

MBA National Secondary Conference

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Today's Agenda

- **Standard & Poor's Leadership Actions**
- **Recent Developments and Announcements**
- **US RMBS Performance Trends**
- **Key Issues for Servicers**

Governance

- Establish Ombudsman office to address claims related to potential conflicts of interest and analytical and governance processes
- Conduct periodic, independent, external reviews of Ratings' compliance and governance processes to be shared with MHP and S&P management and the Audit Committee of MHP Board of Directors
- Conduct regular business reviews with MHP Board Audit Committee to discuss compliance and governance functions; review:
 - Measures of ratings quality & compliance effectiveness
 - Queries & resolution of claims addressed by Ombudsman
 - Independent assessments of compliance & governance functions
- Formalize and separate from Ratings' business the functions of policy governance, compliance, criteria management and quality assurance
- Establish a *Risk Assessment Oversight Committee* to assess risk that could impact Ratings' business and consider feasibility of rating new security types
- Implement look back reviews of ratings assigned by an analyst that chooses to resign and work for an issuer
- Institute analyst rotations
- Further align analyst compensation with quality and compliance
- Increase training on policies & compliance requirement

S&P's steps to further manage potential conflicts of interest, strengthen the ratings process, and better serve the markets

Information

- Include "what if" scenarios in rating reports; explain key rating assumptions & potential impact of positive or negative events on a rating
- Work with market participants to improve disclosure of collateral underlying structured securities. Implement procedures to better understand issuers and originators ability to detect fraud and assess data accuracy and integrity
- Better explain the comparability of ratings across asset classes
- Make available a Landmark Deal Report summarizing new structures and major issues; distribute widely
- Establishing greater minimum portfolio disclosure criteria for issuance of ratings on structured securities
- Develop early warning indicator to investors that a key credit quality attribute (e.g. delinquencies; losses) of an issue or issuer differs from our expectations & has or may trigger a full review by S&P surveillance.
 - Add identifier to ratings of securitizations to highlight to the market that: (a) the rating is on a securitization and (b) the rating is on a new type of rating structure or securitization
 - Enhance access to S&P's code of ethics and disclosures through link to regulatory affairs section of S&P.com
 - More broadly disseminate long- & short-term rating performance data
 - Simplify and provide broader market access to ratings criteria, underlying models and analytical tools

Analytics

- Improve surveillance process through strengthened surveillance functions; improve timeliness & effectiveness through addition of improved surveillance tools
- Establish a *Model Oversight Committee* to assess and validate the quality of our models and tools
- Enhance analytical education programs, increase annual training requirements, establish an analyst certification program
- Complement analysis by highlighting factors that may influence valuation of rated securities; provide assessments on ratings' vulnerability to event risk

Education

- Publish Credit Ratings User Manual & Investor Guidelines to promote better understanding of ratings process & role of ratings
- Launch market outreach program to promote better understanding of complex securities we rate
- Establish Ratings Advisory Council comprising risk managers, academics, former government officials and others; provide guidance on complex issues and market education
- Broaden distribution of analysis & opinions via web and other media
- Work with other NRSROs to promote Ratings Quality; introduce best practices and issuer disclosure standards

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Standard & Poor's Recent Developments & Announcements

- **Revised surveillance assumptions for U.S. RMBS**
 - Extended our stresses of the expected loss amount over the deal lifetime
 - Revised our expected losses for the '06 subprime vintage to 19%
 - Reduced availability of excess spread to cover losses due to loan modifications
- **S&P institutes criteria changes regarding Step down Trigger**
 - O/C Floor calculated on a deal level basis
 - Average O/C Floor increased to 50% of Original Target (Orig. Bal.)
 - Looking at alternatives to traditional Step-down provisions
- **Loan Level Data Requirements**
 - Request for Comment on requested fields
 - Increase transparency & ability to conduct loan level surveillance
- **Loan modifications**
 - Effect on new deals and surveillance of existing deals
 - Scenario Testing
- **Data Quality**
 - Focused review of originator's ability to deliver accurate information and limit fraudulent activity
 - Issuer questionnaire on capabilities and use of fraud and risk management tools

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Looking forward: More information and enhanced practices

- **Scenario and Sensitivity Analysis**

- What effect would varying performance and stresses have on ratings?
 - Deal level performance projections
 - Surveillance- providing updated default curves and loss projections
 - New ratings- providing expected loss with probability and break-even analysis

- **Originator/Issuer level operational assessments**

- Focus on underwriting and pre-closing quality control
- Improving data quality
- Originators tighten credit profile of loan programs and underwriting processes

- **Modeling Techniques**

- Evaluating the feasibility of using stochastic modeling
- Certain macro-economic factors may be forecasted and loan behavior modeled

Performance Overview – Six Month Comparison

Alt-A							Closed End Second Lien						HELOC						Prime Jumbo						Sub-Prime									
2005 Vintage							2005 Vintage						2005 Vintage						2005 Vintage						2005 Vintage									
	Cum Loss	Total Del	90+ Day	FC	REO	Serious Del		Cum Loss	Total Del	90+ Day	FC	REO	Serious Del		Cum Loss	Total Del	90+ Day	FC	REO	Serious Del		Cum Loss	Total Del	90+ Day	FC	REO	Serious Del		Cum Loss	Total Del	90+ Day	FC	REO	Serious Del
Oct-07	0.09	8.50	0.90	2.18	1.35	4.43	Oct-07	5.97	12.28	5.54	0.43	0.30	6.27	Oct-07	1.09	8.31	4.27	0.21	0.36	4.85	Oct-07	0.02	2.54	0.29	0.48	0.24	1.01	Oct-07	1.02	27.76	3.07	8.33	5.20	16.60
Nov-07	0.11	8.93	1.06	2.40	1.54	5.00	Nov-07	6.52	13.05	6.23	0.38	0.29	6.89	Nov-07	1.39	7.87	3.59	0.29	0.23	4.11	Nov-07	0.02	2.58	0.36	0.51	0.28	1.15	Nov-07	1.12	29.64	3.31	9.19	5.77	18.27
Dec-07	0.13	10.08	1.37	2.66	1.73	5.76	Dec-07	7.10	13.85	7.05	0.34	0.26	7.66	Dec-07	1.58	8.31	4.01	0.27	0.23	4.51	Dec-07	0.03	2.83	0.43	0.56	0.31	1.30	Dec-07	1.29	31.91	3.85	9.96	6.32	20.13
Jan-08	0.16	10.97	1.68	2.91	1.79	6.38	Jan-08	7.70	14.44	7.68	0.24	0.24	8.16	Jan-08	1.88	8.82	4.26	0.31	0.21	4.78	Jan-08	0.03	3.22	0.54	0.65	0.32	1.51	Jan-08	1.44	34.36	4.48	11.06	6.74	22.28
Feb-08	0.19	11.67	1.89	3.27	1.93	7.09	Feb-08	8.71	14.87	7.94	0.16	0.23	8.33	Feb-08	2.08	8.63	4.37	0.31	0.18	4.87	Feb-08	0.03	3.37	0.61	0.72	0.35	1.68	Feb-08	1.60	35.55	4.91	11.86	7.45	24.22
Mar-08	0.23	12.27	1.95	3.70	2.08	7.73	Mar-08	9.69	13.10	7.27	0.12	0.19	7.58	Mar-08	2.35	7.41	3.83	0.29	0.15	4.27	Mar-08	0.03	2.75	0.50	0.63	0.28	1.44	Mar-08	1.75	32.65	4.80	12.36	7.84	25.01
2006 Vintage							2006 Vintage						2006 Vintage						2006 Vintage						2006 Vintage									
	Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del
Oct-07	0.05	10.57	1.16	3.01	1.34	5.51	Oct-07	5.49	10.82	4.57	0.89	0.37	5.84	Oct-07	1.44	8.30	3.92	0.16	0.07	4.15	Oct-07	0.01	2.46	0.27	0.41	0.17	0.85	Oct-07	0.83	25.11	2.90	8.50	4.27	15.67
Nov-07	0.07	11.40	1.45	3.36	1.63	6.44	Nov-07	6.35	11.73	4.99	0.97	0.40	6.36	Nov-07	1.88	8.68	3.95	0.15	0.07	4.17	Nov-07	0.01	2.55	0.34	0.51	0.22	1.07	Nov-07	0.95	26.42	3.10	9.32	4.99	17.41
Dec-07	0.10	12.82	1.89	3.65	1.93	7.47	Dec-07	7.16	12.80	5.73	0.97	0.47	7.17	Dec-07	2.37	9.46	4.55	0.15	0.08	4.79	Dec-07	0.01	2.86	0.42	0.56	0.25	1.23	Dec-07	1.13	28.79	3.63	9.93	5.69	19.25
Jan-08	0.14	14.48	2.18	4.28	2.15	8.61	Jan-08	8.09	13.83	6.38	0.95	0.53	7.86	Jan-08	2.91	10.18	4.95	0.16	0.06	5.17	Jan-08	0.02	3.25	0.50	0.63	0.29	1.42	Jan-08	1.41	31.79	4.16	10.74	6.10	21.00
Feb-08	0.20	15.88	2.57	4.81	2.58	9.96	Feb-08	9.35	14.10	6.89	0.70	0.51	8.09	Feb-08	3.59	10.75	5.60	0.16	0.07	5.83	Feb-08	0.02	3.51	0.59	0.77	0.33	1.69	Feb-08	1.68	34.17	4.61	11.70	7.07	23.38
Mar-08	0.24	16.16	2.61	5.21	2.62	10.45	Mar-08	9.65	14.31	6.69	1.49	0.76	8.94	Mar-08	4.25	7.09	3.61	0.10	0.03	3.74	Mar-08	0.02	3.22	0.55	0.76	0.30	1.62	Mar-08	1.92	33.53	4.83	12.65	7.71	25.19
2007 Vintage							2007 Vintage						2007 Vintage						2007 Vintage						2007 Vintage									
	Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del		Cum Loss	Total Del	90+ Day	Frcls	REO	Serious Del
Oct-07	0.00	5.57	0.63	1.30	0.14	2.07	Oct-07	2.30	9.99	4.57	0.22	0.03	4.81	Oct-07	0.40	3.66	1.32	0.23	0.02	1.57	Oct-07	0.00	1.21	0.11	0.09	0.01	0.21	Oct-07	0.10	14.88	1.68	4.72	0.53	6.93
Nov-07	0.00	6.44	0.82	1.79	0.25	2.86	Nov-07	3.26	10.59	4.94	0.20	0.04	5.18	Nov-07	0.72	4.25	1.55	0.30	0.02	1.86	Nov-07	0.00	1.31	0.15	0.15	0.01	0.31	Nov-07	0.15	17.28	2.15	5.74	0.94	8.83
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Feb-08	0.03	10.24	1.57	3.32	0.79	5.68	Feb-08	6.72	13.35	7.17	0.11	0.13	7.41	Feb-08	1.97	5.19	2.13	0.45	0.06	2.64	Feb-08	0.00	2.16	0.35	0.40	0.05	0.80	Feb-08	0.43	24.38	3.90	8.58	2.76	15.24
Mar-08	0.03	10.18	1.59	3.45	0.92	5.96	Mar-08	5.84	11.05	5.98	0.06	0.05	6.09	Mar-08	2.97	4.72	2.26	0.04	0.00	2.31	Mar-08	0.00	2.10	0.30	0.44	0.07	0.81	Mar-08	0.52	23.94	4.07	8.99	2.95	16.01

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Key Issues For U.S. Servicers:

- **Adjustable Rate Mortgage Resets Scheduled To Peak In The Next 24-36 Months**
- **Housing Market Downturn, Declining Home Values And Limited Access To Credit Make It Difficult For Borrowers To Refinance From Adjustable Rate To Fixed Rate Products**
- **Rising Delinquencies And Limited Loss Mitigation Options Posing Great Challenges For Servicers**
- **Continued Regulatory Scrutiny Into Servicing Practices Puts Strain On Servicer Resources**
- **How Will Servicers Balance Labor And Cost Intensive Loss Mitigation Work With Present Servicing Fee Income Structure**
- **Drain On Industry Resources And Talent Pool Will Make It Challenging For Servicers To Appropriately Meet Staffing Needs**

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