

Current State of the Securitization Market

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Global Structured Finance Ratings**

**ASF/ESF Global Summit on the
State of the Securitization Industry**

**New York
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- **S&P has regularly commented publicly over the past two years about the weakened U.S. subprime bond market.**
- **We developed, consistently applied, and made public our assumptions, criteria, methodology, and models for ratings RMBS.**
- **When the deterioration became clear, we identified those transactions and acted in a timely manner -- including adjusting our criteria and assumptions, downgrading ratings when appropriate, and publicly commenting on the risks associated with these securities.**

Brief Overview of Recent US RMBS Model Revisions taken by S&P

- **Announced Standard & Poor's LEVELS® model updates v5.7 in May 2006 & v6.0 in March 2007**
 - Targets loan characteristics most closely correlated with high default rates in most recent vintages
 - Layered risk or loans that combine multiple negative risk attributes
 - High CLTV “Piggy Back” loans
 - Low FICO/High (C)LTV loans
 - Slow down of Home Price Appreciation rates increases Loss Severity
- **Announced further updates to default & cashflow modeling assumptions May through August 2007**

Brief Overview of Recent US RMBS Rating Actions taken by S&P

- **July 10, 2007**

- 1st Lien Subprime RMBS
- Affected dates: 4th Qtr. 2005 - 4th Qtr. 2006
- Downgraded \$5.69 billion of \$565 billion rated, equal to 1.00% of rated bonds
- Approximately 86% of downgraded 1st Lien Subprime RMBS initially rated “BBB” or below

- **July 19, 2007**

- 2nd Lien (CES) RMBS
- Affected dates: 1st Qtr. 2005 – 4th Qtr. 2006
- Downgraded \$3.8 billion of \$62 billion rated, equal to 6.1% of rated bonds
- Approximately 79% of downgraded 2nd Lien (CES) RMBS initially rated “BBB” or below

- **August 17, 2007**

- 1st Lien Alternative A RMBS
- Affected dates: 4th Qtr. 2006 – 4th Qtr. 2006
- Downgraded \$660 million of \$455 billion rated, equal to 0.13% of rated bonds
- 100% of downgraded Alternative A RMBS initially rated “BBB” or below

- **August 28, 2007**

- Subprime Net Interest Margin (NIM) RMBS
- Affected dates: 4th Qtr. 2005 – 4th Qtr. 2006
- Downgraded \$1.66 billion of \$5.44 billion currently outstanding, equal to 30.5% of rated bonds currently outstanding
- 61% of downgraded Subprime NIM RMBS initially rated “BBB” or below

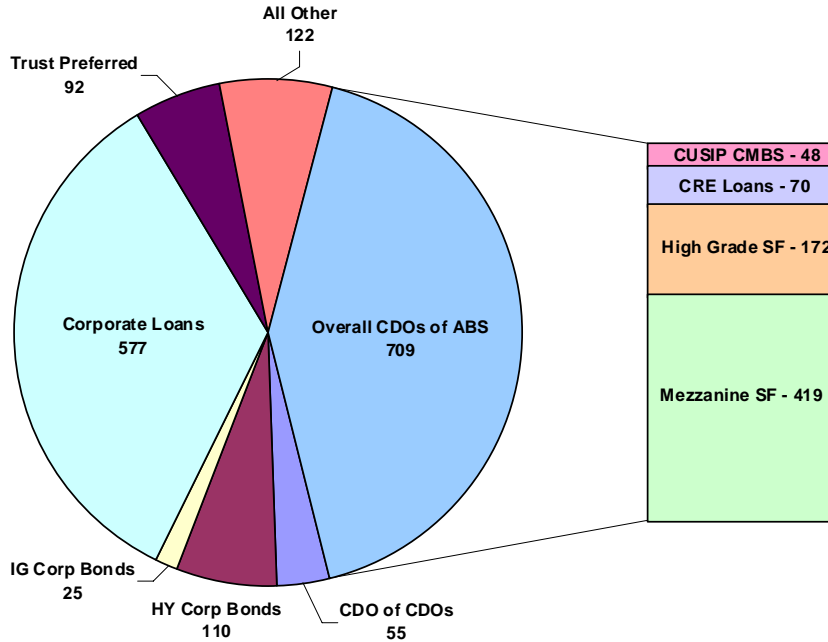
- **Ongoing review**

US RMBS Public Rating Actions July 1, 2007 - August 31, 2007

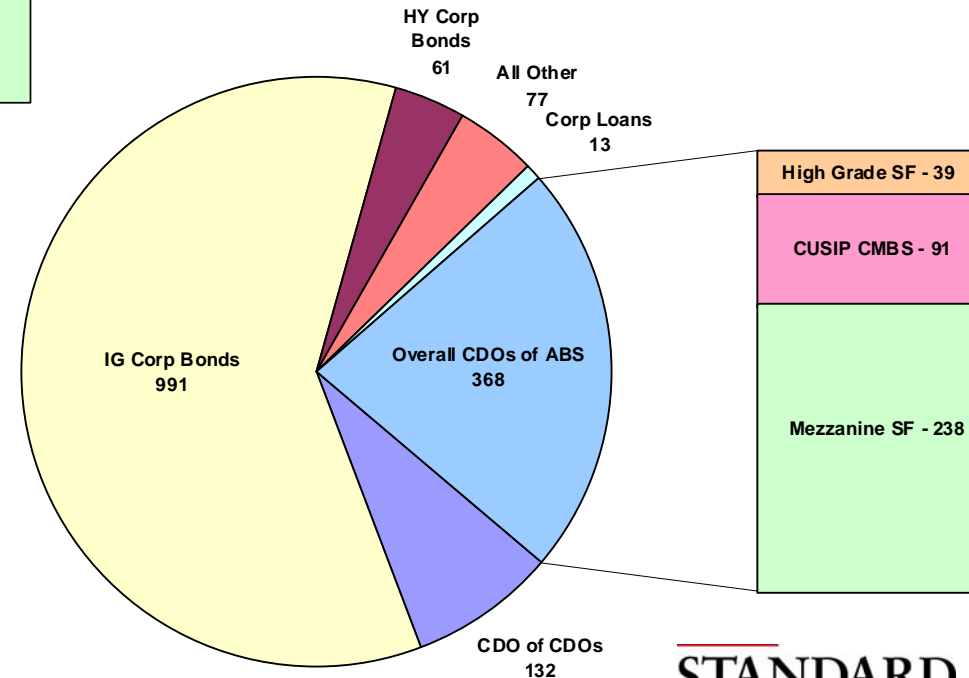
Standard & Poor's U.S. RMBS Public Rating Actions (July 1, 2007 - August 31, 2007)																			
Rating From:	Rating To:																		TOTAL
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	D	
AAA			5						3										8
AA+	12																		12
AA	6	26		1		3	1	1	1			2			2				43
AA-	1	3	5			2	7		1		1								20
A+		5	1	5			6	3	3		6	2		1	2		1		35
A		1	5	4	16		11	3	32	1	7	8		1	14	1			104
A-				1	5	3		5	13	18	10	13	9	5	31	12	12		137
BBB+					2	2	3		19	5	39	19		2	48	1	14		154
BBB						2	2	9		7	21	72	4	1	85	7	27		237
BBB-						1	2	6	1		22	48	23	7	133	30	66		339
BB+										1		19	5	10	63	4	80		182
BB									1	2	9		6	2	92	12	89		213
BB-											1				9	2	28		40
B+												1	2				10		13
B													1	2		12	98	3	116
B-																	20	1	21
CCC																		19	19
D																			0
TOTAL	19	35	16	11	23	13	32	27	74	34	116	184	50	31	479	81	445	23	1693

S&P Rated U.S. CDOs Outstanding by Collateral Type (09/01/07)

Cash Flow & Hybrid CDOs (1690 transactions)



Non-Excess Spread Synthetic CDOs (1642 transactions)



CDO of ABS Sub-Types:

High-Grade SF CDOs: CDOs of ABS collateralized primarily by senior ("AAA" and "AA" rated) tranches of RMBS transactions

Mezzanine SF CDOs: CDOs of ABS collateralized more than 30% by mezzanine ('A' rated and below) tranches of RMBS transactions

CDOs of CMBS: CDOs of ABS collateralized primarily by securitized commercial real estate assets (i.e., "CUSIP CMBS")

CRE Loan CDOs: CDOs of ABS collateralized primarily by unsecuritized commercial real estate assets (whole loans, etc.)

Residential Mortgage Related Actions by CDO Collateral Type

To date, 222 tranche ratings from 115 CDO transactions have been lowered, and another 134 tranche ratings from 46 transactions are currently on CreditWatch negative:

High Grade SF CDOs of ABS:

- Collateralized primarily by senior (“AAA” and “AA” rated) tranches of RMBS transactions, but have some exposure to mezzanine RMBS tranches by holding senior tranches of Mezzanine SF CDOs
- CP tranches failing to roll and are being put to counterparties as specified in CDO documents
- No downgrades to date, but two tranche ratings from one cash flow transaction are currently on CreditWatch negative

Mezzanine SF CDOs of ABS:

- Collateralized primarily by mezzanine (‘A’ rated and below) tranches of RMBS transactions
- 84 cash flow & hybrid transactions have seen 10% or more of their assets downgraded since July, along with 93 synthetic CDO transactions
- 77 tranche ratings from 19 cash flow & hybrid CDOs have been lowered to date; another 112 tranche ratings from 37 transactions are currently on CreditWatch negative
- 99 tranche ratings from 87 synthetic CDO transactions have been lowered to date; another 18 tranche ratings from 7 transactions are currently on CreditWatch negative

Trust Preferred REIT CDOs:

- Collateralized primarily by subordinated mortgage REIT debt
- Because of recent conditions in the mortgage markets, many mortgage originators and purchasers (including REITs) have faced challenges in obtaining funding to finance their ongoing operations
- 46 tranche ratings from 9 Trust Preferred REIT CDO transactions were lowered on September 13th; two additional tranche ratings from one transaction are on CreditWatch negative

U.S. CDOs: Exposure to RMBS and CDO Collateral

Cash Flow & Hybrid High Grade SF CDOs of ABS					
CDO Vintage	Subprime %	Alternative A %	CES %	NIMS %	CDOs
2001	20.6%	4.3%	0.0%	0.0%	5.7%
2002	18.4%	4.2%	1.2%	0.0%	11.3%
2003	26.6%	7.0%	1.5%	0.0%	22.5%
2004	36.3%	10.4%	1.6%	0.7%	26.2%
2005	45.7%	15.3%	1.4%	0.2%	17.9%
2006	39.7%	19.1%	4.8%	0.0%	20.4%
2007	36.8%	28.3%	5.8%	0.1%	23.7%

Cash Flow & Hybrid Mezzanine SF CDOs of ABS					
CDO Vintage	Subprime %	Alternative A %	CES %	NIMS %	CDOs
2001	8.6%	4.2%	1.3%	0.0%	8.8%
2002	20.1%	6.1%	2.0%	0.4%	12.5%
2003	34.4%	7.8%	3.4%	0.1%	8.3%
2004	44.1%	10.1%	3.5%	0.7%	6.7%
2005	51.3%	10.1%	4.4%	1.3%	6.9%
2006	66.8%	7.9%	4.6%	1.6%	7.1%
2007	67.9%	7.4%	1.8%	0.0%	9.1%

Non Excess Spread Synthetic High Grade SF CDOs of ABS					
CDO Vintage	Subprime %	Alternative A %	CES %	NIMS %	CDOs
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	51.3%	1.1%	0.0%	0.0%	15.3%
2005	36.5%	0.0%	0.0%	0.0%	18.4%
2006	97.1%	0.0%	0.7%	0.0%	0.3%
2007	79.3%	0.0%	0.0%	0.0%	16.8%

Non Excess Spread Synthetic Mezzanine SF CDOs of ABS					
CDO Vintage	Subprime %	Alternative A %	CES %	NIMS %	CDOs
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	48.5%	0.5%	1.6%	0.0%	22.9%
2005	64.2%	3.9%	0.2%	0.0%	4.5%
2006	77.8%	1.5%	0.4%	0.0%	1.8%
2007	86.0%	1.2%	0.0%	0.0%	0.6%

High Grade & Mezz SF CDOs of ABS: What's in the CDO bucket?

		Cash Flow & Hybrid High Grade SF CDOs of ABS: Average Collateral Exposure to CDOs							
CDO Vintage	TOTAL CDO Par %	High Grade SF CDO %	Mezzanine SF CDO %	CDO^2 %	CRE CDO %	Corp Loan CLO %	Corp Bond CBO %	T-Pref CDO %	Other CDO Types %
2002	11.3%	⇒ 0.0%	1.0%	0.3%	5.1%	0.9%	3.0%	0.0%	1.1%
2003	22.5%	⇒ 1.1%	13.5%	0.3%	2.6%	1.0%	0.4%	2.4%	1.2%
2004	26.2%	⇒ 4.6%	9.6%	0.4%	1.6%	3.4%	1.0%	1.5%	4.1%
2005	17.9%	⇒ 3.6%	6.8%	0.4%	1.7%	1.0%	0.6%	1.7%	2.1%
2006	20.4%	⇒ 3.8%	10.5%	0.7%	0.7%	1.0%	0.4%	1.0%	2.3%
2007	23.7%	⇒ 4.1%	12.3%	0.2%	0.6%	1.0%	0.0%	1.0%	4.3%

		Cash Flow & Hybrid Mezzanine SF CDOs of ABS: Average Collateral Exposure to CDOs							
CDO Vintage	TOTAL CDO Par %	High Grade SF CDO %	Mezzanine SF CDO %	CDO^2 %	CRE CDO %	Corp Loan CLO %	Corp Bond CBO %	T-Pref CDO %	Other CDO Types %
2001	8.8%	⇒ 0.0%	3.1%	0.0%	1.0%	0.8%	2.0%	0.1%	1.8%
2002	12.5%	⇒ 0.1%	4.3%	0.0%	2.4%	1.7%	1.4%	0.2%	2.5%
2003	8.3%	⇒ 0.0%	2.9%	0.0%	2.1%	2.0%	0.3%	0.3%	0.7%
2004	6.7%	⇒ 0.3%	2.6%	0.1%	1.3%	1.4%	0.2%	0.0%	0.7%
2005	6.9%	⇒ 0.8%	3.8%	0.2%	0.7%	1.0%	0.1%	0.1%	0.2%
2006	7.1%	⇒ 0.5%	4.7%	0.1%	0.3%	0.6%	0.1%	0.0%	0.8%
2007	9.1%	⇒ 0.5%	6.7%	0.2%	0.1%	0.8%	0.1%	0.0%	0.6%

Residential Mortgage Related Rating Actions on U.S. CDOs

Residential Mortgage Related Downgrades on Cash Flow & Hybrid CDOs since July 12th*																			
Rating From:	Rating To:																		Total
	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	
AAA	7	1																	8
AA+		1	1																2
AA			2	5	1														8
AA-				1	1	1													3
A+							1												1
A						11	5	11	2										29
A-							1	2	1										4
BBB+								1		2									3
BBB									12	7	7	3	1	1					31
BBB-											3	3	1	1					8
BB+											3	2	1	4	3		1		14
BB													2	2	1	2		2	9
BB-																	1		1
Total	7	2	3	6	2	12	7	14	15	9	13	8	5	8	4	2	2	2	121

Average Notches	
AAA	1.1
AA+	1.5
AA	1.9
AA-	2.0
A+	3.0
A	2.2
A-	2.0
BBB+	2.3
BBB	2.3
BBB-	3.0
BB+	3.2
BB	4.4
BB-	5.0
Overall	2.46

Residential Mortgage Related Downgrades on Non-Excess Spread Synthetic CDOs since July 12th																			
Rating From:	Rating To:																		Total
	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	
AAA	10	2		3															15
AA+																			0
AA			2	1			2												5
AA-				17	2	1	2												22
A+					3	1		4											8
A						2	5		2										9
A-							15	2	1										18
BBB+								2	2										4
BBB									6	7	1	2							16
BBB-										1		1							2
BB+																			0
BB																			0
BB-																			0
Total	10	2	2	21	5	4	24	8	11	8	1	3	0	0	0	0	0	0	99

Average Notches	
AAA	1.7
AA+	-
AA	4.7
AA-	1.5
A+	2.6
A	2.3
A-	1.2
BBB+	1.5
BBB	1.9
BBB-	2.0
BB+	-
BB	-
BB-	-
Overall	1.88

* Cash & Hybrid CDO numbers include downgrades on Trust Preferred REIT CDOs

Key Assumptions Under Review

- **CORRELATION**
- **RECOVERY**
- **BEHAVIOR OF VARIOUS STRUCTURES**
- **MARKET VALUE**

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