



VIA Electronic Mail: (CriteriaComments@standardandpoors.com)

June 15, 2009

Mr. Francis Parisi, Ph.D.
Criteria Group
Standard & Poor's
55 Water Street
New York, NY

File Reference: Request for Comment: U.S. RMBS Rating Methodology and Assumptions for Prime Jumbo, Alternative-A, and Subprime Loans

Dear Mr. Parisi:

The Mortgage Bankers Association¹ (MBA) appreciates Standard & Poor's (S&P) seeking comment on its proposed *U.S. RMBS Rating Methodology and Assumptions for Prime Jumbo, Alternative-A, and Subprime Loans* (proposed rating methodology). The proposed rating methodology is a comprehensive revision of S&P's approach to assessing the credit risk inherent in the loans underlying residential mortgage-backed securities (RMBS).

During the period from 2005 through 2007, residential real estate prices increased at a historically high rate. During that time, the mortgage market migrated toward higher risk products and reduced underwriting documentation. When real estate prices receded, the default frequencies and loss severities increased well beyond what was envisioned when loans were securitized. The secondary market for new prime jumbo, Alt-A and subprime securities (private label RMBS) froze and has remained frozen or inactive for over a year. The liquidity drought in the private label RMBS market stems from a variety of factors. One of those factors is the loss of confidence in the credit rating process.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

MBA supports efforts to increase transparency and increase the validity of credit ratings for RMBS. We commend S&P for evaluating its own credit rating processes with the goal of providing a transparent and clear approach to assessing the creditworthiness of private label RMBS securities. However, MBA believes that the proposed rating methodology has several serious shortcomings. The following general comments point out the more serious concerns MBA's members have with the proposed rating methodology. Following these general comments, MBA provides responses to the specific questions posed by S&P in its proposed rating methodology.

General Comments

Potential Market Impact: The proposal calls for setting 'AAA' loss and credit enhancement levels as anchor points for archetypical pools at 7.5 percent for prime jumbo, 18 percent for Alt-A, and 30 percent for subprime based upon defined archetypical pools of loans. The 'B' tranche (assumed loss) is pegged at 0.5 percent, 1.2 percent, and 5 percent, respectively for prime jumbo, Alt-A, and subprime. MBA's members believe that these credit enhancement levels will prevent any resumption of securitization activity in these markets, as they make any potential deals uneconomic. The result will be that the markets for such loans would continue to be frozen. Conversely, for these levels to work, the pricing of the loans to consumers will be beyond what most would be able to pay. Recognizing that realized credit losses on recent vintage year pools exceeded estimated losses in many cases, MBA believes that, with the proposed rating methodology, the pendulum would swing too far the other way, representing an over-reaction to the current market crisis.

Assumptions Underlying 'AAA' Credit Enhancement Levels: Page 16 of the proposed rating methodology states, "Historically, loans originated during 'boom' periods, associated with rapidly increasing house prices, and easily available credit, are at greater risk of default and loss than those loans originated during periods of economic downturn." S&P goes on to state, "...during periods of economic stress only borrowers with strong credit will qualify for mortgages, lenders are more likely to scrutinize each loan carefully, and house prices are at or near bottom." Therefore, one would expect the credit enhancement for 'AAA' securities would be lowest during the economic downturn and highest during boom times.

The proposed rating methodology, however, is not designed to work that way. Instead, the credit enhancement levels are anchored at 7.5 percent for prime jumbo, 18 percent for Alt-A, and 30 percent for subprime. The proposed rating methodology includes data to demonstrate the market value shock assumed in

deriving these anchor points.² To derive the 'AAA' credit enhancement level, S&P's assumptions include a market decline of 45 percent. Most would agree that the current market environment and real estate value decline is likened to a 100 year flood level, and the real estate deflation rate has been 30 percent. Yet, S&P sets the credit enhancement at a level 50 percent greater than the hundred year flood crest level. To use such an assumption commencing with the current market environment makes no sense. In contrast, the 'B' credit enhancement is pegged at 0.5 percent, 1.2 percent, and 5 percent, respectively for prime jumbo, Alt-A, and subprime. The "B" level will vary over time based upon S&P's assessment of current and expected future market conditions, while the 'AAA' credit enhancement is anticipated to be a more permanent anchor.

If S&P anchors the 'AAA' credit enhancement level, it should do so at a level that is not pro-cyclical and that allows the market to start up again.

Lack of Transparency of New Model: In the past, mortgage bankers could run a proposed pool through the S&P LEVELS model and obtain a reasonable approximation of the credit enhancement levels. One of MBA's members tried to run the LEVELS model on a pool meeting the archetypical pool characteristics, and this member was unable to come up with a 'AAA' credit enhancement level even close to the proposed anchor level. MBA believes that in order for LEVELS to continue to be a useful tool, it must continue to produce results that emulate actual rating levels. The proposed rating methodology uses extra-model adjustments that are opaque to the user. Or, as one MBA member observed, S&P's rating process now appears to be a "black box" whereby nobody outside of S&P can predict the credit enhancement levels for a proposed pool. The darkest area of the "black box" appears to be how S&P is factoring in current market and economic conditions.

MBA recommends that S&P re-expose the proposed rating methodology with a more robust exposure document that provides justification for the new 'AAA' levels among other details. In particular, further detail regarding the impact of combining risk characteristics and examples utilizing a representative pool of recent originations would be more informative than the existing summary of the proposed methodology.

Focus on Prime Jumbo Products First: Currently, the markets for prime jumbo, Alt-A and subprime RMBS are all frozen. It is likely that the jumbo market will "thaw" first. It is also clear that the 'AAA' levels on prime jumbo RMBS are particularly punitive relative to realized losses on recent cohorts. In reconsidering the proposed rating methodology based upon comments received, MBA recommends that S&P fix the model for prime jumbo products first, and re-expose the proposed rating methodology for that product separate from Alt-A and

² Request For Comment: U.S. RMBS Rating Methodology And Assumptions For Prime Jumbo, Alternative-A, And Subprime Loans (Request for Comment), Table 11, page 17; May 15, 2009.

subprime products. Further, MBA believes that the proposed changes to S&P's existing rating methodology are so pervasive that it should have required an exposure period longer than thirty days. MBA strongly suggests that any re-exposure should require a longer exposure period. MBA also suggests that S&P host a roundtable discussion with issuers, investors and other interested parties in order to obtain feedback in an interactive format. Further, S&P should run a pilot or test of the new process in cooperation with market players.

Responses to Specific Questions Listed in Proposed Rating Methodology

S&P Question: What is your view of our proposed 'AAA' benchmark credit support levels for the three products' archetypical pools?

MBA Response: MBA believes that the request for comment document contains inadequate information to draw a definitive conclusion. However, it appears that the 'AAA' benchmark credit support level is artificially high and is based upon a real estate value shock that is 50 percent higher than the current "100 year flood crest". See comments above re: potential market impact and assumptions underlying 'AAA' credit enhancement levels.

S&P Question: What is your view of our proposed general and product specific characteristics for the archetypical loan pools?

MBA Response: MBA believes that the request for comment document contains inadequate information to draw a definitive conclusion. For example, it is unclear whether Table 3 contains all of the characteristics for the archetypical pools? MBA members would like to know how each attribute is weighted and would like risk layering tables for each attribute.

S&P Question: Do you believe first time home buyers pose a greater risk? If so should they be excluded from the definition of archetypical pools and result in risk adjustments when they appear in mortgage pools?

MBA Response: Intuitively, MBA's members believe that there may be higher risk associated with first time homebuyer loans, since their credit history does not include the debt, tax, insurance and utility expenses associated with home ownership. However, MBA believes that S&P could glean this information by running a regression analysis on its large database of loans comparing default frequency for first time homebuyers against other segments of the data base population.

S&P Question: What is your view of the proposed risk adjustment factors for the different loan and borrower characteristics-- combined loan-to-value (CLTV) and FICO score, occupancy, loan purpose, documentation type, loan type, and loan term?

MBA Response: The risk adjustment factors for those loan and borrower attributes included in the tables seem to be directionally correct. MBA believes that the exposure document should have included risk adjustment tables for all risk factors that impact the credit enhancement level calculation. See comment above about lack of transparency of new model.

S&P Question: What is your view of our approach to factoring changes in industry or market conditions into our analysis?

MBA Response: MBA does not believe that the exposure document sufficiently explains how industry and market conditions are explicitly factored into the credit enhancement level decision. As mentioned in the general comments above, this appears to be the “darkest area of the black box.” See general comment on assumptions underlying ‘AAA’ credit enhancement levels above. Basically, in boom times, credit enhancements should be at their highest, while at the bottom of the credit cycle, credit enhancement levels should shrink because during periods of economic stress only borrowers with strong credit will qualify for mortgages, lenders are more likely to scrutinize each loan carefully, and house prices are at or near bottom.

S&P Question: What is your view of the proposed revisions to our market value decline projections?

MBA Response: As indicated in MBA’s general comments above, Table 11, on page 17, shows the market value shock assumed in deriving these anchor points. To come up with the ‘AAA’ credit enhancement level, the assumed market decline is 45 percent. MBA believes that the current market environment and real estate value decline is likened to a 100 year flood level, and the real estate deflation has been 30 percent. Yet, S&P sets the credit enhancement at a level 50 percent greater than the hundred year flood crest level! Furthermore, S&P fails to substantiate its rationale for using such an assumption commencing with the current market environment.

S&P Question: What is your view of our general approach to the surveillance of existing ratings and the proposed enhancements to our surveillance analysis?

MBA Response: MBA believes the general approach to the surveillance of existing ratings and proposed enhancements are appropriate. The exposure document states, “Therefore, we do not expect the changes outlined in this article to have a material impact on our currently outstanding U.S. RMBS ratings.³” Yet, elsewhere in the document there is evidence of a potential impact. For example, in discussing surveillance enhancements, S&P states, “We are

³ Ibid, Request for Comment, page 3.

changing our analytical approach to outstanding RMBS to reflect our view of the change in the credit risk inherent in any given mortgage pool over time.⁴ MBA recommends that the proposed surveillance be implemented in a manner that will not further disrupt credit markets or further dilute confidence in the rating process, and any changes to ratings on existing securities should be made in a predictable and transparent manner.

S&P Question: Do you believe there is a need to generate loan-level CPR and CDR vectors for our analysis, or are pool-level CPR and CDR vectors sufficient?

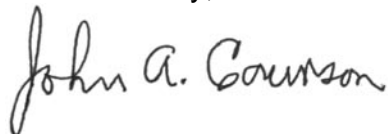
MBA Response: S&P has always used pool level CPR and CDR vectors in the past. Is there any evidence that indicates that loan level analysis would have produced a more accurate projection? If so, how much more accurate? Would the use of loan level vectors require more information from issuers than now provided? MBA believes that the answers to those questions would enable S&P to perform a cost/benefit analysis on doing loan level vs. pool level CPR and CDR vectors.

S&P Question: Do you have any other comments or concerns regarding this proposal?

MBA Response: See MBA's general comments above.

MBA appreciates the opportunity to share these comments on the proposed rating methodology for RMBS. We urge S&P to address MBA's concerns and reissue the proposed rating methodology to seek additional input. Given the nature and scope of S&P's proposed changes, MBA requests that any future comment period be longer than 30 days. Any questions about MBA's comments should be directed to Jim Gross, Associate Vice President and Staff Representative to MBA's Financial Management Committee, at (202) 557-2860 or jgross@mortgagebankers.org or to Michael Carrier, Associate Vice President and Staff Representative to MBA's Secondary and Capital Markets Committee, at (202) 557-2870 or mcarrier@mortgagebankers.org.

Most sincerely,



John A. Courson
President and Chief Executive Officer

⁴ Ibid, Request for Comment, page 18.