

US Subprime Mortgage Market Update: July 2007

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In this third update^{1,2} to "Challenging Times for the US Subprime Mortgage Market"³, we recap recent trends in subprime mortgage credit performance, ratings actions on subprime residential mortgage-backed transactions and refinements to Moody's analysis of subprime first- and second-lien securitizations.

EXECUTIVE SUMMARY

- Losses for the subprime 2006 vintage will vary significantly across originators and servicers
- Our recently completed, broad based examination of 2006 subprime first- and second-lien backed mortgage transactions resulted in 703 negative rating actions, representing 1.8% of the 2006 vintage in dollar volume and 9.7% of tranches rated
- For 2006 first-lien mortgage securitizations, the negative rating activity mostly impacted tranches rated **Baa** and below - and was largely driven by the severely delinquent portion of the loan pool
- For second-lien mortgage securitizations, 6.9% of the dollar volume and 28% of tranches rated in 2006 were negatively affected while the 2005 vintage had a mix of upgrades and downgrades
- Moody's has made several enhancements to its RMBS ratings analysis to incorporate recent market data, which has resulted in higher loss assumptions on certain new pools
- Moody's will continue to carry out broad based reviews on entire vintages to capture risks systemic to the sector as well as on issuers and originators to capture more idiosyncratic risks such as servicing and origination risk. In addition, Moody's will take rating actions on individual transactions if they exhibit weaker or stronger than expected performance.

Subprime 2006 Vintage Performance

Losses Will Vary Significantly Across Originators and Servicers

As shown in *Figure 1*, the 2006 first-lien subprime residential mortgage securitizations are performing worse than the 2005 vintage. For example, at 10 months of seasoning, 8.6% of the underlying loans in the 2006 vintage were seriously delinquent (loans that are more than 60 days past due or are in foreclosure or being held as real estate owned (REO)), nearly twice the level of delinquencies of the 2005 vintage 10 months after closing. Furthermore, the serious delinquencies have continued to rise in a steep trajectory, averaging an increase of about 1% per month of seasoning.

The reference numbers in the text refer to the "*Related Research*" at the end of the document.

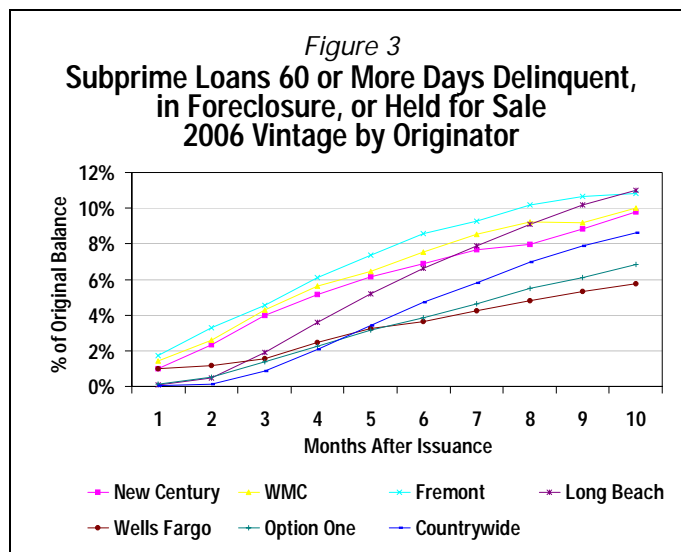
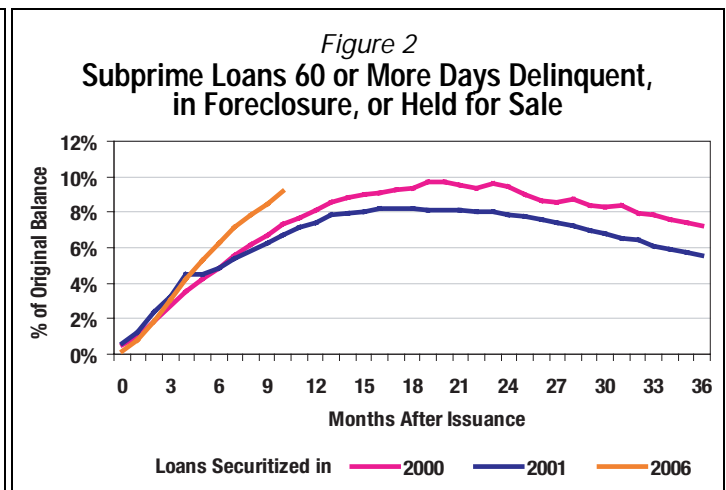
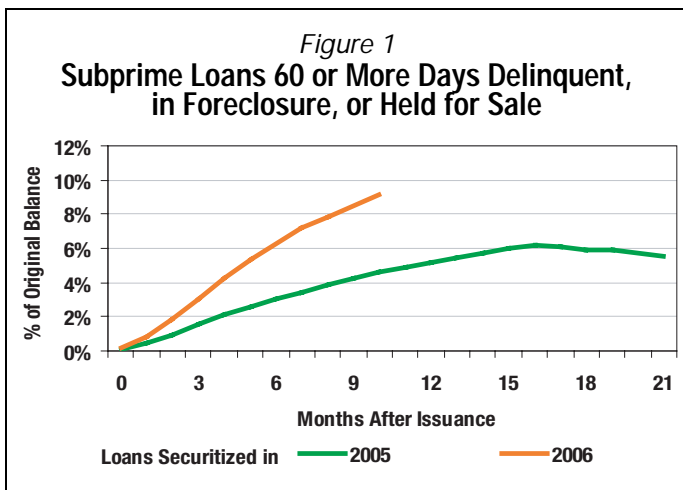


Although the very early performance of delinquencies (i.e., the first five months) of the 2006 vintage was quite similar to that of the 2000 and 2001 vintages, delinquencies for the 2006 vintage have risen at a faster pace after five months of seasoning, at a rate of 1% a month. (See *Figure 2*). In addition, the level of serious delinquencies has varied greatly by originator for the 2006 vintage, as shown in *Figure 3* for a selected sample of large originators. A portion of the delinquencies will roll into default and the servicer will repossess and sell the homes. If a property is sold below the loan amount, a loss will be realized. As we had noted in the April 2007 update,¹ the 2000 vintage had incurred losses of about 6% of the original mortgage pools at 72 months of seasoning.

Our view is that losses on the 2006 vintage will vary significantly across originators and servicers due to:

- the higher path of serious delinquencies for the 2006 vintage versus the 2000 vintage;
- the prolonged weakness in the housing market;
- the variability of performance across originators; and,
- the potential for variability among servicers associated with management of looming interest rate resets and resulting payment shocks.

The best performing pools may see cumulative losses between 5% and 7% while the worst performing pools may range from 10% to 16%. Moody's will survey servicers to assess their strategy vis-à-vis interest rate resets and loan modifications and will inform the market of its findings.



Rigorous Broad Based Examination of 2006 Subprime RMBS Transactions Resulted in 703 Negative Rating Actions

Early-payment-defaults on the 2006 vintage of subprime loans have been significantly higher than those of other recent vintages. In previous publications Moody's has expressed concern about these performance trends and provided updated estimates of its loss expectations for the 2006 vintage earlier this year.¹ Even though, based on individual transaction performance, Moody's had taken rating actions on some securities from significantly poorly performing 2006 transactions as early as November 2006, the information available at that time was insufficient to undertake a full scale review of the entire vintage. Moody's recent rating actions came after we had accumulated sufficient information to judge the persistence of the early trends. Based on Moody's analysis of pool performance, we undertook a rigorous examination of all 2006 subprime RMBS deals, which included deals backed by both first-lien and second-lien loans. This review, which was conducted over a period of almost six weeks, resulted in the rating actions announced on June 15 and July 10, 2007 and described in detail below.

As we noted in our July 12, 2007 conference call, recent data shows that the first-lien and second-lien subprime mortgage loans securitized in 2006 were originated in an environment of aggressive underwriting. This aggressive underwriting combined with prolonged, slowing home price appreciation has caused significant loan performance deterioration and is the primary factor in our recent rating actions. In addition, Moody's analysis shows that certain transactions backed by collateral originated by Fremont Investment & Loan, Long Beach Mortgage Company, New Century Mortgage Corporation and WMC Mortgage Corp. have been performing below the average of the 2006 vintage and represent about 60% of the first-lien rating actions taken on July 10.

Moody's will continue to take rating actions on individual transactions if they exhibit weaker or stronger than expected performance. We also will continue to carry out broad based reviews on entire vintages, issuers or originators. The benefits of such broad based reviews are three-fold. First, to the extent that there exist systemic issues in the marketplace that have an impact on all outstanding deals, undertaking a broad based review or "sweep" allows us to benchmark the performance of transactions against peers and to be more consistent in how we evaluate the impact of the systemic issues. In addition, issuer- or originator-specific sweeps allow us to review all transactions that may be impacted by risks particular to a given issuer or originator. Lastly, taking broad rating actions in the wake of a broad based review helps to minimize speculation that may occur - and may disrupt the market - if investors try to predict potential future ratings actions based on actions taken on a deal-by-deal or shelf-by-shelf basis.

Recent Rating Actions On 2006 First-Lien Mortgage Securitizations Mostly Impacted Tranches Rated Baa and Below

On July 10th, 2007, Moody's concluded a comprehensive examination of securities originated in 2006 and backed by first-lien subprime loans. The examination resulted in negative rating actions on 431 securities from 164 transactions⁴. These negative rating actions, along with past actions on the 2006 vintage, affected securities with an original face value of \$5.3billion, representing 1.3% of the dollar volume and 6.9% of the securities rated by Moody's in 2006 that were backed by first-lien subprime loans.

The vast majority of actions on the 2006 vintage have affected tranches that were originally rated **Baa** or lower. (See *Figure 4*.) Furthermore, even within the **Baa** rating category, almost as many **Baa3** rated tranches were downgraded as those rated **Baa1** and **Baa2** combined. Of the 1,267 tranches that were originally rated A, only 10 tranches, or 0.8%, have been downgraded to date. None of the tranches that were rated **Aa** or **Aaa** at closing have been downgraded.

Figure 4

Summary of Cumulative Rating Actions on the 2006 Vintage for First Lien Transactions

	By Number of Tranches			By Dollar Volume (\$mil)		
	Total Number of Tranches Rated	Number On Review/Downgraded	Percentage Impacted	Rated Dollar Volume	Dollar Volume Impacted	Percentage Impacted
Aaa	2,084	0	0.0%	\$ 338,544	\$ -	0.0%
Aa1	391	0	0.0%	\$ 15,860	\$ -	0.0%
Aa2	442	0	0.0%	\$ 16,327	\$ -	0.0%
Aa3	405	0	0.0%	\$ 7,842	\$ -	0.0%
Aa	1,238	0	0.0%	\$ 40,029	\$ -	0.0%
A1	399	0	0.0%	\$ 7,138	\$ -	0.0%
A2	441	2	0.5%	\$ 7,485	\$ 44	0.6%
A3	427	8	1.9%	\$ 6,109	\$ 140	2.3%
A	1,267	10	0.8%	\$ 20,733	\$ 185	0.9%
Baa1	443	41	9.3%	\$ 5,866	\$ 712	12.1%
Baa2	425	83	19.5%	\$ 4,662	\$ 1,106	23.7%
Baa3	406	120	29.6%	\$ 4,027	\$ 1,342	33.3%
Baa	1,274	244	19.2%	\$ 14,556	\$ 3,161	21.7%
Ba1	278	97	34.9%	\$ 2,731	\$ 1,038	38.0%
Ba2	158	84	53.2%	\$ 1,599	\$ 871	54.5%
Ba3	3	0	0.0%	\$ 16	\$ -	0.0%
Ba	439	181	41.2%	\$ 4,347	\$ 1,910	43.9%
Total	6,302	435	6.9%	\$ 418,212	\$ 5,256	1.3%

The transition matrix in *Figure 5* lists the number of tranches that have been downgraded from a given rating level at closing, as indicated in the first column, to the current rating level, as indicated in the second row. The magnitude of downgrades tended to be somewhat greater for the non-investment grade tranches than for the investment grade tranches. Within the universe of tranches that were downgraded, the average downgrade for a **Baa**-rated tranche is 3 notches whereas the average downgrade for a **Ba**-rated tranche is 4 notches.

Figure 5

Transition Matrix for Downgraded Tranches from the 2006 Vintage for First Lien Transactions

Original Rating	Current Rating												Total
	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	
A3		1											1
Baa1	5	17	4	4	1	1			1				33
Baa2		8	32	16	6	1	5	2		1			71
Baa3			26	29	24	12	8	11	7			1	118
Ba1				5	23	13	7	21	22		3	1	95
Ba2					5	14	13	8	26	9	1	4	80
Total	5	26	62	54	59	41	33	42	56	10	4	6	398

* Does not include 37 tranches that are currently on review for possible downgrade

First Lien Rating Actions Largely Driven By the Severely Delinquent Portion of the Loan Pool

In reviewing deals from the 2006 vintage, Moody's adapted its standard RMBS surveillance methodology to account for some of the unique characteristics of this vintage, including the large early delinquency pipelines and the distinctive characteristics of the early defaulters. Each pool was decomposed into two parts: the severely delinquent portion and the remaining "current" portion. The severely delinquent portion consisted of

loans that were either more than 90 days past due, were facing foreclosure or REO. The remaining portion of the pool was considered "current" even if some of the loans were up to 60 days past their due date. The reason behind breaking up the pool along these lines was that borrowers who become severely delinquent soon after loan origination are expected to default at relatively high rates, with relatively low recoveries. These early defaulters tend to be some combination of first-time home buyers, borrowers who provided limited loan documentation to lenders, housing speculators and borrowers with little or no equity of their own in the homes.

In analyzing loans that are severely delinquent, we considered a number of scenarios based on various assumptions about the percentage of currently delinquent loans that would eventually default (the "roll rate") and the expected severity of loss in the event of a default. The roll rate scenarios we considered were as follows:

- For loans over 90 days delinquent: 50%, 75% and 90%
- For loans in foreclosure: 95%
- For loans held as real estate owned: 100%

While these roll rates are much higher than those that have been realized historically, we believe that the current delinquency pipeline will witness a greater fraction of loans rolling into default than in the past. This is due to the fact that the delinquency pipeline for deals originated in 2006 contains a high proportion of early payment default (EPD) loans with high vacancy rates and high "no contact" rates. Also, in a declining home price environment, highly leveraged borrowers who took out 100% combined loan-to-value (CLTV) loans have "no skin in the game" and have little incentive to continue making payments. It seems unlikely that these borrowers will cure and become current again.

The severity rates we assumed ranged from 25%-30% (in particular, for deals with strong coverage from mortgage insurance), to 40% (for most originators), to 50% (for select originators whose performance has been a cause of concern). These severity assumptions, which are higher than historical averages, are meant to account for the current housing environment as well as the appraisal inflation that appears to have taken place in 2006.

For the portion of each pool that is not severely delinquent, we increased our original loss expectations for the pool by approximately 20% to account for the exposure to the 2008 resets. This is consistent with the increased loss expectations that we published earlier this year.¹

We then assessed the amount of credit enhancement available to the rated tranches in the form of subordination and excess spread to absorb these projected losses. A rating action was taken if the coverage ratio was too low for a specific rating level. While we considered both the projected losses associated with the seriously delinquent loans (the "pipeline loss") as well as the projected losses associated with the remaining portion of the pool, we gave more weight to the pipeline losses.

Rating Actions on Closed-End Second-Lien Securitizations

During the past few weeks Moody's also concluded examinations of transactions backed by subprime closed-end second-lien mortgage loans that closed in 2005 and 2006. Closed-end second-lien mortgage loans are loans secured by a second priority mortgage lien on residential real estate. When closed simultaneously with a first-lien mortgage loan, they are known as "piggyback" loans. Because they are second liens, the holder of a CES is only entitled to recoveries on the underlying property after the first lien holder has been paid in full.⁷

2006 Vintage: 31% of Tranches Negatively Affected

On June 15, 2007, Moody's took rating actions that affected 267 securities originated in 2006⁵. Ratings on 131 securities were downgraded, of which 111 remain on review for possible further downgrade. An additional 136 securities had their ratings placed on review for possible downgrade. Twenty-eight **Aaa**- and **Aa**-rated securities were impacted. Cumulative negative rating actions on the 2006 vintage affected securities with an original face value of \$4.0 billion, representing 8.3% of the dollar volume and 31.0% of the securities rated by Moody's in 2006 that were backed by subprime second-lien loans. *Figure 6* summarizes the cumulative rating actions. Even though the bulk of the actions were directed at tranches rated **Baa** and lower, 58 of the downgraded securities were originally rated at the **A** level, and 24 were originally rated **Aa**. In addition, 11 tranches that were originally rated **Aaa** also faced one or two notch downgrades. All the **Aaa** tranches that were downgraded were backed by collateral originated by Fremont Investment & Loan, Long Beach Mortgage Company or New Century Mortgage Corporation.

The negative rating actions for the 2006 second-lien transactions were more extensive (as a percent of rated securities) than those of the 2006 first-lien transactions. This reflected the fact that second-lien loans tend to have less borrower equity and are more leveraged due to their smaller size. We expect to have completed the review of the 261 securities under review for possible downgrade within four weeks.

Figure 6
Summary of Cumulative Rating Actions on the 2006 Vintage for Second Lien Transactions

	By Number of Tranches			By Dollar Volume (\$mil)		
	Total Number of Tranches Rated	Number On Review/Downgraded	Percentage Impacted	Rated Dollar Volume	Dollar Volume Impacted	Percentage Impacted
Aaa	289	11	3.8%	\$ 40,432	\$ 1,436	3.6%
Aa1	50	2	4.0%	\$ 1,138	\$ 44	3.9%
Aa2	77	10	13.0%	\$ 1,830	\$ 334	18.3%
Aa3	59	12	20.3%	\$ 573	\$ 132	23.1%
Aa	186	24	12.9%	\$ 3,541	\$ 511	14.4%
A1	48	12	25.0%	\$ 442	\$ 99	22.4%
A2	71	18	25.4%	\$ 909	\$ 250	27.5%
A3	71	28	39.4%	\$ 525	\$ 213	40.7%
A	190	58	30.5%	\$ 1,878	\$ 563	30.0%
Baa1	70	37	52.9%	\$ 557	\$ 296	53.1%
Baa2	72	41	56.9%	\$ 472	\$ 287	60.9%
Baa3	75	49	65.3%	\$ 455	\$ 316	69.6%
Baa	217	127	58.5%	\$ 1,485	\$ 900	60.6%
Ba1	64	53	82.8%	\$ 438	\$ 376	85.8%
Ba2	34	30	88.2%	\$ 225	\$ 196	87.2%
Ba3	1	1	100.0%	\$ 5	\$ 5	100.0%
Ba	99	84	84.8%	\$ 670	\$ 578	86.4%
Total	981	304	31.0%	\$ 48,007	\$ 3,991	8.3%

2005 Vintage: Mix of Upgrades and Downgrades

On July 10, 2007 Moody's took rating actions on 127 securities originated in 2005 and backed by subprime closed-end second-lien mortgage loans⁶. Of the 127 ratings actions taken, Moody's downgraded 52 securities (approximately \$393 million), of which 27 securities (approximately \$205 million) remain on review for possible further downgrade. Moody's also placed an additional 23 securities (approximately \$148 million) on review for possible downgrade. Most of the negative rating actions affected securities with prior ratings of **Baa** and below. Moody's also upgraded 52 securities that were rated **A** or higher at closing. These rating actions, along with past actions on the 2005 vintage, affect securities with an original face value of \$1.6 billion, representing 7.4% of the dollar volume and 23.7% of the securities rated by Moody's in 2005 that were backed by subprime second-lien loans. (See *Figures 7 and 8*.)

Most of the securities that experienced negative rating actions had been issued in the second half of 2005. The loans backing those securities were originated in an environment of increasingly aggressive underwriting. This aggressive underwriting, combined with a prolonged slowing of average home price appreciation has caused significant loan performance deterioration and is the primary factor in the negative rating actions.

On the other hand, most of the securities that were upgraded had been issued in the first half of 2005. These loans have experienced some modest home price appreciation and strong prepayments. The faster prepayments allowed the more senior bonds to be paid off sooner than expected and allowed more credit enhancement to build up.

Figure 7

**Summary of Cumulative Rating Actions on the 2005 Vintage for Second Lien Transactions
By Number of Tranches**

	Total Number of Tranches Rated	Number On Review/ Downgraded	Percentage Impacted	Number On Review/ Upgraded	Percentage Impacted
Aaa	131	0	0.0%	0	0.0%
Aa1	22	0	0.0%	7	31.8%
Aa2	47	0	0.0%	18	38.3%
Aa3	29	0	0.0%	8	27.6%
Aa	98	0	0.0%	33	33.7%
A1	28	0	0.0%	6	21.4%
A2	47	0	0.0%	10	21.3%
A3	39	0	0.0%	3	7.7%
A	114	0	0.0%	19	16.7%
Baa1	45	1	2.2%	0	0.0%
Baa2	48	5	10.4%	0	0.0%
Baa3	48	24	50.0%	0	0.0%
Baa	141	30	21.3%	0	0.0%
Ba1	28	20	71.4%	0	0.0%
Ba2	30	24	80.0%	0	0.0%
Ba3	3	3	100.0%	0	0.0%
Ba	61	47	77.0%	0	0.0%
Total	545	77	14.1%	52	9.5%

Figure 8

**Summary of Cumulative Rating Actions on the 2005 Vintage for Second Lien Transactions
By Dollar Volume**

	Rated Dollar Volume	\$ Volume On Review/ Downgraded	Percentage Impacted	\$ Volume On Review/ Upgraded	Percentage Impacted
Aaa	\$ 16,580	\$ -	0.0%	\$ -	0.0%
Aa1	\$ 472	\$ -	0.0%	\$ 216	45.8%
Aa2	\$ 1,387	\$ -	0.0%	\$ 439	31.6%
Aa3	\$ 314	\$ -	0.0%	\$ 101	32.1%
Aa	\$ 2,175	\$ -	0.0%	\$ 756	34.8%
A1	\$ 387	\$ -	0.0%	\$ 87	22.5%
A2	\$ 667	\$ -	0.0%	\$ 188	28.3%
A3	\$ 337	\$ -	0.0%	\$ 25	7.6%
A	\$ 1,392	\$ -	0.0%	\$ 301	21.7%
Baa1	\$ 431	\$ 4	1.0%	\$ -	0.0%
Baa2	\$ 390	\$ 28	7.4%	\$ -	0.0%
Baa3	\$ 327	\$ 160	48.9%	\$ -	0.0%
Baa	\$ 1,150	\$ 193	16.8%	\$ -	0.0%
Ba1	\$ 181	\$ 134	73.9%	\$ -	0.0%
Ba2	\$ 233	\$ 200	86.0%	\$ -	0.0%
Ba3	\$ 18	\$ 18	100.0%	\$ -	0.0%
Ba	\$ 433	\$ 353	81.5%	\$ -	0.0%
Total	\$ 21,731	\$ 547	2.5%	\$ 1,058	4.9%

Second-Lien Surveillance Methodology: Higher Roll Rates to Default and Higher Severities than First Liens

The methodology for evaluating deals backed by second-*lien* loans is the same as discussed earlier for first-*lien* transactions with the exception of higher roll rates from delinquency into default and higher severities.

Unlike first-*lien* loans that go through a lengthy process of foreclosure, second-*liens* loans are written off by servicers when they expect that no recovery is foreseeable. In light of the current pressure on home prices and limited or negative borrower equity in their homes, many second *liens* are simply written off after being delinquent for six months. As a result, the roll rates from delinquency to default that we used were as follows:

- For loans over 60 days delinquent: 50%
- For loans either delinquent for more than 90 days, in foreclosure or held as REO: 100%.

Also as a result of the limited borrower equity underlying most 2006 second-*lien* loans, we assumed in our surveillance methodology that all loans would default with 100% severity.

For the remaining portion of the pool that is not more than 60 days delinquent, in foreclosure or held as REO, we increased our loss expectations by about 30% as discussed in a recent report.⁷

Moody's also noted that second-*lien* deals can dramatically deteriorate from one reporting period to another as very high amounts of losses can be realized even as the delinquency pipeline continues to replenish. One deal that illustrates this trend of suddenly realized large losses is the **Long Beach Mortgage Loan Trust 2006-A** transaction, which lost \$51.3 million or 13.9% of its current pool balance in the month of May alone. This one-month loss is even more dramatic when compared with the previous cumulative loss of \$15.6 million that the deal suffered since closing eleven months prior. Another example is the **New Century Home Equity Loan Trust, Series 2006-S1** transaction, which has \$47.7 million or 20.5% of its current balance in the 90+ day delinquency bucket as of the June reporting date but has only 3.8% of cumulative losses. Of the loans that are over 90 days delinquent, \$33.8 million are more than 180 days delinquent and could potentially be written off in the next reporting period.

Ratings Initiatives Incorporate Recent Market Data, Resulting in Higher Loss Assumptions on New Pools

Moody's analysis is continuously evolving. Our ratings process incorporates information gathered from market trends, performance of securitizations and feedback from Moody's own surveillance process and other market participants on an ongoing basis. In recent months Moody's has made several enhancements to its ratings analysis of transactions backed by first- and second-*lien* subprime mortgage loans, based on the need to incorporate market trends. Some of the recent ratings initiatives are discussed below.

Increased Loss Expectation for Closed-End Second-Lien Securitizations

In light of the poor performance of the 2006 securitizations backed exclusively by subprime closed-end second mortgages Moody's revised its analysis of transactions backed by closed-end second *liens* earlier this year.⁷ Moody's has increased default rate assumptions for high CLTV loans and loans originated with less than full documentation. In addition, the analysis now explicitly takes into account the characteristics of the associated first-*lien* loans. To the extent the first-*lien* information is not provided, stressed assumptions are made and loss expectations are adjusted accordingly. The net result has been an increase in average loss expectations of approximately 15-25% of previous levels.

Higher Loss Expectation for Certain Loan Attributes

Moody's has always considered first-*lien* loans with simultaneous second-*lien* loans as riskier than otherwise equivalent loans without the simultaneous seconds, since loans with seconds typically have higher combined loan-to-value ratios. In addition, our loss coverage estimates in the past have assessed a higher risk factor to loans with low or no income documentation. However, the recent poor performance of subprime loans with these attributes supports an increase in loss expectations of loans with these credit characteristics. As a result, we have increased our loss estimates by up to 25% for loans with little or no borrower equity in the homes and by approximately 10-15% for subprime loans with only stated or no income documentation.

Expanded Universe of Loan-By-Loan Data Fields

Moody's has expanded the universe of loan and borrower attributes that are analyzed on a loan-by-loan basis as part of the ratings process.^{8,9} We are expanding our analysis to include, among other attributes, information on the depth and breadth of the credit history of the borrowers, the level of reserves of the borrower and whether the borrower escrows payments for taxes and insurance. In addition, certain other attributes - such as whether the borrower is a first-time home buyer or is a wage earner that chooses a stated documentation loan - which were previously analyzed at a pool level, will now be analyzed at the loan level.

Loss Coverage Adjustment for Newly Originated Loans and Early Delinquencies

Moody's has observed that, beginning in 2006, many subprime transactions have had a higher percentage of loans than in the past that were delinquent as of closing, even in transactions backed by newly originated loans. Furthermore, the performance of the 2006 vintage suggests that the early delinquencies are exhibiting a higher propensity to roll into foreclosure than they have in the past. As a result Moody's has enhanced its analysis of the credit impact of the delinquent loans in subprime deals backed by newly originated loans. Moody's has published a call for comment¹⁰ on its approach to adjusting the loss expectation for delinquent loans. The approach also takes into account the reporting lag between the closing date of the transaction and the delinquency determination date. The longer the reporting lag, the higher the uncertainty regarding the actual delinquency status on the closing date, and therefore, the higher the loss expectation.

Our analysis shows that, since the beginning of 2006, newly originated loans have also shown an increased tendency to under-perform compared to loans originated prior to 2006. To the extent there are no structural mechanisms in the transactions to mitigate this risk Moody's will be increasing loss estimates for loans without seasoning by approximately 10%. For loans that are seasoned one to four months and the borrowers have made all payments on time, the loss expectations will increase but on a diminishing scale based on the seasoning. For loans that are five months or more seasoned and the borrowers have made all payments on a timely basis the loss coverage adjustments can be up to 3% lower.

Higher Originator-Specific Loss Coverage Adjustments

Based on the wide variations in recent performance across originators for otherwise similar subprime loans, Moody's will be increasing the distinctions it makes in loss expectations based on the originator of the loans. Our loss expectations for loan pools from originators that have performed poorly will now be as much as 20% higher than pools with similar credit attributes from originators that have performed well.

RELATED RESEARCH

1. ["US Subprime Mortgage Market Update: April 2007"](#), Moody's Structured Finance, April 20, 2007
2. ["US Subprime Mortgage Market Update: June 2007"](#), Moody's Structured Finance, June 7, 2007
3. ["Challenging Times for the US Subprime Mortgage Market"](#), Moody's Structured Finance, March 7, 2007.
4. ["2006 Vintage First Lien Subprime RMBS Rating Activity"](#), Moody's Structured Finance, July 10, 2007.
5. ["Closed-End Second Lien RMBS Rating Activity"](#), Moody's Structured Finance, June 15, 2007.
6. ["2005 Vintage Closed-End Second Lien RMBS Rating Activity"](#), Moody's Structured Finance, July 10, 2007.
7. ["Closed-End Seconds: Recent Performance and Update to Methodology"](#), Moody's Structured Finance, April 2, 2007
8. ["Moody's Expands Loan Characteristics in Subprime RMBS Ratings Analysis"](#), Moody's Structured Finance, June 5, 2007
9. ["Moody's Revised US Mortgage Loan-by-Loan Data Fields"](#), Moody's Structured Finance, April 3, 2007
10. ["Call for Comment: Update to Moody's Approach to Analyzing Delinquent Loans Included in Performing Subprime RMBS"](#), Moody's Structured Finance, May 31, 2007
11. ["US RMBS: Evaluating Alternative Performance Triggers"](#), Moody's Structured Finance, September 26, 2006

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