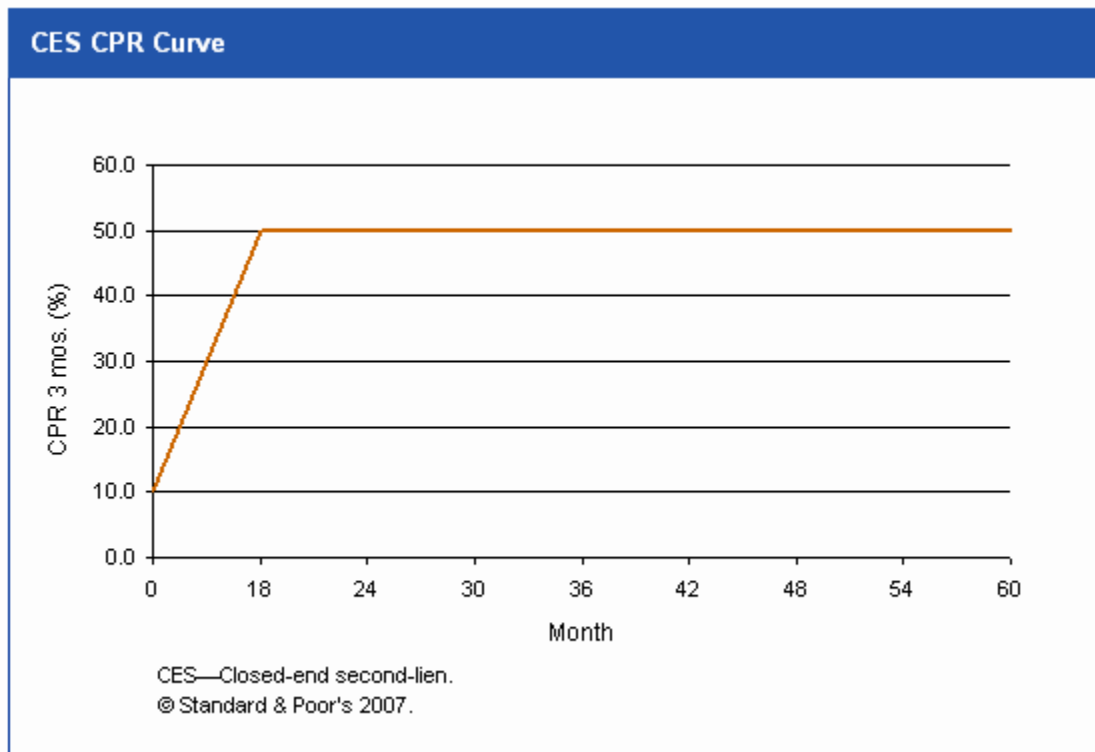


Table 3 illustrates the impact of these new assumptions.

**Table 3**

Impact Of New Methodology On Capital Structures										
Deal	FICO	CLTV (%)	Initial OC		Target OC		AAA sizes			
			Actual (%)	New methodology (%)	Actual (%)	New methodology (%)	Actual (%)	New methodology (%)		
1	701	96.48	5.45	8.10	5.45	8.10	72.25	68.30		
2	707	97.35	3.70	5.05	3.70	5.05	75.05	74.60		
3	675	97.06	6.30	8.15	6.30	8.15	73.05	70.65		

OC—Overcollateralization.  
CLTV—Combined loan to value.

We will continue to monitor the performance of CES loans in the market, and may enhance the outlined methodologies as we deem necessary. Standard & Poor's, at its sole discretion, may revise loss expectations at any time based on market conditions.

Copyright 2007 Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1) 212.438.9823 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).