

RMBS Market Overview

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May 21, 2007

Moody's Investors Service

Agenda

- **State of the Market**
 - Mortgage cycle
- **RMBS market overview by sector**
 - Jumbo
 - Alt A
 - Subprime
- **Ratings Transitions**
- **Conclusion**



State of the Market--Past

- **Mortgage markets are cyclical**
 - Rapid home price appreciation (“HPA”) and low interest rates
 - High borrower demand —> increasing # of lenders and mortgage options
 - Increased competition/loosening of underwriting standards

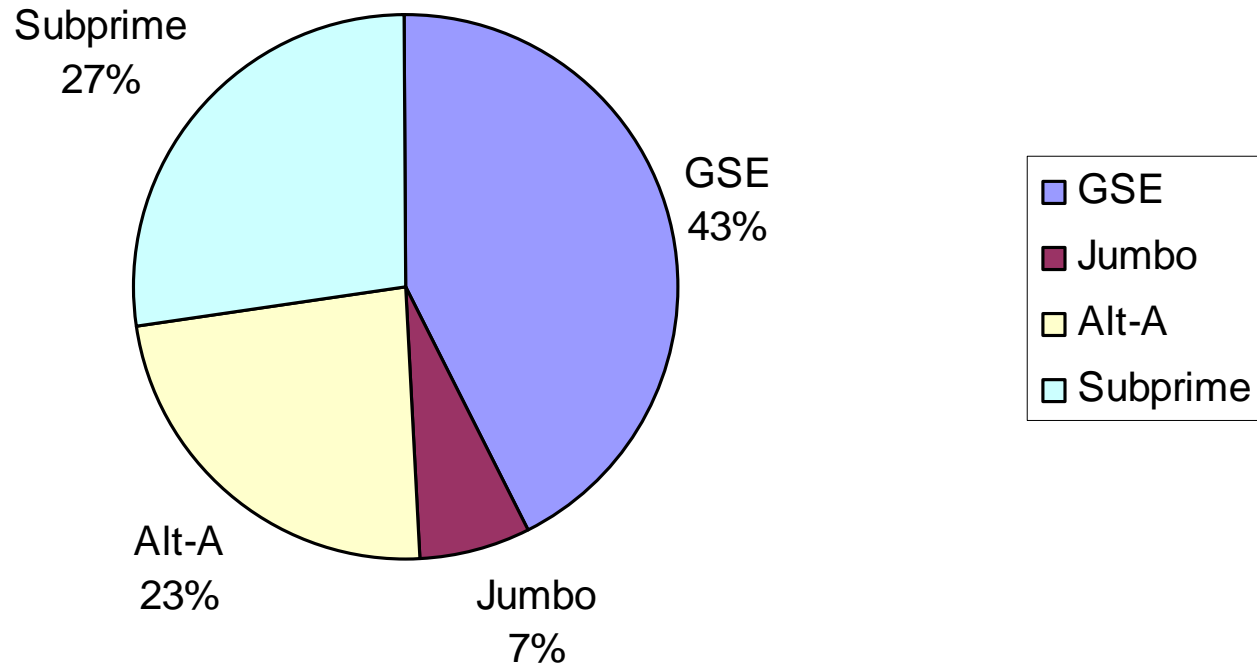


State of the Market - Present

- We are now in the down part of the cycle
 - Slower HPA, higher interest rates, tighter credit
 - Poor performance—mainly in the 2006 vintage
 - Low or no equity loans
 - Low or no income & asset documentation loans
 - First time home buyers
 - Low teaser rate loans
 - Interest only and longer tenor loans
 - Layering of risks



RMBS Market Overview

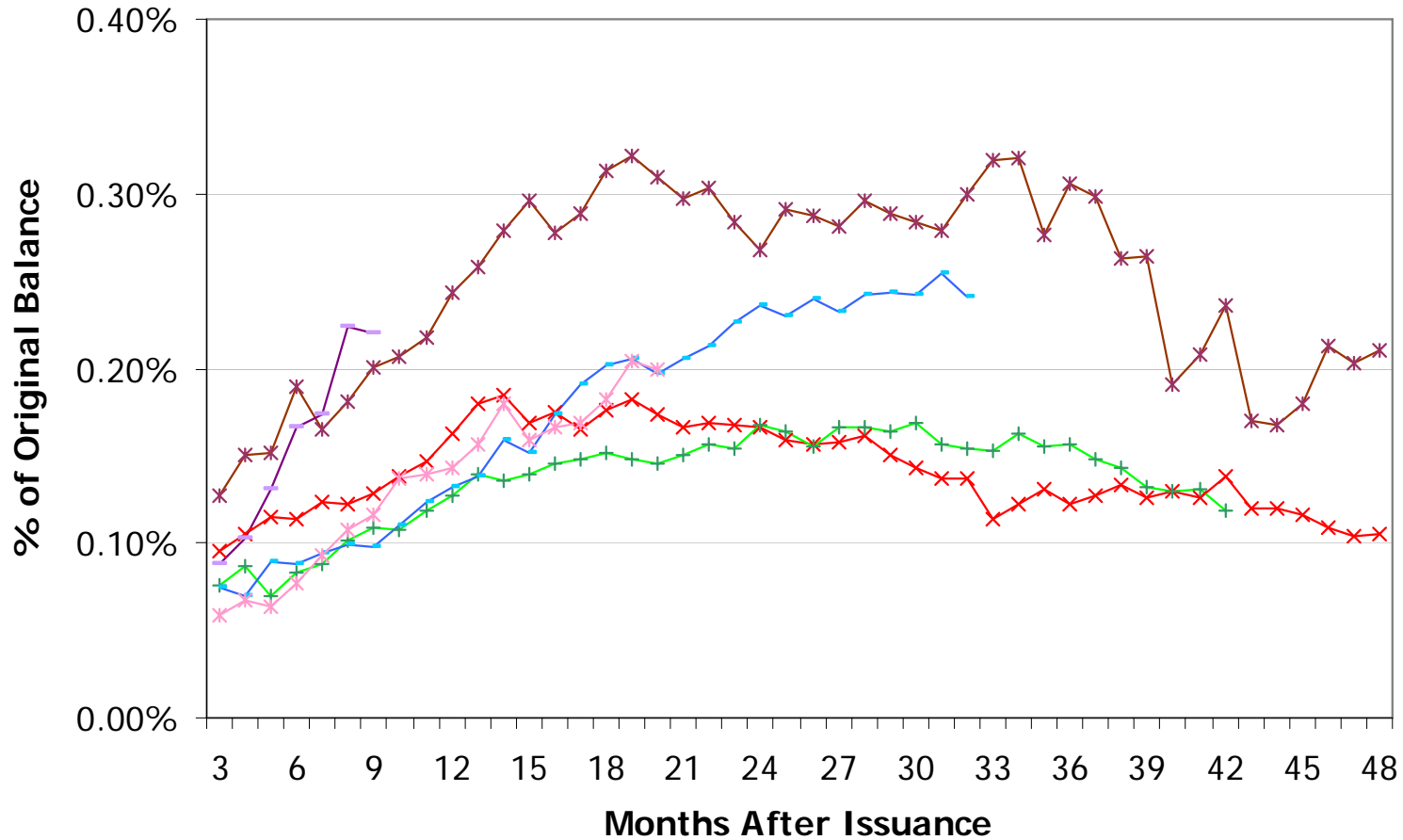


Market Segments - Jumbo

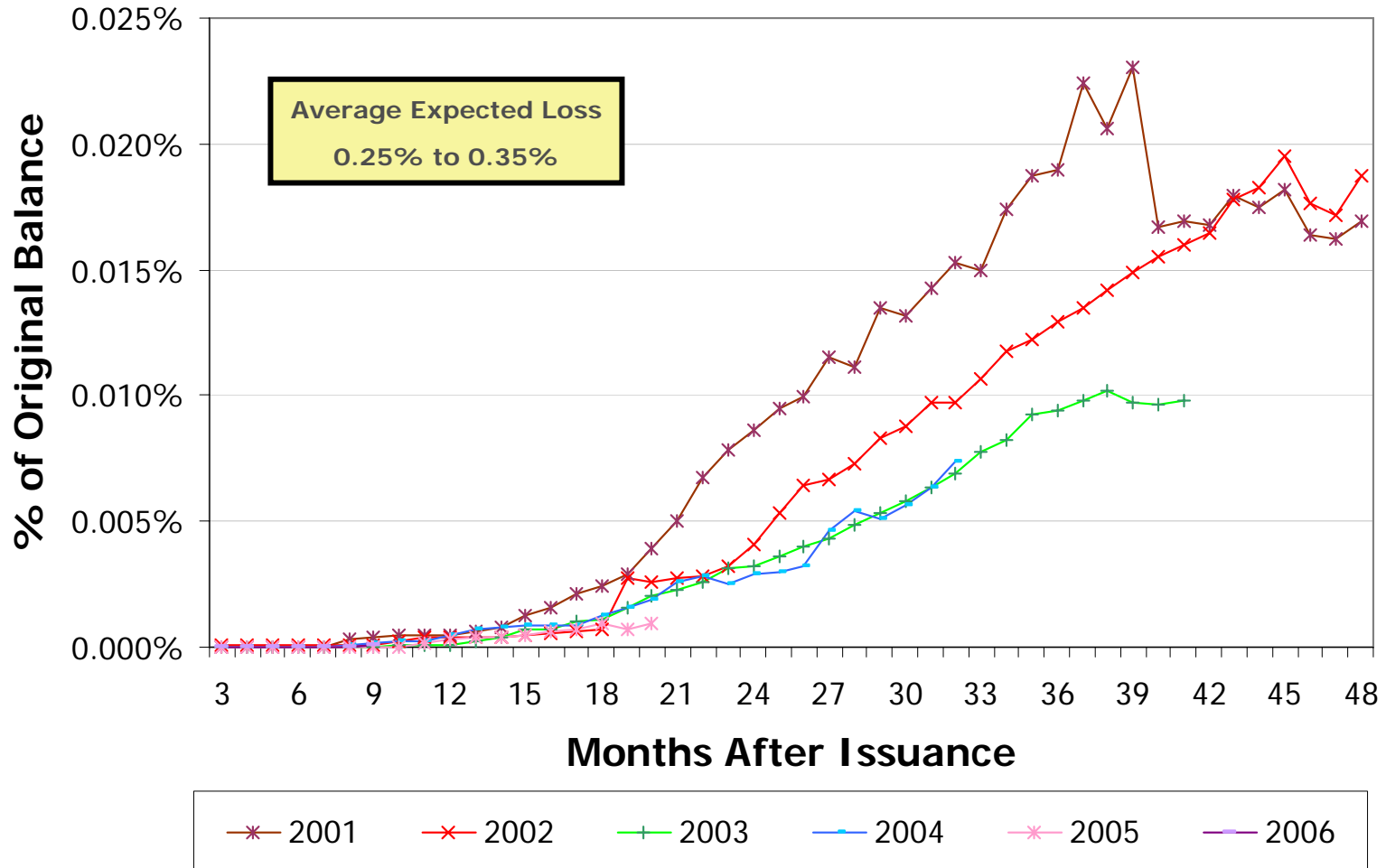
- **Non-conforming balance (> \$417,000)**
- **Significant California and northeast concentration**
- **Prime borrowers – FICO-driven underwriting**
 - E.g.: minimum FICO 620, weighted average 720's to 750's



Jumbo Mortgage: Serious Delinquencies



Jumbo: Mortgage Cumulative Losses

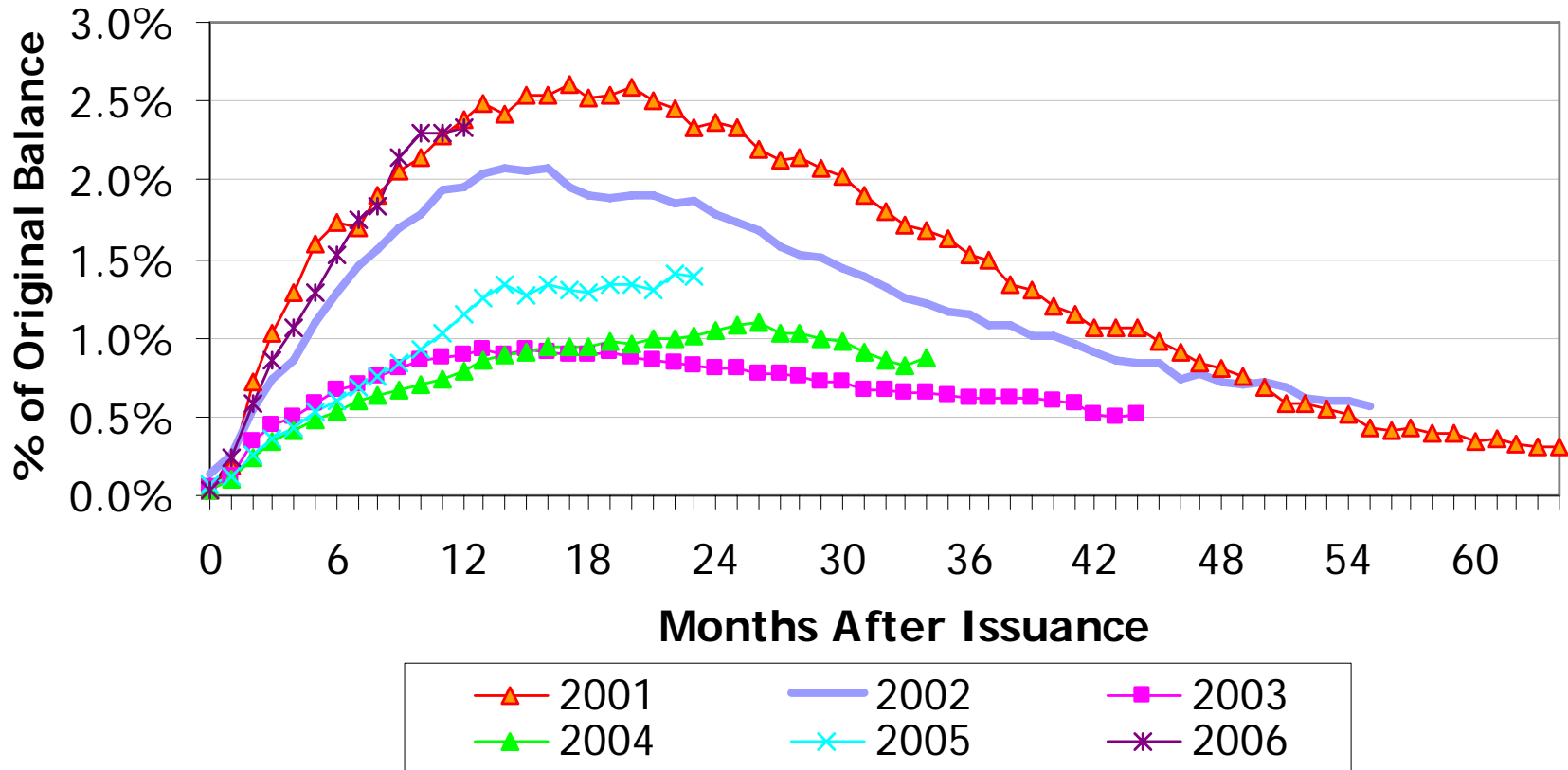


Market Segments – Alt-A

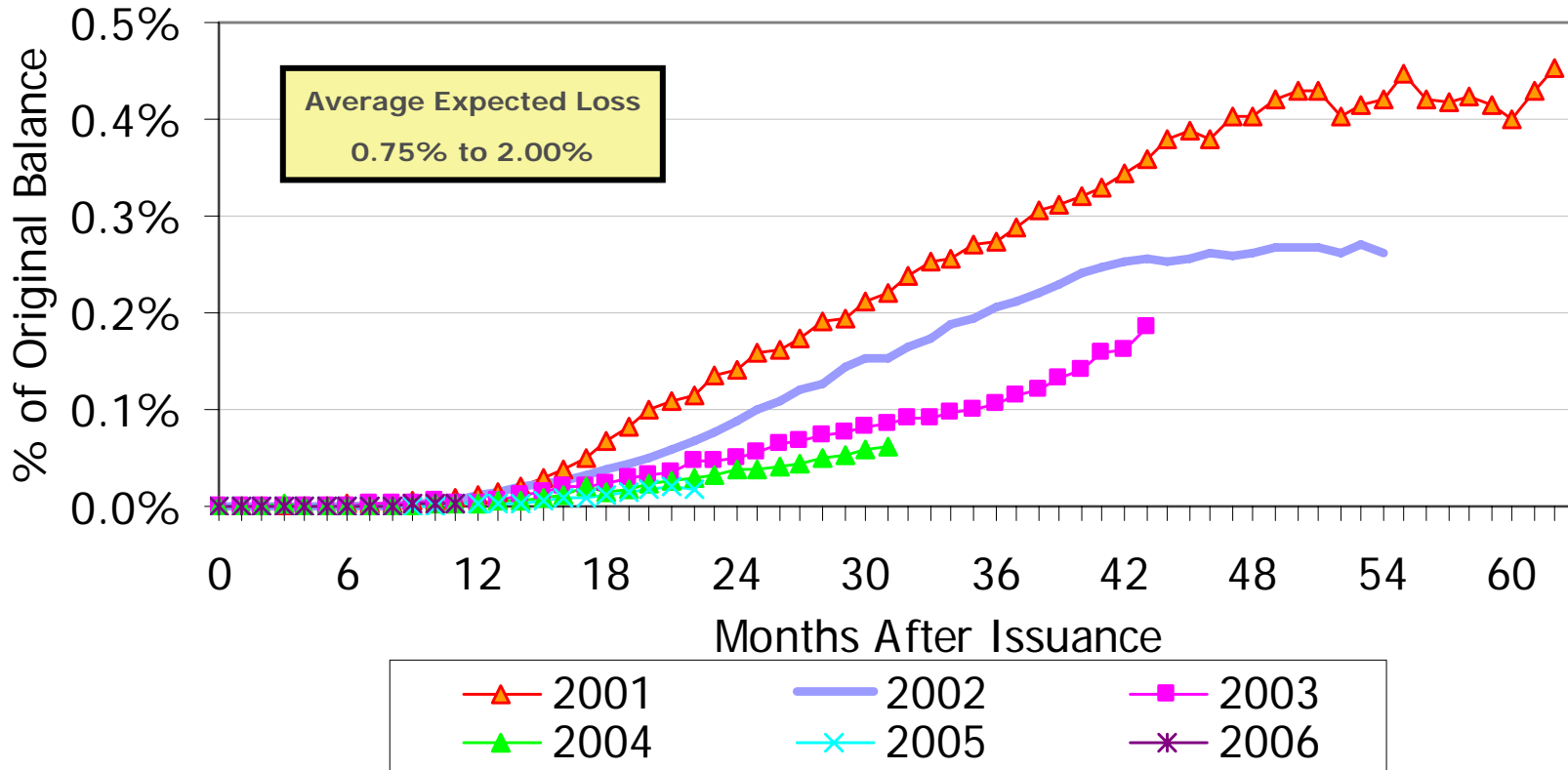
- Originally loans to good credit (“A”) borrowers who prefer reduced documentation of income, investor properties, etc. – hence called “Alt-A”
- In practice, “Alt-A” tends to fill the gap between jumbo/prime and subprime



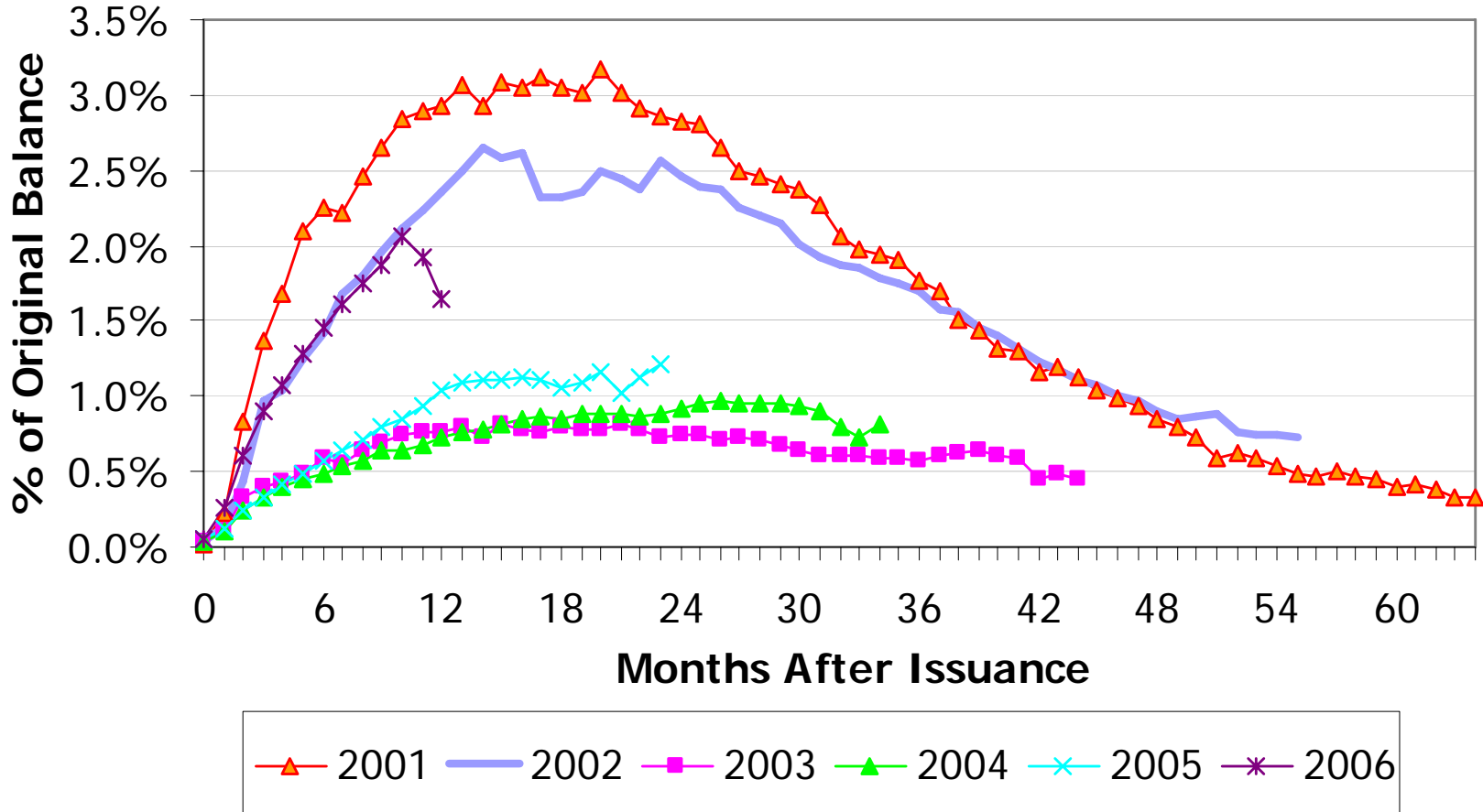
Alt-A: Serious Delinquencies (Total)



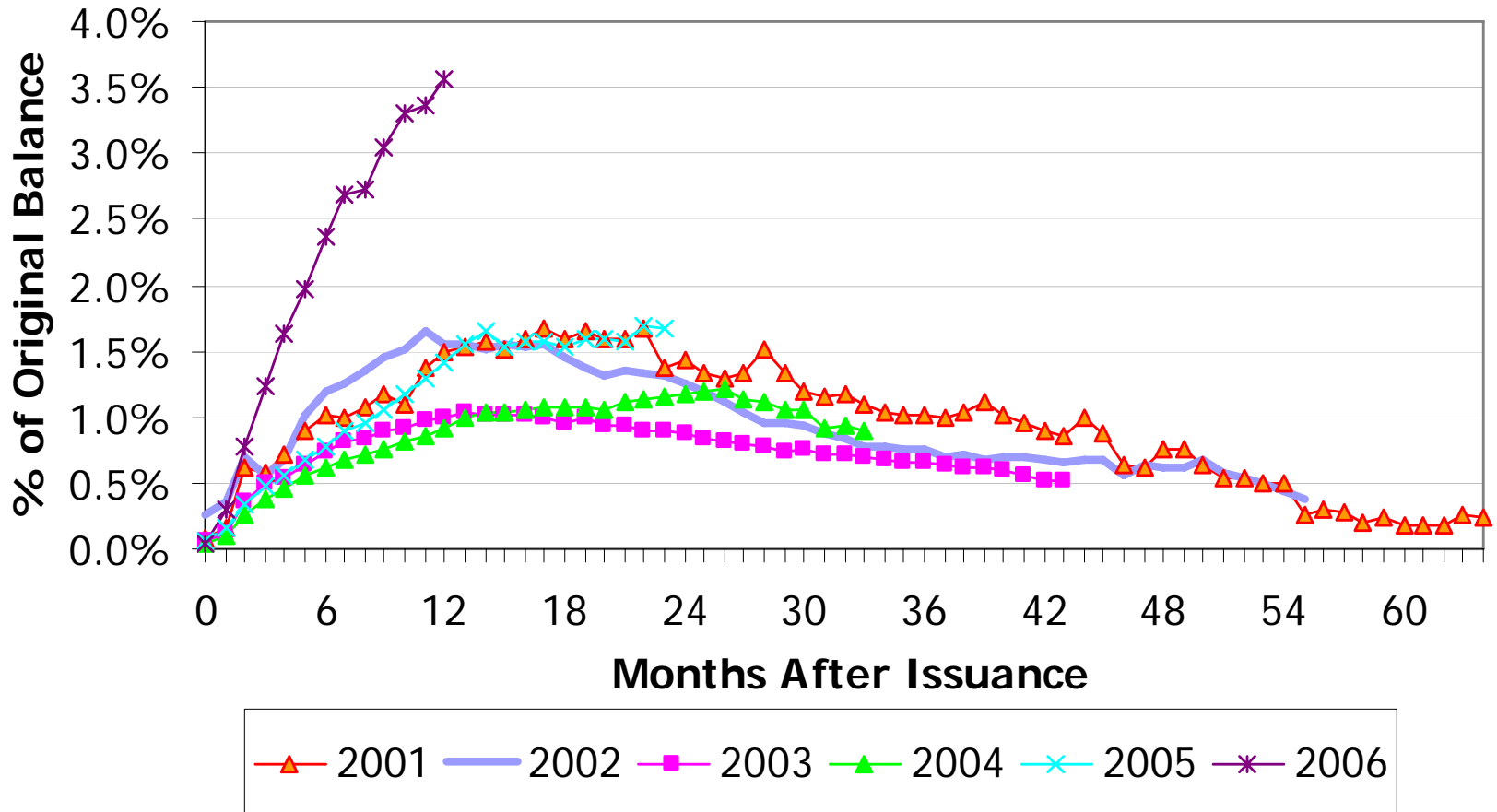
Alt-A: Cumulative Losses (Total)



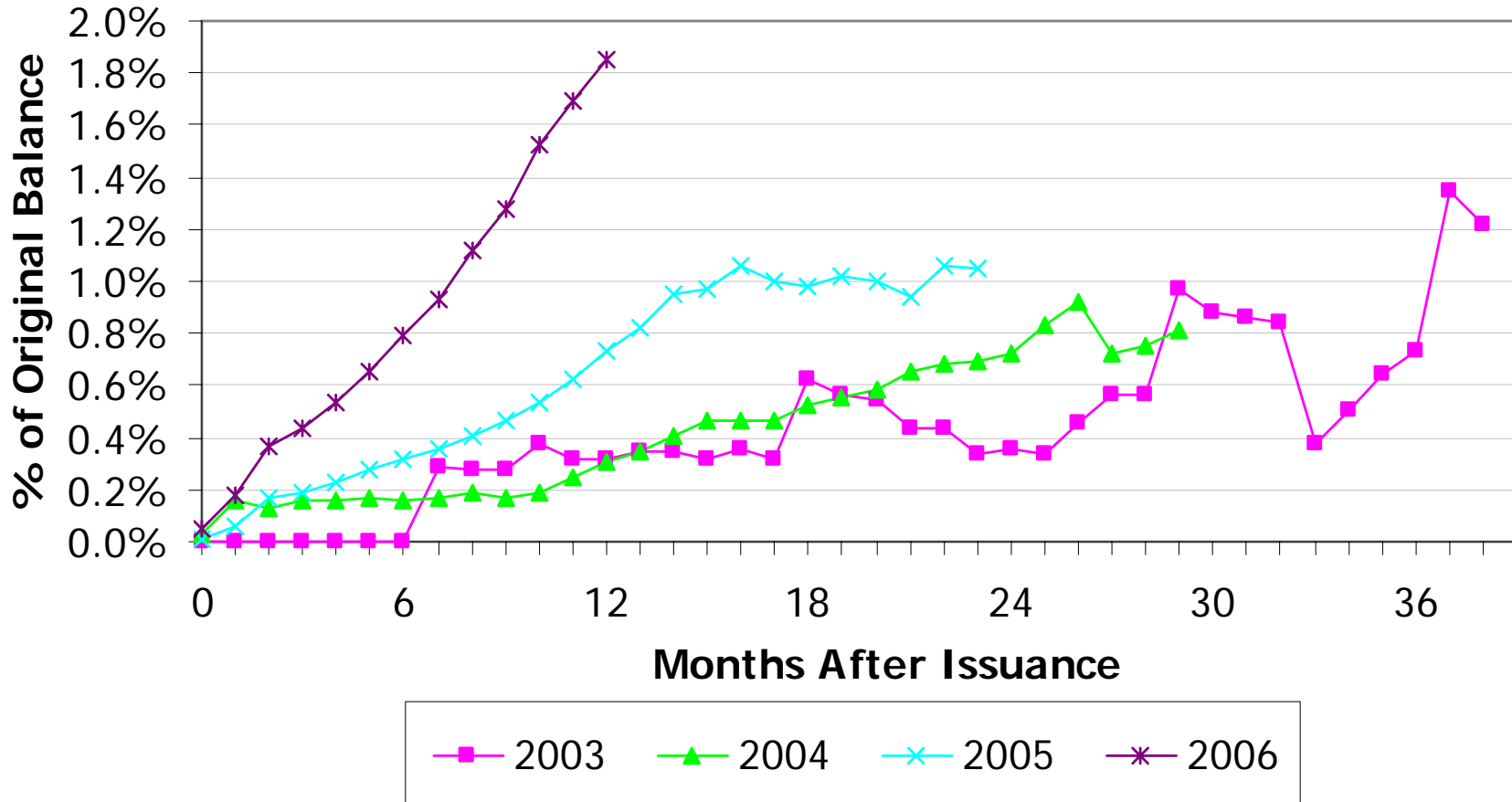
Alt-A: Serious Delinquencies (FRMs)



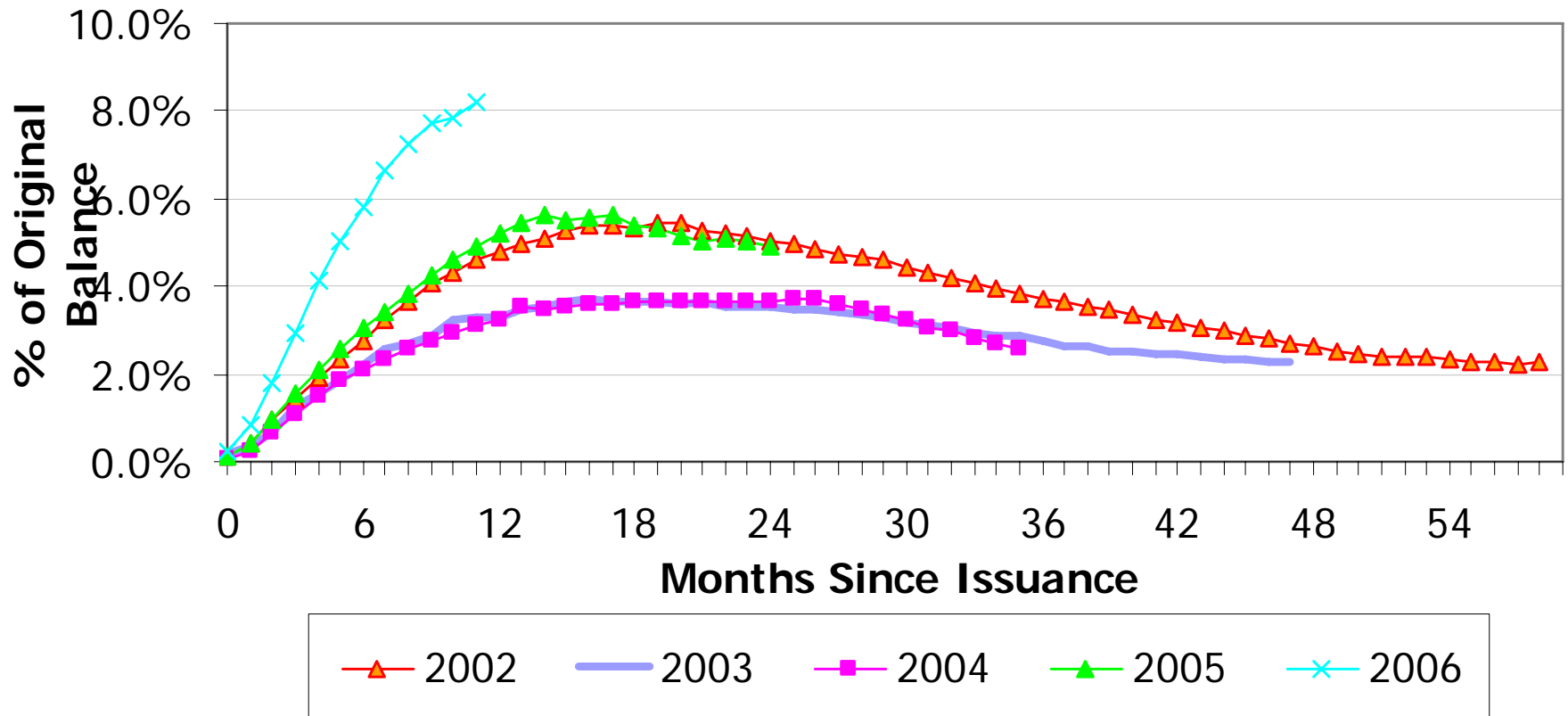
Alt-A: Serious Delinquencies (Non Option ARMs)



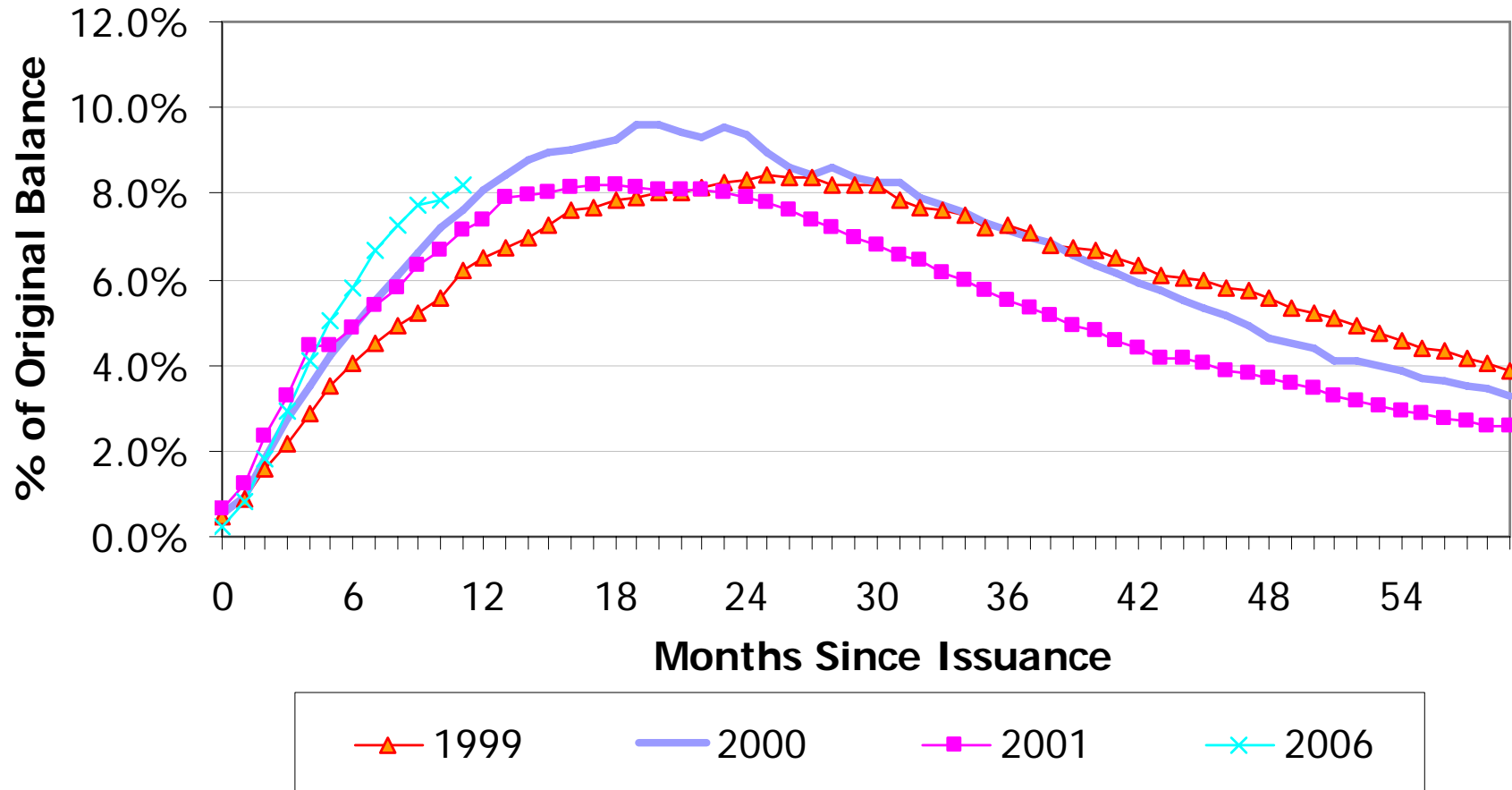
Alt-A: Serious Delinquencies (Option ARMs)



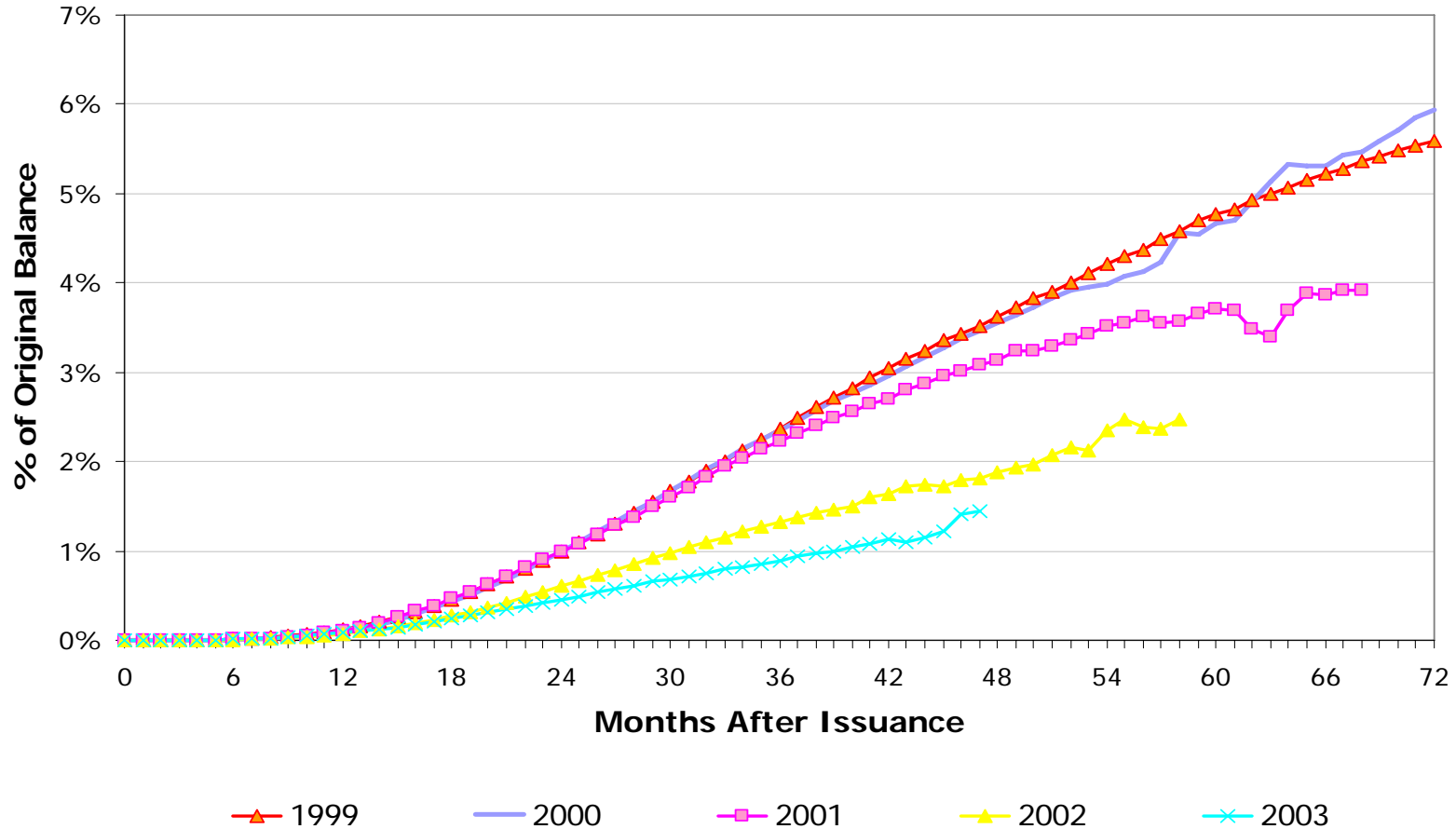
Subprime: Loans 60 or More Days Delinquent, in Foreclosure or Held for Sale



Subprime: Loans 60 or More Days Delinquent, in Foreclosure or Held for Sale



Subprime: Cumulative Losses



Subprime Pool Loss Thresholds by Rating

	Rating	Representative Total Pool Losses
Investment grade bonds	Aaa	26%-30%
	Aa	18%-21%
	A	13%-15%
	Baa	10%-11%
Non-investment grade bonds	Ba	7%-8%

*(Assumes no stepdown of credit enhancement)



2006 Moody's-rated Bonds backed by Subprime Loans

Rating Level	Percentage by Dollar Volume	Percentage by Number of Bonds Rated
Aaa	80.8%	32.9%
Aa	9.6%	19.6%
A	5.0%	20.1%
Baa	3.5%	20.3%
Ba	1.1%	7.1%



Macro Drivers of Performance

- Home Prices
- Refinance Opportunities
- Interest Rates
- Employment



Collateral Characteristic Drivers of Poor Performance

- CLTVs
- Reduced Documentation
- Borrowers with Limited Mortgage Payment Histories
- Layering of Risk
- Closed End Second Loans



Ratings Watch Negative and Downgrades

% Total Tranches				
Year	Alt-A	Jumbo	Subprime	Closed End Seconds
2002	2.9%	0.2%	10.2%	0.0%
2003	0.8%	0.0%	5.4%	3.0%
2004	0.1%	0.0%	0.9%	2.7%
2005	0.1%	0.0%	0.5%	3.4%
2006	0.0%	0.0%	0.4%	5.5%
Grand Total	0.3%	0.0%	1.8%	3.8%

As of April 9, 2007



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Ratings Watch Positive and Upgrades

% Total Tranches				
Year	Alt-A	Jumbo	Subprime	Closed End Seconds
2002	9.4%	15.6%	6.1%	17.0%
2003	4.0%	8.4%	8.1%	24.1%
2004	0.0%	1.6%	0.3%	18.3%
2005	0.0%	0.0%	0.0%	0.0%
2006	0.0%	0.0%	0.0%	0.0%
Grand Total	0.8%	5.8%	1.4%	6.4%

As of April 9, 2007



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Ratings Watch Negative and Downgrades by Initial Rating

# Total Tranches					
Rating	2002	2003	2004	2005	2006
Aaa	3	2		1	
Aa	13	1	1		
A	37	15	7	1	2
Baa	119	113	40	23	35
Ba	9	6	20	25	29
B	3	2	4	1	
Grand Total	184	139	72	51	66

As of April 10, 2007



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Ratings Watch Positive and Upgrades by Initial Rating

# Total Tranches					
Rating	2002	2003	2004	2005	2006
Aaa					
Aa	194	189	16	1	2
A	170	181	27		
Baa	131	140	36		
Ba	71	36	8		
B	49	21	4		
Grand Total	615	567	91	1	2

As of April 10, 2007



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Conclusion

- Performance issues primarily 2006 problem
 - Subprime loss expectations higher
 - Jumbo and Alt A performance within original expectations
- Key variables:
 - HPA
 - Availability of credit
 - interest rates and unemployment
- 2007 vintage expected to perform better

